FLUSHING FINANCIAL CORP
Form 10-Q
May 12, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

Commission file number 001-33013

FLUSHING FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

11-3209278
(I.R.S. Employer Identification No.)

1979 Marcus Avenue, Suite E140, Lake Success, New York 11042
(Address of principal executive offices)

(718) 961-5400
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [ ]	Accelerated filer [x]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

The number of shares of the registrant’s Common Stock outstanding as of April 30, 2014 was 30,255,362.

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PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Financial Condition
(Unaudited)

Item 1. Financial Statements

(Dollars in thousands, except per share data)	March 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 43,630	$ 33,485
Securities available for sale:		
Mortgage-backed securities ($5,823 and $7,119 at fair value pursuant to the fair value option at March 31, 2014 and December 31, 2013, respectively)	774,202	756,156
Other securities ($33,447 and $30,163 at fair value pursuant to the fair value option at March 31, 2014 and December 31, 2013 respectively)	279,164	261,634
Loans held for sale	-	425
Loans:		
Multi-family residential	1,722,764	1,712,039
Commercial real estate	509,728	512,552
One-to-four family mixed-use property	587,482	595,751
One-to-four family residential	194,611	193,726
Co-operative apartments	9,974	10,137
Construction	4,859	4,247
Small Business Administration	7,628	7,792
Taxi medallion	24,127	13,123
Commercial business and other	427,406	373,641
Net unamortized premiums and unearned loan fees	11,080	11,170
Allowance for loan losses	(30,270)	(31,776)
Net loans	3,469,389	3,402,402
Interest and dividends receivable	17,133	17,370
Bank premises and equipment, net	19,983	20,356
Federal Home Loan Bank of New York stock	44,698	46,025
Bank owned life insurance	110,383	109,606
Goodwill	16,127	16,127
Other assets	45,267	57,915
Total assets	$ 4,819,976	$ 4,721,501
LIABILITIES		
Due to depositors:		
Non-interest bearing	$ 200,947	$ 197,343
Interest-bearing:		
Certificate of deposit accounts	1,150,064	1,120,955
Savings accounts	260,980	265,003
Money market accounts	194,172	199,907
NOW accounts	1,495,761	1,416,774
Total interest-bearing deposits	3,100,977	3,002,639
Mortgagors' escrow deposits	48,870	32,798
Borrowed funds ($29,541 and $29,570 at fair value pursuant to the fair value option at March 31, 2014 and December 31, 2013, respectively)	827,573	856,822

Securities sold under agreements to repurchase	155,300	155,300
Other liabilities	38,747	44,067
Total liabilities	4,372,414	4,288,969
Commitments and contingencies (Notes 4 & 5)		
STOCKHOLDERS' EQUITY		
Preferred stock ($0.01 par value; 5,000,000 shares authorized; None issued)	-	-
Common stock ($0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at March 31, 2014 and December 31, 2013; 30,252,704 shares and 30,123,252 shares outstanding at March 31, 2014 and December 31, 2013, respectively)	315	315
Additional paid-in capital	204,605	201,902
Treasury stock, at average cost (1,277,891 shares and 1,407,343 shares at March 31, 2014 and December 31, 2013, respectively)	(20,496)	(22,053)
Retained earnings	269,093	263,743
Accumulated other comprehensive (loss) income, net of taxes	(5,955)	(11,375)
Total stockholders' equity	447,562	432,532
Total liabilities and stockholders' equity	$ 4,819,976	$ 4,721,501

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except per share data)	For the three months ended March 31, 2014	2013
Interest and dividend income		
Interest and fees on loans	$ 42,120	$ 42,940
Interest and dividends on securities:		
Interest	6,875	6,954
Dividends	189	175
Other interest income	27	17
Total interest and dividend income	49,211	50,086
Interest expense		
Deposits	7,718	8,291
Other interest expense	5,006	7,649
Total interest expense	12,724	15,940
Net interest income	36,487	34,146
Provision (benefit) for loan losses	(1,119)	6,000
Net interest income after provision for loan losses	37,606	28,146
Non-interest income		
Banking services fee income	709	1,040
Net loss on sale of loans	-	(9)
Net gain on sale of securities	-	2,858
Net loss from fair value adjustments	(644)	(123)
Federal Home Loan Bank of New York stock dividends	551	414
Bank owned life insurance	776	825
Other income	318	343
Total non-interest income	1,710	5,348
Non-interest expense		
Salaries and employee benefits	12,578	12,233
Occupancy and equipment	2,035	1,860
Professional services	1,210	1,618
FDIC deposit insurance	697	991
Data processing	1,068	1,043
Depreciation and amortization	715	767
Other real estate owned/foreclosure expense	256	668
Other operating expenses	3,534	3,239
Total non-interest expense	22,093	22,419
Income before income taxes	17,223	11,075

Provision for income taxes				
Federal		4,758		3,461
State and local		2,169		858
Total taxes		6,927		4,319
Net income	$	10,296	$	6,756
Basic earnings per common share	$	0.34	$	0.22
Diluted earnings per common share	$	0.34	$	0.22
Dividends per common share	$	0.15	$	0.13

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

(Dollars in thousands)	For the three months ended March 31, 2014	2013
Comprehensive Income, net of tax		
Net income	$ 10,296	$ 6,756
Amortization of actuarial losses	63	174
Amortization of prior service credits	(3)	(6)
Unrealized gains (losses) on securities, net	5,360	(4,203)
Comprehensive income	$ 15,716	$ 2,721

