FLUSHING FINANCIAL CORP
Form 10-Q
November 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2016**

Commission file number **001-33013**

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-3209278

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

220 RXR Plaza, Uniondale, New York 11556

(Address of principal executive offices)

(718) 961-5400

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer __ Accelerated filer _X_

Non-accelerated filer __ Smaller reporting company __

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

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

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(Unaudited)

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

LIABILITIES		
Due to depositors:		
Non-interest bearing	$320,060	$269,469
Interest-bearing:		
Certificate of deposit accounts	1,384,551	1,403,302
Savings accounts	258,058	261,748
Money market accounts	733,361	472,489
NOW accounts	1,296,475	1,448,695
Total interest-bearing deposits	3,672,445	3,586,234
Mortgagors' escrow deposits	49,276	36,844
Borrowed funds ($27,791 and $29,018 at fair value pursuant to the fair value option at September 30, 2016 and December 31, 2015, respectively)	1,320,515	1,155,676
Securities sold under agreements to repurchase	40,000	116,000
Other liabilities	84,338	67,344
Total liabilities	5,486,634	5,231,567
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock ($0.01 par value; 5,000,000 shares authorized; None issued)	-	-
Common stock ($0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at September 30, 2016 and December 31, 2015; 28,632,796 shares and 28,830,558 shares outstanding at September 30, 2016 and December 31, 2015, respectively)	315	315
Additional paid-in capital	213,488	210,652
Treasury stock, at average cost (2,897,799 shares and 2,700,037 shares at September 30, 2016 and December 31, 2015, respectively)	(53,373)	(48,868)
Retained earnings	351,942	316,530
Accumulated other comprehensive income (loss), net of taxes	249	(5,562)
Total stockholders' equity	512,621	473,067
Total liabilities and stockholders' equity	$5,999,255	$5,704,634

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Unaudited)

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the nine months ended September 30, 2016 and 2015

(Unaudited)

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

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

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

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

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

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

2. Use of Estimates

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

3. Earnings Per Share

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Net income, as reported	$10,634	$11,008	$50,630	$34,575
Divided by:				
Weighted average common shares outstanding	28,861	28,927	28,993	29,188
Weighted average common stock equivalents	14	19	13	21
Total weighted average common shares outstanding and common stock equivalents	28,875	28,946	29,006	29,209
Basic earnings per common share	$0.37	$0.38	$1.75	$1.18
Diluted earnings per common share (1)	$0.37	$0.38	$1.75	$1.18
Dividend payout ratio	45.9 %	42.1 %	29.1 %	40.7 %

(1) For the three and nine months ended September 30, 2016 and 2015, there were no stock options that were anti-dilutive.

4. Debt and Equity Securities

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

The Company did not hold any trading securities at September 30, 2016 and December 31, 2015. Securities available for sale are recorded at fair value. Securities held-to-maturity are recorded at amortized cost.

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

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table summarizes the Company's portfolio of securities available for sale at September 30, 2016:

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

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

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

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table details the amortized cost and fair value of the Company’s securities classified as held-to-maturity at September 30, 2016, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

The amortized cost and fair value of the Company’s securities, classified as available for sale at September 30, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2016:

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

PART I – FINANCIAL INFORMATION

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

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

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

The Company reviewed each investment that had an unrealized loss at September 30, 2016 and December 31, 2015. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCI, net of tax.

The unrealized losses in total securities available for sale at September 30, 2016 and December 31, 2015 were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2016 and December 31, 2015.

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

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

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

5. Loans

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

The Company maintains an allowance for loan losses at an amount, which, in management's judgment, is adequate to absorb probable estimated losses inherent in the loan portfolio. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The allowance is established through charges to earnings in the form of a provision for loan losses based on management's evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of the Company's lenders, collection policies and experience, internal loan review function and other external factors. Increases and decreases in the allowance other than charge-offs and recoveries are included in the provision for loan losses. When a loan or a portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance, and subsequent recoveries, if any, are credited to the allowance.

The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately.

The Company segregated its loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 has a similar delinquency rate. The Company's Board of Directors reviews and approves management's evaluation of the adequacy of the allowance for loan losses on a quarterly basis.

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The Company recognizes a loan as non-performing when the borrower has demonstrated the inability to bring the loan current, or due to other circumstances which, in management's opinion, indicate the borrower will be unable to bring the loan current within a reasonable time. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. Prior to a loan becoming 90 days delinquent an updated appraisal is ordered and/or an internal evaluation is prepared. The loan balances of collateral dependent impaired loans are compared to the property's updated fair value. The Company considers fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm's length transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates. In addition, taxi medallion loans with a loan-to-value greater than 100% are classified as impaired and allocated a portion of the ALL in the amount of the excess of the loan-to-value over the loan's principal balance. The 85% is based on the actual net proceeds the Bank has received from the sale of other real estate owned ("OREO") as a percentage of OREO's appraised value.

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

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

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

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

As of September 30, 2016, we utilized recent third party appraisals of the collateral to measure impairment for $45.3 million, or 88.2%, of collateral dependent impaired loans, and used internal evaluations of the property's value for $6.1 million, or 11.8%, of collateral dependent impaired loans.

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

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

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The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate, or for a non-performing TDR which is collateral dependent, the fair value of the collateral. At September 30, 2016, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	September 30, 2016					
(In thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	$5,441	$917	$1,649	$8,007	$2,163,282	$2,171,289
Commercial real estate	3,052	377	2,340	5,769	1,189,497	1,195,266
One-to-four family - mixed-use property	4,396	746	5,004	10,146	545,545	555,691
One-to-four family - residential	1,081	427	8,146	9,654	174,339	183,993
Co-operative apartments	-	-	-	-	7,494	7,494
Construction loans	-	-	-	-	11,250	11,250
Small Business Administration	28	-	2,044	2,072	12,267	14,339
Taxi medallion	-	1,408	2,563	3,971	16,565	20,536
Commercial business and other	247	4	1	252	564,720	564,972
Total	$14,245	$3,879	$21,747	$39,871	$4,684,959	$4,724,830

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

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

September 30, 2016

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

September 30, 2015

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
Allowance for credit losses:									
Beginning balance	$ 8,300	$ 3,726	$ 5,180	$ 1,433	$ 29	$ 291	$ 11	$ 4,114	$23,084
Charge-off's	(58)	-	(99)	-	-	(9)	-	(10)	(176)
Recoveries	4	100	26	300	-	5	-	-	435
Provision (Benefit)	(596)	331	(233)	(371)	16	(42)	231	294	(370)
Ending balance	$ 7,650	$ 4,157	$ 4,874	$ 1,362	$ 45	$ 245	$ 242	$ 4,398	$22,973

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

September 30, 2016

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Allowance for credit losses:										
Beginning balance	$6,718	$4,239	$4,227	$1,227	$50	$262	$343	$4,469	$-	$21,535
Charge-off's	(155)	-	(139)	(74)	-	(362)	-	(59)	-	(789)
Recoveries	230	11	252	366	-	118	-	72	-	1,049
Provision (Benefit)	(798)	266	(1,272)	(502)	40	390	1,989	(284)	171	-
Ending balance	$5,995	$4,516	$3,068	$1,017	$90	$408	$2,332	$4,198	$171	$21,795

September 30, 2015

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
Allowance for credit losses:									
Beginning balance	$ 8,827	$ 4,202	$ 5,840	$ 1,690	$ 42	$ 279	$ 11	$ 4,205	$25,096
Charge-off's	(458)	(32)	(571)	(244)	-	(9)	-	(62)	(1,376)
Recoveries	218	168	73	374	-	32	-	8	873
Provision (Benefit)	(937)	(181)	(468)	(458)	3	(57)	231	247	(1,620)
Ending balance	$ 7,650	$ 4,157	$ 4,874	$ 1,362	$ 45	$ 245	$ 242	$ 4,398	$22,973

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

	September 30, 2016									
(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family- residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	U
Financing Receivables:										
Ending Balance	$2,171,289	$1,195,266	$555,691	$183,993	$7,494	$11,250	$14,339	$20,536	$564,972	$
Ending balance: individually evaluated for impairment	$5,820	$6,443	$9,997	$10,507	$-	$-	$664	$16,659	$2,608	$
Ending balance: collectively evaluated for impairment	$2,165,469	$1,188,823	$545,694	$173,486	$7,494	$11,250	$13,675	$3,877	$562,364	$
Allowance for credit losses:										
Ending balance: individually evaluated for impairment	$237	$190	$449	$62	$-	$-	$47	$2,330	$13	$
Ending balance: collectively evaluated for impairment	$5,758	$4,326	$2,619	$955	$-	$90	$361	$2	$4,185	$