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	For the three months ended March 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,296	$ 6,756
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (benefit) for loan losses	(1,119)	6,000
Depreciation and amortization of bank premises and equipment	715	767
Amortization of premium, net of accretion of discount	1,821	1,774
Net loss from fair value adjustments	644	123
Net loss from sale of loans	-	9
Net gain from sale of securities	-	(2,858)
Income from bank owned life insurance	(776)	(825)
Stock-based compensation expense	2,581	1,993
Deferred compensation	(1,192)	(423)
Amortization of core deposit intangibles	-	117
Excess tax benefit from stock-based payment arrangements	(675)	(245)
Deferred income tax provision	2,925	904
Decrease in prepaid FDIC assessment	-	927
Increase (decrease) in other liabilities	(2,748)	2,089
Decrease in other assets	1,917	3,004
Net cash provided by operating activities	14,389	20,112
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of bank premises and equipment	(342)	(283)
Net redemptions of Federal Home Loan Bank of New York shares	1,327	3,651
Purchases of securities available for sale	(48,277)	(171,018)
Proceeds from sales and calls of securities	1,871	96,396
Proceeds from maturities and prepayments of securities available for sale	20,715	37,461
Net (originations) and repayment of loans	(57,488)	4,426
Purchases of loans	(11,649)	(452)
Proceeds from sale of real estate owned	1,062	1,793
Proceeds from sale of delinquent loans	5,424	8,166
Net cash used in investing activities	(87,357)	(19,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	3,604	4,445
Net increase in interest-bearing deposits	98,091	72,700
Net increase in mortgagors' escrow deposits	16,072	14,025
Net repayment from short-term borrowed funds	(29,500)	(121,500)
Proceeds from long-term borrowings	-	110,271
Repayment of long-term borrowings	-	(69,912)
Purchases of treasury stock	(1,659)	(954)

Excess tax benefit from stock-based payment arrangements		675		245
Proceeds from issuance of common stock upon exercise of stock options		343		22
Cash dividends paid		(4,513)		(3,973)
Net cash provided by financing activities		83,113		5,369
Net increase (decrease) in cash and cash equivalents		10,145		5,621
Cash and cash equivalents, beginning of period		33,485		40,425
Cash and cash equivalents, end of period	$	43,630	$	46,046
SUPPLEMENTAL CASH FLOW DISCLOSURE				
Interest paid	$	12,646	$	15,652
Income taxes paid		4,680		1,581
Taxes paid if excess tax benefits were not tax deductible		5,355		1,826
Non-cash activities:				
Securities purchased not yet settled		1,000		14,308
Loans transferred to Other Real Estate Owned		115		679
Loans provided for the sale of Other Real Estate Owned		308		2,088
Loans held for investment transferred to loans held for sale		-		7,682

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(Dollars in thousands, except per share data)	For the three months ended March 31, 2014	2013
Common Stock		
Balance, beginning of period	$ 315	$ 315
No activity	-	-
Balance, end of period	$ 315	$ 315
Additional Paid-In Capital		
Balance, beginning of period	$ 201,902	$ 198,314
Award of common shares released from Employee Benefit Trust (126,650 and 133,656 common shares for the three months ended March 31, 2014 and 2013, respectively)	1,929	1,563
Shares issued upon vesting of restricted stock unit awards (1,000 and 98,610 common shares for the three months ended March 31, 2014 and 2013, respectively)	3	78
Issuance upon exercise of stock options (50,215 and 42,400 common shares for the three months ended March 31, 2014 and 2013, respectively)	122	55
Stock-based compensation activity, net	(26)	(120)
Stock-based income tax benefit	675	245
Balance, end of period	$ 204,605	$ 200,135
Treasury Stock		
Balance, beginning of period	$ (22,053)	$ (10,257)
Purchases of outstanding shares (28,120 and 18,560 common shares for the three months ended March 31, 2014 and 2013, respectively)	(556)	(301)
Shares issued upon vesting of restricted stock unit awards (183,864 and 151,652 common shares for the three months ended March 31, 2014 and 2013, respectively)	2,897	1,983
Issuance upon exercise of stock options (50,215 and 52,320 common shares for the three months ended March 31, 2014 and 2013, respectively)	797	691
Purchases of shares to fund options exercised (23,003 and 39,957 common shares for the three months ended March 31, 2014 and 2013, respectively)	(478)	(637)
Repurchase of shares to satisfy tax obligations (53,504 and 42,666 common shares for the three months ended March 31, 2014 and 2013, respectively)	(1,103)	(653)
Balance, end of period	$ (20,496)	$ (9,174)
Retained Earnings		
Balance, beginning of period	$ 263,743	$ 241,856
Net income	10,296	6,756
Cash dividends declared and paid on common shares ($0.15 and $0.13 per common share for the three months ended March 31, 2014 and 2013, respectively)	(4,513)	(3,973)
Issuance upon exercise of stock options (7,140 and 9,920 common shares for the three months ended March 31, 2014 and 2013, respectively)	(44)	(35)
	(389)	(99)

		2014			2013	
Shares issued upon vesting of restricted stock unit awards (182,864 and 53,042 common shares for the three months ended March 31, 2014 and 2013, respectively)						
Balance, end of period	$	269,093		$	244,505	
Accumulated Other Comprehensive Income						
Balance, beginning of period	$	(11,375	)	$	12,137	
Change in net unrealized gains (losses) on securities available for sale, net of taxes of approximately ($4,237) and $2,013 for the three months ended March 31, 2014 and 2013, respectively		5,360			(2,594	)
Amortization of actuarial losses, net of taxes of approximately ($112) and ($135) for the three months ended March 31, 2014 and 2013, respectively		63			174	
Amortization of prior service credits, net of taxes of approximately $8 and $5 for the three months ended March 31, 2014 and 2013, respectively)		(3	)		(6	)
Reclassification adjustment for net gains included in net income, net of taxes of approximately $1,249 for the three months ended March 31, 2013		-			(1,609	)
Balance, end of period	$	(5,955	)	$	8,102	
Total Stockholders' Equity	$	447,562		$	443,883	

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, 2013.

2. Use of Estimates

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

3. Earnings Per Share

Earnings per share are computed in accordance with ASC Topic 260 “Earnings Per Share.” Basic earnings per common share is computed by dividing net income available to common shareholders by the total weighted average number of common shares outstanding, which includes unvested participating securities. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and as such are included in the calculation of earnings per share. The Company’s unvested restricted stock and restricted stock unit awards are considered participating securities. Therefore, weighted average common shares outstanding used for computing basic earnings per common share includes common shares outstanding plus unvested restricted stock and restricted stock unit awards. The computation of diluted earnings per share includes the additional dilutive effect of stock options outstanding and other common stock equivalents during the period. Common stock equivalents that are anti-dilutive are not included in the computation of diluted earnings per common share. The numerator for calculating basic and diluted earnings per common share is net income available to common shareholders. The shares held in the Company’s Employee Benefit Trust are not included in shares outstanding for purposes of calculating earnings per common share.