	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	Ur
Financing Receivables:										
Ending Balance	$2,055,228	$1,001,236	$573,043	$187,838	$8,285	$7,284	$12,194	$20,881	$506,622	$-
Ending balance: individually evaluated for impairment	$8,047	$6,183	$12,828	$12,598	$-	$1,000	$310	$2,118	$4,716	$-
	$2,047,181	$995,053	$560,215	$175,240	$8,285	$6,284	$11,884	$18,763	$501,906	$-

Ending balance: collectively evaluated for impairment										
Allowance for credit losses:										
Ending balance: individually evaluated for impairment	$252	$180	$502	$51	$-	$-	$-	$333	$112	$-
Ending balance: collectively evaluated for impairment	$6,466	$4,059	$3,725	$1,176	$-	$50	$262	$10	$4,357	$-

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

	September 30, 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	$3,546	$3,877	$ -	$5,742	$6,410	$ -
Commercial real estate	4,369	4,396	-	3,812	3,869	-
One-to-four family mixed-use property	7,366	8,418	-	10,082	11,335	-
One-to-four family residential	10,074	11,591	-	12,255	14,345	-
Co-operative apartments	-	-	-	-	-	-
Construction	-	-	-	1,000	1,000	-
Non-mortgage loans:						
Small Business Administration	546	908	-	276	276	-
Taxi Medallion	10,106	10,106	-	-	-	-
Commercial Business and other	2,170	2,549	-	2,682	5,347	-
Total loans with no related allowance recorded	38,177	41,845	-	35,849	42,582	-
With an allowance recorded:						
Mortgage loans:						
Multi-family residential	2,274	2,274	237	2,305	2,305	252
Commercial real estate	2,074	2,074	190	2,371	2,371	180
One-to-four family mixed-use property	2,631	2,633	449	2,746	2,746	502
One-to-four family residential	433	433	62	343	343	51
Co-operative apartments	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Non-mortgage loans:						
Small Business Administration	118	118	47	34	34	-
Taxi Medallion	6,553	6,553	2,330	2,118	2,118	333
Commercial Business and other	438	439	13	2,034	2,034	112
Total loans with an allowance recorded	14,521	14,524	3,328	11,951	11,951	1,430

Total Impaired Loans:						
Total mortgage loans	$32,767	$35,696	$ 938	$40,656	$44,724	$ 985
Total non-mortgage loans	$19,931	$20,673	$ 2,390	$7,144	$9,809	$ 445

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The following table shows our average recorded investment and interest income recognized for impaired loans for the three months ended September 30, 2016 and 2015:

	September 30, 2016		September 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no related allowance recorded:				
Mortgage loans:				
Multi-family residential	$4,639	$ 23	$8,034	$ 14
Commercial real estate	4,661	55	4,930	35
One-to-four family mixed-use property	8,234	37	9,814	39
One-to-four family residential	10,204	19	13,040	28
Co-operative apartments	-	-	307	-
Construction	285	-	-	-
Non-mortgage loans:				
Small Business Administration	404	13	301	6
Taxi Medallion	5,053	52	-	-
Commercial Business and other	2,211	45	3,363	51
Total loans with no related allowance recorded	35,691	244	39,789	173
With an allowance recorded:				
Mortgage loans:				
Multi-family residential	2,279	29	2,326	30
Commercial real estate	2,080	24	538	7
One-to-four family mixed-use property	2,567	35	3,054	42
One-to-four family residential	435	4	348	3
Co-operative apartments	-	-	-	-
Construction	-	-	-	-
Non-mortgage loans:				
Small Business Administration	397	1	38	1
Taxi Medallion	6,459	17	1,065	16
Commercial Business and other	448	7	3,064	32
Total loans with an allowance recorded	14,665	117	10,433	131

Total Impaired Loans:				
Total mortgage loans	$35,384	$ 226	$42,391	$ 198
Total non-mortgage loans	$14,972	$ 135	$7,831	$ 106

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The following table shows our average recorded investment and interest income recognized for impaired loans for the nine months ended September 30, 2016 and 2015:

	September 30, 2016		September 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no related allowance recorded:				
Mortgage loans:				
Multi-family residential	$5,129	$ 69	$9,470	$ 46
Commercial real estate	4,841	162	5,748	107
One-to-four family mixed-use property	8,407	119	10,781	133
One-to-four family residential	10,457	69	13,125	101
Co-operative apartments	-	-	153	-
Construction	380	-	-	-
Non-mortgage loans:				
Small Business Administration	353	38	230	18
Taxi Medallion	3,369	155	-	-
Commercial Business and other	2,265	136	3,937	170
Total loans with no related allowance recorded	35,201	748	43,444	575
With an allowance recorded:				
Mortgage loans:				
Multi-family residential	2,284	87	2,461	89
Commercial real estate	2,173	73	998	22
One-to-four family mixed-use property	2,622	107	3,069	126
One-to-four family residential	403	10	350	10
Co-operative apartments	-	-	-	-
Construction	-	-	-	-
Non-mortgage loans:				
Small Business Administration	315	4	29	1
Taxi Medallion	5,009	91	532	49
Commercial Business and other	962	20	2,862	120
Total loans with an allowance recorded	13,768	392	10,301	417

Total Impaired Loans:				
Total mortgage loans	$36,696	$ 696	$46,155	$ 634
Total non-mortgage loans	$12,273	$ 444	$7,590	$ 358

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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.

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

	September 30, 2016				
(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	$7,700	$ 3,234	$ -	$ -	$10,934
Commercial real estate	3,332	4,369	-	-	7,701
One-to-four family - mixed-use property	3,732	8,188	-	-	11,920
One-to-four family - residential	1,109	10,171	-	-	11,280
Co-operative apartments	-	-	-	-	-
Construction loans	-	-	-	-	-
Small Business Administration	702	607	-	-	1,309
Taxi Medallion	-	16,659	-	-	16,659
Commercial business and other	1,030	2,607	-	-	3,637
Total loans	$17,605	$ 45,835	$ -	$ -	$63,440

	December 31, 2015				
(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total

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 $87.2 million and $231.8 million, respectively, at September 30, 2016.

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6. Loans held for sale

Loans held for sale are carried at the lower of cost or estimated fair value. At September 30, 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.

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

	For the three months ended September 30, 2016			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain
Multi-family residential	3	$ 632	$ -	$ 1
One-to-four family - mixed-use property	8	2,507	-	239
Total	11	$ 3,139	$ -	$ 240

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

	For the three months ended September 30, 2015			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs)	Net gain

			recoveries	
Multi-family residential	4	$ 1,539	$ (3)	$ 1
Commercial real estate	2	741	-	13
Total [(1)]	6	$ 2,280	$ (3)	$ 14

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

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

	For the nine months ended September 30, 2016			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain
Multi-family residential	9	$ 2,680	$ (8)	$ 3
Commercial real estate	2	192	-	-
One-to-four family - mixed-use property	15	5,093	-	262
Total (1)	26	$ 7,965	$ (8)	$ 265

(1) The above table does not include the sale of six performing small business administration loans for proceeds totaling $3.5 million during the nine months ended September 30, 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:

	For the nine months ended September 30, 2015			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain (loss)
Multi-family residential	8	$ 3,420	$ 134	$ (1)
Commercial real estate	3	2,051	-	13
One-to-four family - mixed-use property	7	1,836	-	51
Total (1)	18	$ 7,307	$ 134	$ 63

(1)

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

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7. Other Real Estate Owned

The following are changes in OREO during the periods indicated:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Balance at beginning of period	$3,668	$4,255	$4,932	$6,326
Acquisitions	-	816	486	1,588
Write-down of carrying value	(829)	-	(1,763)	(896)
Sales	-	(216)	(816)	(2,163)
Balance at end of period (1)	$2,839	$4,855	$2,839	$4,855

(1) OREO are included in other assets on the Company's Consolidated Statements of Financial Condition.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Gross gains	$-	$ 4	$37	$306

Gross losses	-	-	-	(6)
Write-down of carrying value	(829)	-	(1,763)	(896)
Total net loss	$(829)	$ 4	$(1,726)	$(596)

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure or an in-substance repossession. During the three and nine months ended September 30, 2016, we did not foreclose on any consumer mortgages through in-substance repossession. At September 30, 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 September 30, 2016 and December 31, 2015 was a recorded investment of $12.9 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.

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8. Repurchase Agreements

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

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

	At September 30, 2016 Remaining Contractual Maturity of Agreements			
	Less than 1 year	1 year to 3 years	Over 3 years	Total
	(In thousands)			
Repurchase agreements:				
Mortgage-backed securities	$-	$ -	$40,000	$40,000
Total repurchase agreements	$-	$ -	$40,000	$40,000

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

	(In thousands)			
Repurchase agreements:				
Mortgage-backed securities	$38,000	$38,000	$40,000	$116,000
Total repurchase agreements	$38,000	$38,000	$40,000	$116,000

The fair value of the collateral pledged for the repurchase agreements above was $44.1 million and $131.4 million at September 30, 2016 and December 31, 2015, respectively.