PART I – FINANCIAL INFORMATION

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

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

	For the three months ended March 31,	
	2014	2013
	(In thousands, except per share data)	
Net income, as reported	$ 10,296	$ 6,756
Divided by:		
Weighted average common shares outstanding	29,984	30,449
Weighted average common stock equivalents	38	32
Total weighted average common shares outstanding and common stock equivalents	30,022	30,481
Basic earnings per common share	$ 0.34	$ 0.22
Diluted earnings per common share (1)	$ 0.34	$ 0.22
Dividend payout ratio	43.7 %	59.1 %

(1) For the three months ended March 31, 2014, there were no options that were anti-dilutive. For the three months ended March 31, 2013, options to purchase 542,400 shares at an average exercise price of $17.66 were not included in the computation of diluted earnings per common share as they were anti-dilutive.

4.Debt and Equity Securities

The Company's investments 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 or securities held-to-maturity during the three month periods ended March 31, 2014 and December 31, 2013. Securities available for sale are recorded at fair value.

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

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
			(In thousands)	
Corporate	$110,524	$111,925	$ 2,143	$ 742
Municipals	128,346	127,482	967	1,831
Mutual funds	26,697	26,697	-	-
Other	16,313	13,060	-	3,253
Total other securities	281,880	279,164	3,110	5,826
REMIC and CMO	515,372	513,148	7,142	9,366
GNMA	36,884	38,877	2,265	272

FNMA	212,014	209,345	2,715	5,384
FHLMC	12,753	12,832	238	159
Total mortgage-backed securities	777,023	774,202	12,360	15,181
Total securities available for sale	$1,058,903	$1,053,366	$ 15,470	$ 21,007

The table above includes commitments to purchase securities totaling $1.0 million which settled during April 2014.

PART I – FINANCIAL INFORMATION

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

Mortgage-backed securities shown in the table above include three private issue collateralized mortgage obligations ("CMOs") that are collateralized by commercial real estate mortgages with amortized cost and market values totaling $12.8 million and $12.9 million, respectively, at March 31, 2014.

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

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Corporate	$49,258	$ 742	$29,898	$ 102	$19,360	$ 640
Municipals	75,298	1,831	54,055	967	21,243	864
Other	6,309	3,253	-	-	6,309	3,253
Total other securities	130,865	5,826	83,953	1,069	46,912	4,757
REMIC and CMO	286,390	9,366	223,865	6,417	62,525	2,949
GNMA	9,105	272	9,105	272	-	-
FNMA	117,370	5,384	104,021	4,441	13,349	943
FHLMC	7,310	159	7,310	159	-	-
Total mortgage-backed securities	420,175	15,181	344,301	11,289	75,874	3,892
Total securitiesavailable for sale	$551,040	$ 21,007	$428,254	$ 12,358	$122,786	$ 8,649

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

The Company reviewed each investment that had an unrealized loss at March 31, 2014. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCI, net of tax. Unrealized losses that are considered to be other-than-temporary are split between credit related and noncredit related impairments, with the credit related impairment being recorded as a charge against earnings and the noncredit related impairment being recorded in AOCI, net of tax.

The Company evaluates its pooled trust preferred securities, included in the table above in the row labeled "Other", using an impairment model through an independent third party, which includes evaluating the financial condition of each counterparty. For single issuer trust preferred securities, the Company evaluates the issuer's financial condition. The Company evaluates its mortgage-backed securities by reviewing the characteristics of the securities, including delinquency and foreclosure levels, projected losses at various loss severity levels and credit enhancement and coverage. In addition, private issue CMOs are evaluated using an impairment model through an independent third

party. When an OTTI is identified, the portion of the impairment that is credit related is determined by management by using the following methods: (1) for trust preferred securities, the credit related impairment is determined by using a discounted cash flow model from an independent third party, with the difference between the present value of the projected cash flows and the amortized cost basis of the security recorded as a credit related loss against earnings; (2) for mortgage-backed securities, credit related impairment is determined for each security by estimating losses based on a set of assumptions, which includes delinquency and foreclosure levels, projected losses at various loss severity levels, credit enhancement and coverage and (3) for private issue CMOs, through an impairment model from an independent third party and then recording those estimated losses as a credit related loss against earnings.

PART I – FINANCIAL INFORMATION

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

Corporate:
The unrealized losses in Corporate securities at March 31, 2014 consist of losses on six Corporate securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Municipal Securities:
The unrealized losses in Municipal securities at March 31, 2014, consist of losses on 24 municipal securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Other Securities:
The unrealized losses in Other Securities at March 31, 2014, consist of losses on one single issuer trust preferred security and two pooled trust preferred securities. The unrealized losses on such securities were caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. These securities are currently rated below investment grade. The pooled trust preferred securities do not have collateral that is subordinate to the classes the Company owns. The Company's management evaluates these securities using an impairment model, through an independent third party, that is applied to debt securities. In estimating OTTI losses, management considers: (1) the length of time and the extent to which the fair value has been less than amortized cost; (2) the current interest rate environment; (3) the financial condition and near-term prospects of the issuer, if applicable; and (4) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. Additionally, management reviews the financial condition of each individual issuer within the pooled trust preferred securities. All of the issuers of the underlying collateral of the pooled trust preferred securities we reviewed are banks.

For each bank, our review included the following performance items of the banks:

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

Texas Ratio (ratio of non-performing assets plus assets past due over 90 days divided by tangible equity plus the reserve for loan losses)
Credit ratings (where applicable)
Capital issuances within the past year (where applicable)
Ability to complete Federal Deposit Insurance Corporation (“FDIC”) assisted acquisitions (where applicable)

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

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

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

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In order to estimate potential future defaults and deferrals, we segregated the performing underlying issuers by their Texas Ratio. We then reviewed performing issuers with Texas Ratios in excess of 50%. The Texas Ratio is a key indicator of the health of the institution and the likelihood of failure. This ratio compares the problem assets of the institution to the institution's available capital and reserves to absorb losses that are likely to occur in these assets. There was one issuer in our pooled trust preferred securities which had a Texas Ratio in excess of 50%. We assigned a 25% default rate to this issuer. All other issuers in our pooled trust preferred securities had a Texas Ratio below 50%. We assigned a zero percent default rate to these issuers. Our analysis also assumed that issuers currently deferring would default with no recovery, and issuers that have defaulted will have no recovery.