During the nine months ended September 30, 2016, $38.0 million in repurchase agreements, at an average cost of 4.16%, which were scheduled to mature in late 2017, were pre-paid. A $2.1 million prepayment penalty was incurred as part of this transaction.

9. Stock-Based Compensation

For the three months ended September 30, 2016 and 2015, the Company's net income, as reported, includes $1.1 million and $0.5 million, respectively, of stock-based compensation costs and $0.4 million and $0.2 million, respectively, of income tax benefits related to the stock-based compensation plans in each of the periods. For the nine months ended September 30, 2016 and 2015, the Company's net income, as reported, includes $4.7 million and $4.2 million of stock-based compensation costs and $1.8 million and $1.6 million of income tax benefits related to the stock-based compensation plans. The Company did not issue any restricted stock units during the three months ended September 30, 2016 and 2015. During the nine months ended September 30, 2016 and 2015, the Company granted 337,175 and 318,120 restricted stock units, respectively. The Company has not granted any stock options since 2009.

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The Company estimated the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options included 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.

The following table summarizes the Company's restricted stock unit ("RSU") awards under the 2014 Omnibus Plan and the Prior Plans in the aggregate at or for the nine months ended September 30, 2016:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2015	415,909	$ 18.10
Granted	337,175	19.85
Vested	(235,535)	18.70
Forfeited	(17,010)	18.50
Non-vested at September 30, 2016	500,539	$ 18.98
Vested but unissued at September 30, 2016	280,450	$ 19.28

As of September 30, 2016, there was $7.4 million of total unrecognized compensation cost related to non-vested full value awards granted under the 2014 Omnibus Plan and the Prior Plans. That cost is expected to be recognized over a weighted-average period of 3.3 years. The total fair value of awards vested for the three months ended September 30, 2016 and 2015 were $4,000 and $39,000, respectively. The total fair value of awards vested for the nine months ended September 30, 2016 and 2015 was $4.8 million and $4.9 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 2014 Omnibus Plan and the Prior Plans in the aggregate at or for the nine months ended September 30, 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	(41,670)	17.82		
Forfeited	-	-		
Outstanding at September 30, 2016	67,460	$ 15.10	1.7	$ 582

* 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.

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Cash proceeds, fair value received, tax benefits, and intrinsic value related to stock options exercised, and the weighted average grant date fair value for options granted, during the three and nine months ended September 30, 2016 and 2015 are provided in the following table:

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Proceeds from stock options exercised	$5	$-	$132	$142
Fair value of shares received upon exercise of stock options	262	421	612	441
Tax benefit (expense) related to stock options exercised	(10)	87	(12)	324
Intrinsic value of stock options exercised	44	291	156	96

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. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

The following table summarizes the Phantom Stock Plan at or for the nine months ended September 30, 2016:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2015	79,440	$21.64
Granted	11,543	20.09
Forfeited	-	-
Distributions	(1,364)	20.28
Outstanding at September 30, 2016	89,619	$23.72
Vested at September 30, 2016	89,435	$23.72

The Company recorded stock-based compensation expense for the Phantom Stock Plan of $0.4 million and $0.1 million for the three months ended September 30, 2016 and 2015, respectively. There were no distributions for the three months ended September 30, 2016 and 2015.

For the nine months ended September 30, 2016 and 2015, the Company recorded stock-based compensation expense for the Phantom Stock Plan of $0.2 million and $29,000, respectively. The total fair value of the distributions from the Phantom Stock Plan during the nine months ended September 30, 2016 and 2015 was $28,000 and $9,000, respectively.

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10. Pension and Other Postretirement Benefit Plans

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Employee Pension Plan:				
Interest cost	$226	$221	$678	$663
Amortization of unrecognized loss	201	291	604	872
Expected return on plan assets	(348)	(350)	(1,044)	(1,050)
Net employee pension expense	$79	$162	$238	$485
Outside Director Pension Plan:				
Service cost	$11	$11	$33	$33
Interest cost	24	24	72	72
Amortization of unrecognized gain	(21)	(14)	(65)	(42)
Amortization of past service liability	9	10	30	30
Net outside director pension expense	$23	$31	$70	$93
Other Postretirement Benefit Plans:				
Service cost	$90	$95	$270	$285
Interest cost	80	75	240	225
Amortization of unrecognized loss	12	30	36	90
Amortization of past service credit	(22)	(21)	(64)	(64)
Net other postretirement expense	$160	$179	$482	$536

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 September 30, 2016, the Company has contributed $108,000 to the Outside Director Pension Plan and $48,000 to the Other Postretirement Benefit Plans. As of September 30, 2016, the Company has not revised its expected contributions for the year ending December 31, 2016.

11. Fair Value of Financial Instruments

The Company carries certain financial assets and financial liabilities at fair value in accordance with GAAP which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and expands disclosures about fair value measurements. GAAP permits entities to choose to measure many financial instruments and certain other items at fair value. At September 30, 2016, the Company carried financial assets and financial liabilities under the fair value option with fair values of $30.7 million and $27.8 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 and nine months ended September 30, 2016.

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

	Fair Value Measurements at September 30,	Fair Value Measurements at December 31,	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
			Three Months Ended		Nine Months Ended	
(Dollars in thousands)	2016	2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Mortgage-backed securities	$ 2,166	$ 2,527	$ (6)	$ -	$ (4)	$ (36)
Other securities	28,551	28,205	(30)	59	156	148
Borrowed funds	27,791	29,018	(296)	987	1,250	282
Net gain (loss) from fair value adjustments (1) (2)			$ (332)	$ 1,046	$ 1,402	$ 394

(1) The net gain (loss) from fair value adjustments presented in the above table does not include net losses of $0.5 million and $2.1 million for the three months ended September 30, 2016 and 2015, respectively, from the change in the fair value of interest rate swaps.

(2) The net gain (loss) from fair value adjustments presented in the above table does not include net losses of $4.3 million and $1.3 million for the nine months ended September 30, 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 September 30, 2016 and December 31, 2015. The fair value of borrowed funds includes accrued interest payable of $0.1 million at both September 30, 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.

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

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

Level 1 – where quoted market prices are available in an active market. The Company did not value any of its assets or liabilities that are carried at fair value on a recurring basis as Level 1 at September 30, 2016 and December 31, 2015.

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

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

Mortgage-backed Securities	$-	$ -	$545,067	$668,740	$ -	$ -	$ 545,067	$ 668,740
Other securities	-	-	358,621	317,445	7,191	7,212	365,812	324,657
Interest rate swaps	-	-	-	48	-	-	-	48
Total assets	$-	$ -	$903,688	$986,233	$ 7,191	$ 7,212	$ 910,879	$ 993,445
Liabilities:								
Borrowings	$-	$ -	$-	$-	$ 27,791	$ 29,018	$ 27,791	$ 29,018
Interest rate swaps	-	-	15,426	4,314	-	-	15,426	4,314
Total liabilities	$-	$ -	$ 15,426	$4,314	$ 27,791	$ 29,018	$ 43,217	$ 33,332

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

	For the three months ended September 30, 2016	
	Trust preferred securities	Junior subordinated debentures
	(In thousands)	
Beginning balance	$ 7,167	$ 27,485
Net gain from fair value adjustment of financial assets [(1)]	23	-
Net loss from fair value adjustment of financial liabilities [(1)]	-	296
Increase in accrued interest payable	-	10
Change in unrealized gains (losses) included in other comprehensive income	1	-
Ending balance	$ 7,191	$ 27,791
Changes in unrealized gains (losses) held at period end	$ 1	$ -

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

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

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

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

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

	For the nine months ended September 30, 2016	
	Trust preferred securities	Junior subordinated debentures
Beginning balance	$ 7,212	$ 29,018
Net loss from fair value adjustment of financial assets included in earnings [1]	(23)	-
Net gain from fair value adjustment of financial liabilities included in earnings [1]	-	(1,250)
Increase in accrued interest payable	1	23
Change in unrealized gains (losses) included in other comprehensive income	1	-
Ending balance	$ 7,191	$ 27,791
Changes in unrealized gains (losses) held at period end	$ 1	$ -

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

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

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

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

During the three and nine months ended September 30, 2016 and 2015, there were no transfers between Levels 1, 2 and 3.