We had an independent third party prepare a discounted cash flow analysis for each of these pooled trust preferred securities based on the assumptions discussed above. Other significant assumptions were: (1) two issuers totaling $26.7 million will prepay in 2014; (2) two issuers totaling $21.5 million will prepay in the second quarter of 2015; (3) senior classes will not call the debt on their portions; and (4) use of the forward London Interbank Offered Rate ("LIBOR") curve. The cash flows were discounted at the effective rate for each security.

The Company also owns a single issue security that is carried under the fair value option, where the unrealized losses are included in the Consolidated Statements of Income – Net gain (loss) from fair value adjustments.

It is not anticipated at this time that the one single issuer trust preferred security and the two pooled trust preferred securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management and based on the review performed at March 31, 2014, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider the one single issuer trust preferred security and the two pooled trust preferred securities to be other-than-temporarily impaired at March 31, 2014.

At March 31, 2014, the Company held four trust preferred issues which had a current credit rating of at least one rating below investment grade. One of those issues are carried under the fair value option and therefore, changes in fair value are included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments.

The following table details the remaining three trust preferred issues that were evaluated to determine if they were other-than-temporarily impaired at March 31, 2014. The class the Company owns in pooled trust preferred securities does not have any excess subordination.

Issuer Type	Class	Performing Banks	Amortized Cost	Fair Value	Cumulative Credit Related OTTI	Deferrals/Defaults Actual as a Percentage of Original Security
			(Dollars in thousands)			
n/a	1		300	287	-	None

Single issuer							
Pooled issuer	B1	15	5,617	3,120	2,196	23.4%	0.0%
Pooled issuer	C1	16	3,645	2,900	1,542	21.3%	1.5%
Total			$9,562	$6,307	$3,738		

REMIC and CMO:
The unrealized losses in Real Estate Mortgage Investment Conduit ("REMIC") and CMO securities at March 31, 2014 consist of 13 issues from the Federal Home Loan Mortgage Corporation ("FHLMC"), 17 issues from the Federal National Mortgage Association ("FNMA") and six issues from Government National Mortgage Association ("GNMA").

The unrealized losses on the REMIC and CMO securities issued by FHLMC, FNMA and GNMA were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms, and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements, and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2014.

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GNMA:
The unrealized losses in GNMA securities at March 31, 2014 consist of losses on one security. The unrealized losses were caused by movements in interest rates. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company's investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell the security before recovery of the security's amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this security to be other-than-temporarily impaired at March 31, 2014.

FNMA:
The unrealized losses in FNMA securities at March 31, 2014 consist of losses on 16 securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes will cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2014.

FHMLC:

The unrealized losses in FHMLC securities at March 31, 2014 consist of losses on one security. The unrealized losses were caused by movements in interest rates. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company's investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell the security before recovery of the security's amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this security to be other-than-temporarily impaired at March 31, 2014.

The following table details gross unrealized losses recorded in AOCI and the ending credit loss amount on debt securities, as of March 31, 2014, for which the Company has recorded a credit related OTTI charge in the Consolidated Statements of Income:

(in thousands)	Amortized Cost	Fair Value	Gross Unrealized Losses Recorded In AOCI	Ending Credit Loss Amount
Trust preferred securities (1)	$ 9,262	$ 6,020	$ 3,242	$ 3,738
Total	$ 9,262	$ 6,020	$ 3,242	$ 3,738

(1) The Company has recorded OTTI charges in the Consolidated Statements of Income on two pooled trust preferred securities for which a portion of the unrealized losses are currently recorded in AOCI.

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

	For the three months ended March 31,	
	2014	2013
	(In thousands)	
Beginning balance	$ 3,738	$ 6,178
Recognition of actual losses	-	(169)
OTTI charges due to credit loss recorded in earnings	-	-
Securities sold during the period	-	-
Securities where there is an intent to sell or requirement to sell	-	-
Ending balance	$ 3,738	$ 6,009

The following table details the amortized cost and estimated fair value of the Company's securities classified as available for sale at March 31, 2014, by contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$42,511	$42,705
Due after one year through five years	42,142	44,072
Due after five years through ten years	59,017	58,257
Due after ten years	138,210	134,130
Total other securities	281,880	279,164
Mortgage-backed securities	777,023	774,202
Total securities available for sale	$1,058,903	$1,053,366

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 March 31,	
	2014	2013
	(In thousands)	
Gross gains from the sale of securities	$ -	$ 3,199
Gross losses from the sale of securities	-	(341)
Net gains from the sale of securities	$ -	$ 2,858

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The following table summarizes the Company's portfolio of securities available for sale at December 31, 2013:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
			(In thousands)	
Corporate	$100,362	$101,711	$ 2,316	$ 967
Municipals	127,967	123,423	93	4,637
Mutual funds	21,565	21,565	-	-
Other	18,160	14,935	-	3,225
Total other securities	268,054	261,634	2,409	8,829
REMIC and CMO	494,984	489,670	6,516	11,830
GNMA	38,974	40,874	2,325	425
FNMA	217,615	212,322	2,233	7,526
FHLMC	13,297	13,290	226	233
Total mortgage-backed securities	764,870	756,156	11,300	20,014
Total securities available for sale	$1,032,924	$1,017,790	$ 13,709	$ 28,843

Mortgage-backed securities shown in the table above include three private issue collateralized mortgage obligations ("CMO") that are collateralized by commercial real estate mortgages with an amortized cost and market value of $13.9 million at December 31, 2013.

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, 2013.

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Corporate	$39,033	$ 967	$39,033	$ 967	$-	$ -
Municipals	100,875	4,637	95,958	4,187	4,917	450
Other	6,337	3,225	-	-	6,337	3,225
Total other securities	146,245	8,829	134,991	5,154	11,254	3,675
REMIC and CMO	298,165	11,830	279,743	10,650	18,422	1,180
GNMA	9,213	425	9,213	425	-	-
FNMA	139,999	7,526	131,248	6,654	8,751	872
FHLMC	7,478	233	7,478	233	-	-
Total mortgage-backed securities	454,855	20,014	427,682	17,962	27,173	2,052
Total securities available for sale	$601,100	$ 28,843	$562,673	$ 23,116	$38,427	$ 5,727

5. Loans

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

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

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

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

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

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

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.

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

As of March 31, 2014, we utilized recent third party appraisals of the collateral to measure impairment for $56.8 million, or 84.4%, of collateral dependent impaired loans, and used internal evaluations of the property's value for $10.5 million, or 15.6%, of collateral dependent impaired loans.

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

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

The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate, or for a non-performing TDR which is collateral dependent, the fair value of the collateral. At March 31, 2014, 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 Bank did not modify and classify any loans as TDR during the three months ended March 31, 2014.

The following table shows loans modified and classified as TDR during the three months ended March 31, 2013:

	For the three months ended March 31, 2013		
(Dollars in thousands)	Number	Balance	Modification description
Multi-family residential	1	$ 413	Received a below market interest rate and the loan amortization was extended

Commercial real estate	1		273	Received a below market interest rate and the loan amortization was extended
Commercial business and other	1		615	Received a below market interest rate and the loan term was extended
Total	3	$	1,301	

The recorded investment of each of the loans modified and classified to a TDR, presented in the table above, was unchanged as there was no principal forgiven in any of these modifications.

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

	March 31, 2014		December 31, 2013	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	10	$ 3,074	10	$ 3,087
Commercial real estate	4	3,669	4	3,686
One-to-four family - mixed-use property	8	2,680	8	2,692
One-to-four family - residential	1	362	1	364
Construction	-	-	1	746
Commercial business and other	3	1,097	4	3,127
Total performing troubled debt restructured	26	$ 10,882	28	$ 13,702

During the three months ended March 31, 2014, there was one construction TDR for $0.7 million and one commercial business and other TDR for $2.0 million transferred to non-performing status. While these borrowers continue to remit monthly payments on these loans, they are over 90 days past maturity, which results in these loans being included in non-performing loans. During the three months ended March 31, 2013, there were no loans classified as TDR transferred to non-performing status.

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

	March 31, 2014		December 31, 2013	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Commercial real estate	1	$ 2,245	1	$ 2,332
Construction	1	746	-	-
Commercial business and other	1	2,000	-	-
Total troubled debt restructurings that subsequently defaulted	3	$ 4,991	1	$ 2,332

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

(Dollars in thousands)	March 31, 2014	December 31, 2013
Loans ninety days or more past due and still accruing:		
Multi-family residential	$ 188	$ 52
Commercial real estate	793	-
One-to-four family - mixed-use property	874	-
One-to-four family - residential	15	15
Construction	1,012	-
Commercial Business and other	2,490	539
Total	5,372	606
Non-accrual mortgage loans:		
Multi-family residential (1)	12,062	13,297
Commercial real estate	8,769	9,962
One-to-four family - mixed-use property	7,977	9,063
One-to-four family - residential	12,208	13,250
Co-operative apartments	-	57
Total	41,016	45,629
Non-accrual non-mortgage loans:		
Commercial Business and other	2,165	2,348
Total	2,165	2,348
Total non-accrual loans	43,181	47,977
Total non-accrual loans and loans ninety days or more past due and still accruing	$ 48,553	$ 48,583

(1) The table above does not include non-performing Loans held for sale of $0.4 million at December 31, 2013.

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

	For the three months ended March 31,	
	2014	2013
	(In thousands)	
Interest income that would have been recognized had the loans performed in accordance with their original terms	$ 1,067	$ 2,202
Less: Interest income included in the results of operations	155	243
Total foregone interest	$ 912	$ 1,959

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

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	$ 13,267	$ 2,204	$ 12,062	$ 27,533	$ 1,695,231	$ 1,722,764
Commercial real estate	4,876	1,250	8,769	14,895	494,833	509,728
One-to-four family - mixed-use property	13,193	1,382	7,977	22,552	564,930	587,482
One-to-four family - residential	1,849	903	11,999	14,751	179,860	194,611
Co-operative apartments	-	-	-	-	9,974	9,974
Construction loans	-	-	-	-	4,859	4,859
Small Business Administration	198	-	-	198	7,430	7,628
Taxi medallion	-	-	-	-	24,127	24,127
Commercial business and other	483	-	1,198	1,681	425,725	427,406
Total	$ 33,866	$ 5,739	$ 42,005	$ 81,610	$ 3,406,969	$ 3,488,579

The following table shows an age analysis of our recorded investment in loans at December 31, 2013:

(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	$ 14,101	$ 2,554	$ 13,297	$ 29,952	$ 1,682,087	$ 1,712,039
Commercial real estate	5,029	523	9,962	15,514	497,038	512,552
One-to-four family - mixed-use property	14,017	1,099	9,063	24,179	571,572	595,751
One-to-four family - residential	3,828	518	12,953	17,299	176,427	193,726
Co-operative apartments	99	-	144	243	9,894	10,137
Construction loans	-	-	-	-	4,247	4,247
Small Business Administration	106	-	-	106	7,686	7,792
Taxi medallion	-	-	-	-	13,123	13,123
Commercial business and other	187	2	1,213	1,402	372,239	373,641
Total	$ 37,367	$ 4,696	$ 46,632	$ 88,695	$ 3,334,313	$ 3,423,008

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The following table shows the activity in the allowance for loan losses for the three months ended March 31, 2014:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	$12,084	$4,959	$6,328	$2,079	$104	$444	$458	$-	$5,320	$31,776
Charge-off's	(605)	(47)	(83)	(42)	-	-	-	-	(124)	(901)
Recoveries	7	382	40	68	7	-	10	-	-	514
Provision	(383)	85	857	(161)	(111)	(404)	(77)	14	(939)	(1,119)
Ending balance	$11,103	$5,379	$7,142	$1,944	$-	$40	$391	$14	$4,257	$30,270
Ending balance: individually evaluated for impairment	$304	$210	$617	$57	$-	$9	$-	$-	$218	$1,415
Ending balance: collectively evaluated for impairment	$10,799	$5,169	$6,525	$1,887	$-	$31	$391	$14	$4,039	$28,855
Financing Receivables:										
Ending balance	$1,722,764	$509,728	$587,482	$194,611	$9,974	$4,859	$7,628	$24,127	$427,406	$3,488,579
Ending balance: individually evaluated for impairment	$20,898	$19,558	$16,060	$13,941	$-	$1,316	$-	$-	$10,155	$81,928
Ending balance: collectively evaluated for impairment	$1,701,866	$490,170	$571,422	$180,670	$9,974	$3,543	$7,628	$24,127	$417,251	$3,406,651