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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:

	September 30, 2016						
	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average	
Assets:							
Trust preferred securities	$7,191	Discounted cash flows	Discount rate	7.0% -	7.05%	7.0	%
Liabilities:							
Junior subordinated debentures	$27,791	Discounted cash flows	Discount rate	7.0%		7.0	%

	December 31, 2015						
	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average	
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 September 30, 2016 and December 31, 2015, are 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 September 30, 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	$-	$ -	$ -	$ -	$ 12,144	$ 15,360	$ 12,144	$ 15,360
Other real estate owned	-	-	-	-	2,839	4,932	2,839	4,932
Total assets	$-	$ -	$ -	$ -	$ 14,983	$ 20,292	$ 14,983	$ 20,292

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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:

	September 30, 2016							
	Fair Value	Valuation Technique	Unobservable Input	Range			Weighted Average	
	(Dollars in thousands)							
Assets:								
Impaired loans	$2,472	Income approach	Capitalization rate	6.0%	to	7.1%	7.1	%
			Loss severity discount	8.7%	to	15.0%	14.0	%
Impaired loans	$4,426	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-40.0%	to	16.2%	-3.1	%
			Loss severity discount		15.0%		15.0	%
Impaired loans	$5,246	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-50.0%	to	25.0%	-2.4	%
			Capitalization rate	5.3%	to	11.0%	7.1	%
			Loss severity discount	6.9%	to	15.0%	13.8	%
Other real estate owned	$2,839	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-5.0%	to	25.0%	2.8	%

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	December 31, 2015							
	Fair Value	Valuation Technique	Unobservable Input	Range			Weighted Average	
	(Dollars in thousands)							
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	%

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at September 30, 2016 and December 31, 2015.

The fair value of each material class of financial instruments at September 30, 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. When there is no recent sale activity, the fair value is calculated using capitalization rates.

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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.

Other Financial Instruments:

The fair values of commitments to sell, lend or borrow are estimated using the fees currently charged or paid to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties or on the estimated cost to terminate them or otherwise settle with the counterparties at the reporting date. For fixed-rate loan commitments to sell, lend or borrow, fair values also consider the difference between current levels of interest rates and committed rates (where applicable). At September 30, 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.

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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:

	September 30, 2016 Carrying Amount (In thousands)	Value	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks	$47,880	$47,880	$47,880	$-	$-
Securities held-to-maturity					
Other securities	33,274	33,410	-	-	33,410
Securities available for sale					
Mortgage-backed securities	545,067	545,067	-	545,067	-
Other securities	365,812	365,812	-	358,621	7,191
Loans	4,741,277	4,780,500	-	-	4,780,500
FHLB-NY stock	65,185	65,185	-	65,185	-
Total assets	$5,798,495	$5,837,854	$47,880	$968,873	$4,821,101
Liabilities:					
Deposits	$4,041,781	$4,058,678	$2,657,230	$1,401,448	$-
Borrowings	1,360,515	1,370,749	-	1,342,958	27,791
Interest rate swaps	15,426	15,426	-	15,426	-
Total liabilities	$5,417,722	$5,444,853	$2,657,230	$2,759,832	$27,791

	December 31, 2015 Carrying Amount (In thousands)	Fair Value	Level 1	Level 2	Level 3
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	-
Total assets	$5,486,033	$5,532,133	$42,363	$1,042,299	$4,447,471
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	-
Total liabilities	$5,168,537	$5,187,148	$2,489,245	$2,668,885	$29,018

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12. Derivative Financial Instruments

At September 30, 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 at both September 30, 2016 and December 31, 2015. The second purpose is to mitigate the Company's exposure to rising interest rates on certain fixed rate loans totaling $208.1 million and $146.9 million at September 30, 2016 and December 31, 2015, respectively.

At September 30, 2016 and December 31, 2015, derivatives with a combined notional amount of $36.3 million were not designated as hedges. At September 30, 2016 and December 31, 2015, derivatives with a combined notional amount of $189.8 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:

	September 30, 2016		December 31, 2015	
	Notional Amount	Net Carrying Value (1)	Notional Amount	Net Carrying Value (1)
Interest rate swaps (hedge)	$-	$ -	$28,588	$ 48
Interest rate swaps (hedge)	189,791	(9,095)	99,955	(1,515)
Interest rate swaps (non-hedge)	36,321	(6,331)	36,321	(2,799)
Total derivatives	$226,112	$ (15,426)	$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 September 30, 2016 and December 31, 2015.