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The following table shows the activity in the allowance for loan losses for the three months ended March 31, 2013:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	$13,001	$5,705	$5,960	$1,999	$46	$66	$505	$7	$3,815	$31,104
Charge-off's	(1,488)	(681)	(2,606)	(691)	(74)	(234)	(204)	-	(304)	(6,282)
Recoveries	11	80	53	31	-	-	30	-	-	205
Provision	871	556	2,933	738	116	235	140	-	411	6,000
Ending balance	$12,395	$5,660	$6,340	$2,077	$88	$67	$471	$7	$3,922	$31,027
Ending balance: individually evaluated for impairment	$209	$320	$592	$60	$-	$37	$-	$-	$180	$1,398
Ending balance: collectively evaluated for impairment	$12,186	$5,340	$5,748	$2,017	$88	$30	$471	$7	$3,742	$29,629
Financing Receivables:										
Ending balance	$1,528,353	$507,932	$615,661	$197,268	$8,221	$10,952	$8,812	$8,777	$302,726	$3,188,702
Ending balance: individually evaluated for impairment	$26,094	$25,545	$18,762	$15,548	$267	$10,229	$505	$-	$18,613	$115,563
Ending balance: collectively evaluated for impairment	$1,502,259	$482,387	$596,899	$181,720	$7,954	$723	$8,307	$8,777	$284,113	$3,073,139

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The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the three month period ended March 31, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(Dollars in thousands)		
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$18,087	$ 20,620	$ -	$ 18,398	$ 59
Commercial real estate	16,536	16,828	-	16,629	115
One-to-four family mixed-use property	12,914	15,307	-	12,831	57
One-to-four family residential	13,579	16,636	-	13,803	19
Co-operative apartments	-	-	-	30	-
Construction	570	570	-	285	-
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	5,364	6,952	-	4,295	43
Total loans with no related allowance recorded	67,050	76,913	-	66,271	293
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	2,811	2,811	304	2,930	38
Commercial real estate	3,022	3,088	210	3,029	48
One-to-four family mixed-use property	3,146	3,146	617	3,669	43
One-to-four family residential	362	362	57	363	4
Co-operative apartments	-	-	-	-	-
Construction	746	746	9	746	-
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	4,791	4,791	218	4,843	38
Total loans with an allowance recorded	14,878	14,944	1,415	15,580	171
Total Impaired Loans:					
Total mortgage loans	$71,773	$ 80,114	$ 1,197	$ 72,713	$ 383

Total non-mortgage loans	$10,155	$ 11,743	$ 218	$ 9,138	$ 81

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The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the year ended December 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(Dollars in thousands)		
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$18,709	$ 20,931	$ -	$ 22,091	$ 402
Commercial real estate	16,721	17,405	-	19,846	266
One-to-four family mixed-use property	12,748	15,256	-	13,916	319
One-to-four family residential	14,026	17,527	-	14,529	125
Co-operative apartments	59	147	-	189	-
Construction	-	118	-	4,014	-
Non-mortgage loans:					
Small Business Administration	-	-	-	247	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	3,225	5,527	-	5,309	268
Total loans with no related allowance recorded	65,488	76,911	-	80,141	1,380
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	3,048	3,049	312	2,892	170
Commercial real estate	3,036	3,102	164	6,388	194
One-to-four family mixed-use property	4,191	4,221	875	4,041	228
One-to-four family residential	364	364	58	368	15
Co-operative apartments	-	-	-	-	-
Construction	746	746	17	1,929	18
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	4,895	4,894	222	4,354	239
Total loans with an allowance recorded	16,280	16,376	1,648	19,972	864
Total Impaired Loans:					
Total mortgage loans	$73,648	$ 82,866	$ 1,426	$ 90,203	$ 1,737

Total non-mortgage loans	$8,120	$ 10,421	$ 222	$ 9,910	$ 507

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

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

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	$ 10,554	$ 16,216	$1,607	$-	$28,377
Commercial real estate	32,375	19,005	-	-	51,380
One-to-four family - mixed-use property	6,757	14,029	-	-	20,786
One-to-four family - residential	2,423	13,580	-	-	16,003
Co-operative apartments	-	-	-	-	-
Construction loans	-	1,316	-	-	1,316
Small Business Administration	302	-	-	-	302
Commercial business and other	5,288	10,104	50	-	15,442
Total loans	$ 57,699	$ 74,250	$1,657	$-	$133,606

The following table sets forth the recorded investment in loans designated as Criticized or Classified at December 31, 2013:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	$ 9,940	$ 19,089	$-	$-	$29,029
Commercial real estate	13,503	16,820	-	-	30,323
One-to-four family - mixed-use property	7,992	14,898	-	-	22,890
One-to-four family - residential	2,848	14,026	-	-	16,874
Co-operative apartments	-	59	-	-	59
Construction loans	746	-	-	-	746
Small Business Administration	310	-	-	-	310
Commercial business and other	7,314	8,450	50	-	15,814
Total loans	$ 42,653	$ 73,342	$50	$-	$116,045

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

(In thousands)	For the three months ended March 31 2014	2013
Balance, beginning of period	$ 31,776	$ 31,104
Provision (benefit) for loan losses	(1,119)	6,000
Charge-off's	(901)	(6,282)
Recoveries	514	205
Balance, end of period	$ 30,270	$ 31,027

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

	Three Months Ended	
(In thousands)	March 31, 2014	March 31, 2013
Multi-family residential	$598	$ 1,477
Commercial real estate	(335)	601
One-to-four family – mixed-use property	43	2,553
One-to-four family – residential	(26)	660
Co-operative apartments	(7)	74
Construction	-	234
Small Business Administration	(10)	174
Commercial business and other	124	304
Total net loan charge-offs	$387	$ 6,077

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 $96.1 million and $238.3 million, respectively, at March 31, 2014.

6. Loans held for sale

Loans held for sale are carried at the lower of cost or estimated fair value. At March 31, 2014, the Bank did not have any loans held for sale. At December 31, 2013, the Bank had one multi-family loan held for sale of $0.4 million.

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 March 31, 2014			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain (loss)
Multi-family residential	4	$1,738	$ (146)	$ -
Commercial real estate	2	1,617	295	-
One-to-four family - mixed-use property	6	2,069	38	-
Total	12	$5,424	$ 187	$ -

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

	For the three months ended March 31, 2013			
(Dollars in thousands)	Loans sold	Proceeds	Net charge-offs	Net gain (loss)
Multi-family residential	6	$4,612	$ (109)	$ 6
Commercial real estate	2	1,115	(76)	-
One-to-four family - mixed-use property	6	2,373	(40)	(15)
Commercial business and other	2	66	(185)	-
Total	16	$8,166	$ (410)	$ (9)

7. Other Real Estate Owned

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

	For the three months ended March 31,	
	2014	2013
	(In thousands)	
Balance at beginning of period	$ 2,985	$ 5,278
Acquisitions	115	679
Write-down of carrying value	(54)	(65)
Sales	(1,346)	(3,703)
Balance at end of period	$ 1,700	$ 2,189

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

	For the three months ended March 31,	
	2014	2013
	(In thousands)	
Gross gains	$ 54	$ 201
Gross losses	(30)	(23)
Write-down of carrying value	(54)	(65)
Total net (loss) gain	$ (30)	$ 113

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8. Stock-Based Compensation

For the three months ended March 31, 2014 and 2013, the Company's net income, as reported, includes $2.6 million and $2.0 million, respectively, of stock-based compensation costs and $1.0 million and $0.8 million, respectively, of income tax benefits related to the stock-based compensation plans.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock price, the risk-free interest rate over the options' expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. During the three months ended March 31, 2014 and 2013, the Company granted 264,095 and 243,645 restricted stock units, respectively. There were no stock options granted during the three months ended March 31, 2014 and 2013.

The 2005 Omnibus Incentive Plan ("Omnibus Plan") became effective on May 17, 2005 after approval by the stockholders. The Omnibus Plan authorizes the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). On May 17, 2011, stockholders of the Company approved an amendment to the Omnibus Plan authorizing an additional 625,000 shares for use for full value awards. As of March 31, 2014, there were 173,557 shares available for full value awards and 56,920 shares available for non-full value awards. To satisfy stock option exercises or fund restricted stock and restricted stock unit awards, shares are issued from treasury stock, if available, otherwise new shares are issued. The Company will maintain separate pools of available shares for full value as opposed to non-full value awards, except that shares can be moved from the non-full value pool to the full value pool on a 3-for-1 basis. The exercise price per share of a stock option grant may not be less than the fair market value of the common stock of the Company, as defined in the Omnibus Plan, on the date of grant and may not be re-priced without the approval of the Company's stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years with stock options having a 10-year contractual term. Other awards do not have a contractual term of expiration. Restricted stock unit awards include participants who have reached or are close to reaching retirement eligibility, at which time such awards fully vest. These amounts are included in stock-based compensation expense.

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

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The following table summarizes the Company's full value awards at or for the three months ended March 31, 2014:

Full Value Awards	Shares		Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2013	346,584	$	14.08
Granted	264,095		20.18
Vested	(200,124)		16.89
Forfeited	(10,896)		15.15
Non-vested at March 31, 2014	399,659	$	16.68
Vested but unissued at March 31, 2014	231,699	$	16.93

As of March 31, 2014, there was $6.1 million of total unrecognized compensation cost related to non-vested full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 3.5 years. The total fair value of awards vested for the three months ended March 31, 2014 and 2013 were $4.1 million and $2.7 million, respectively. The vested but unissued full value awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of the Omnibus Plan, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting dates.

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

The following table summarizes certain information regarding the non-full value awards, all of which have been granted as stock options, at or for the three months ended March 31, 2014:

Non-Full Value Awards	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value ($000) *
Outstanding at December 31, 2013	306,630	$	16.02			
Granted	-		-			
Exercised	(50,215)		16.33			
Forfeited	-		-			
Outstanding at March 31, 2014	256,415	$	15.95	3.2	$	1,312
Exercisable shares at March 31, 2014	256,415	$	15.95	3.2	$	1,312

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

As of March 31, 2014, there is no remaining unrecognized compensation cost related to non-full value awards granted under the Omnibus Plan.

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Cash proceeds, fair value received, tax benefits and the intrinsic value related to stock options exercised during the three months ended March 31, 2014 and 2013 are provided in the following table:

	For the three months ended March 31,	
(In thousands)	2014	2013
Proceeds from stock options exercised	$ 343	$ 22
Fair value of shares received upon exercised of stock options	478	637
Tax benefit related to stock options exercised	69	53
Intrinsic value of stock options exercised	212	174

Phantom Stock Plan: The Company maintains a non-qualified phantom stock plan as a supplement to its profit sharing plan for officers who have achieved the level of Senior Vice President and above and completed one year of service. However, officers who had achieved at least the level of Vice President and completed one year of service prior to January 1, 2009 remain eligible to participate in the phantom stock plan. Awards are made under this plan on certain compensation not eligible for awards made under the profit sharing plan, due to the terms of the profit sharing plan and the Internal Revenue Code. Employees receive awards under this plan proportionate to the amount they would have received under the profit sharing plan, but for limits imposed by the profit sharing plan and the Internal Revenue Code. The awards are made as cash awards, and then converted to common stock equivalents (phantom shares) at the then current market value of the Company's common stock. Dividends are credited to each employee's account in the form of additional phantom shares each time the Company pays a dividend on its common stock. In the event of a change of control (as defined in this plan), an employee's interest is converted to a fixed dollar amount and deemed to be invested in the same manner as his interest in the Bank's non-qualified deferred compensation plan. Employees vest under this plan 20% per year for 5 years. Employees also become 100% vested upon a change of control. Employees receive their vested interest in this plan in the form of a cash lump sum payment or installments, as elected by the employee, after termination of employment. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

The following table summarizes the Phantom Stock Plan at or for the three months ended March 31, 2014:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2013	59,323	$ 20.70
Granted	8,126	19.84
Forfeited	(13)	21.51
Distributions	(305)	20.34
Outstanding at March 31, 2014	67,131	$ 21.07
Vested at March 31, 2014	66,874	$ 21.07

The Company recorded stock-based compensation expense for the Phantom Stock Plan of $42,000 and $99,000 for the three months ended March 31, 2014 and 2013, respectively. The total fair value of the distributions from the Phantom Stock Plan was $6,000 and $1,000 for the three months ended March 31, 2014 and 2013, respectively.