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

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Financial Derivatives:				
Interest rate swaps (non-hedge)	$ (111)	$ (1,753)	$ (3,532)	$ (882)
Interest rate swaps (hedge)	(380)	(387)	(795)	(433)
Net (loss) gain (1)	$ (491)	$ (2,140)	$ (4,327)	$ (1,315)

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

During the three months and nine months ended September 30, 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 September 30, 2016.

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:

	December 31, 2015					
				Gross Amounts Not Offset in the Consolidated Statement of Condition		
(In thousands)	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	$ -	$ -

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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:

	September 30, 2016					
				Gross Amounts Not Offset in the Consolidated Statement of Condition		
(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	Financial Instruments	Cash Collateral Pledged	Net Amount
Interest rate swaps	$ 15,426	$ -	$ 15,426	$ -	$ 15,426	$ -

	December 31, 2015					
				Gross Amounts Not Offset in the Consolidated Statement of Condition		
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of	Net Amount of Liabilities Presented in the Statement	Financial Instruments	Cash Collateral Pledged	Net Amount

		Condition	of Condition			
Interest rate swaps	$4,314	$ -	$ 4,314	$48	$ 4,266	$ -

13. Income Taxes

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

Income tax provisions are summarized as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
(In thousands)	2016	2015	2016	2015
Federal:				
Current	$ 6,474	$ 6,195	$ 26,362	$ 20,262
Deferred	(906)	(820)	(844)	(3,480)
Total federal tax provision	5,568	5,375	25,518	16,782
State and Local:				
Current	1,492	1,635	7,853	6,490
Deferred	(405)	(349)	(384)	(1,544)
Total state and local tax provision	1,087	1,286	7,469	4,946
Total income tax provision	$ 6,655	$ 6,661	$ 32,987	$ 21,728

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The effective tax rate was 38.5% and 37.7% for the three months ended September 30, 2016 and 2015, respectively, and 39.5% and 38.6% for the nine months ended September 30, 2016 and 2015, respectively. The increase in the effective tax rate reflects the reduced impact of preferential tax items, as a result of the gain on sale of one of our properties in Flushing, Queens recorded during the nine months ended September 30, 2016.

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

(dollars in thousands)	For the three months ended September 30, 2016		2015		For the nine months ended September 30, 2016		2015	
Taxes at federal statutory rate	$6,051	35.0%	$6,184	35.0%	$29,266	35.0%	$19,706	35.0%
Increase (reduction) in taxes resulting from:								
State and local income tax, net of Federal income tax benefit	707	4.1	836	4.7	4,855	5.8	3,215	5.7
Other	(103)	(0.6)	(359)	(2.0)	(1,134)	(1.3)	(1,193)	(2.1)
Taxes at effective rate	$6,655	38.5%	$6,661	37.7%	$32,987	39.5%	$21,728	38.6%

The Company has recorded a deferred tax asset of $34.8 million at September 30, 2016, which is included in “Other assets” in the Consolidated Statements of Financial Condition. This represents the 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 $23.3 million deferred tax liability can be used to offset a portion of the deferred tax asset, as well as certain tax planning strategies, it is more likely than not that the deferred tax asset will be fully realized. Accordingly, no valuation allowance was deemed necessary for the deferred tax asset at September 30, 2016.

14. Accumulated Other Comprehensive Income:

The following table sets forth the changes in accumulated other comprehensive income by component for the three months ended September 30, 2016:

	Unrealized Gains and (Losses) on Available for Sale Securities	Defined Benefit Pension Items	Total
	(In thousands)		
Beginning balance, net of tax	$7,923	$ (4,835)	$3,088
Other comprehensive income (loss) before reclassifications, net of tax	(2,942)	-	(2,942)
Amounts reclassified from accumulated other comprehensive income, net of tax	-	103	103
Net current period other comprehensive income (loss), net of tax	(2,942)	103	(2,839)
Ending balance, net of tax	$4,981	$ (4,732)	$249

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

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

The following table sets forth the changes in accumulated other comprehensive income by component for the nine months ended September 30, 2016:

	Unrealized Gains and (Losses) on Available for Sale Securities	Defined Benefit Pension Items	Total
	(In thousands)		

Beginning balance, net of tax	$(521)	$ (5,041)	$(5,562)
Other comprehensive income before reclassifications, net of tax	6,852	-	6,852
Amounts reclassified from accumulated other comprehensive income, net of tax	(1,350)	309	(1,041)
Net current period other comprehensive income, net of tax	5,502	309	5,811
Ending balance, net of tax	$4,981	$ (4,732)	$249