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9. Pension and Other Postretirement Benefit Plans

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

(In thousands)	Three months ended March 31, 2014	2013
Employee Pension Plan:		
Interest cost	$ 223	$ 207
Amortization of unrecognized loss	190	306
Expected return on plan assets	(336)	(315)
Net employee pension expense	$ 77	$ 198
Outside Director Pension Plan:		
Service cost	$ 13	$ 21
Interest cost	29	24
Amortization of unrecognized gain	(15)	(9)
Amortization of past service liability	10	9
Net outside director pension expense	$ 37	$ 45
Other Postretirement Benefit Plans:		
Service cost	$ 90	$ 112
Interest cost	63	55
Amortization of unrecognized loss	-	12
Amortization of past service liability	(21)	(20)
Net other postretirement expense	$ 132	$ 159

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2013 that it expects to contribute $0.2 million and $0.3 million to the Outside Director Pension Plan (the “Outside Director Pension Plan”) and the other post retirement benefit plans (the “Other Postretirement Benefit Plans”), respectively, during the year ending December 31, 2014. The Company does not expect to make a contribution to the Employee Pension Plan (the “Employee Pension Plan”). As of March 31, 2014, the Company has contributed $24,000 to the Outside Director Pension Plan and $16,000 to the Other Postretirement Benefit Plans. As of March 31, 2014, the Company has not revised its expected contributions for the year ending December 31, 2014.

10. Fair Value of Financial Instruments

The Company carries certain financial assets and financial liabilities at fair value in accordance with ASC Topic 825, “Financial Instruments” (“ASC Topic 825”) and values those financial assets and financial liabilities in accordance with ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC Topic 820”). ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and expands disclosures about

fair value measurements. ASC Topic 825 permits entities to choose to measure many financial instruments and certain other items at fair value. At March 31, 2014, the Company carried financial assets and financial liabilities under the fair value option with fair values of $39.3 million and $29.5 million, respectively. At December 31, 2013, the Company carried financial assets and financial liabilities under the fair value option with fair values of $37.3 million and $29.6 million, respectively. The Company elected to measure at fair value securities with a cost of $5.0 million that were purchased during the three months ended March 31, 2014. The Company did not elect to carry any additional financial assets or financial liabilities under the fair value option during the three months ended March 31, 2013. During the three months ended March 31, 2014, the Company sold financial assets carried under the fair value option totaling $1.9 million. During the three months ended March 31, 2013, the Company sold financial assets carried under the fair value option totaling $4.4 million.

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

	Fair Value Measurements at March 31,	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	
			March 31,	March 31,
(Dollars in thousands)	2014	2013	2014	2013
Mortgage-backed securities	$ 5,823	$ 7,119	$ 48	$ (362)
Other securities	33,447	30,163	325	273
Borrowed funds	29,541	29,570	25	(819)
Net gain (loss) from fair value adjustments (1)			$ 398	$ (908)

(1) The net gain (loss) from fair value adjustments presented in the above table does not include net losses of $1.0 million and net gains of $0.8 million for the three months ended March 31, 2014 and 2013, respectively, from the change in the fair value of interest rate caps / swaps.

Included in the fair value of the financial assets and financial liabilities selected for the fair value option is the accrued interest receivable or payable for the related instrument. One pooled trust preferred security is over 90 days past due and the Company has stopped accruing interest. The Company continues to accrue on the remaining financial instruments and reports, as interest income or interest expense in the Consolidated Statement of Income, the interest receivable or payable on the financial instruments selected for the fair value option at their respective contractual rates.

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 have a contractual principal amount of $61.9 million at both March 31, 2014 and December 31, 2013. The fair value of borrowed funds includes accrued interest payable of $0.1 million at March 31, 2014 and December 31, 2013.

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:

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Level 1 – where quoted market prices are available in an active market. The Company did not value any of its assets or liabilities that are carried at fair value on a recurring basis as Level 1 at March 31, 2014 and December 31, 2013.

Level 2 – when quoted market prices are not available, fair value is estimated using quoted market prices for similar financial instruments and adjusted for differences between the quoted instrument and the instrument being valued. Fair value can also be estimated by using pricing models, or discounted cash flows. Pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices and credit spreads. In addition to observable market information, models also incorporate maturity and cash flow assumptions. At March 31, 2014 and December 31, 2013, Level 2 included mortgage related securities, corporate debt and interest rate caps/swaps.

Level 3 – when there is limited activity or less transparency around inputs to the valuation, financial instruments are classified as Level 3. At March 31, 2014 and December 31, 2013, Level 3 included municipal securities and trust preferred securities owned by and junior subordinated debentures issued by the Company.

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

The following table sets forth the assets and liabilities that are carried at fair value on a recurring basis and the method that was used to determine their fair value, at March 31, 2014 and December 31, 2013:

	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	
	2014	2013	2014	2013	2014	2013	2014	2013
Assets:								
Mortgage-backed Securities	$ -	$ -	$ 774,202	$ 756,156	$ -	$ -	$ 774,202	$ 756,156
Other securities	-	-	255,935	237,476	23,229	24,158	279,164	261,634
Interest rate caps	-	-	-	-	-	-	-	-
Interest rate swaps	-	-	917	2,081	-	-	917	2,081
Total assets	$ -	$ -	$ 1,031,054	$ 995,713	$ 23,229	$ 24,158	$ 1,054,283	$ 1,019,871
Liabilities:								
Borrowings	$ -	$ -	$ -	$ -	$ 29,541	$ 29,570	$ 29,541	$ 29,570
Interest rate swaps	-	-	62	-	-	-	62	-
Total liabilities	$ -	$ -	$ 62	$ -	$ 29,541	$ 29,570	$ 29,603	$ 29,570

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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 March31, 2014		
	Municipals	Trust preferred securities	Junior subordinated debentures
	(In thousands)		
Beginning balance	$ 9,223	$ 14,935	$ 29,570
Transfer into Level 3	-	-	-
Purchases	2,000	-	-
Principal repayments	(1,053)	-	-
Sales	-	(1,871)	-
Net gain from fair value adjustment of financial assets	-	25	-
Net loss from fair value adjustment of financial liabilities	-	-	(25)
Decrease in accrued interest payable	-	-	(4)
Change in unrealized gains (losses) included in other comprehensive income	-	(30)	-
Ending balance	$ 10,170	$ 13,059	$ 29,541
Changes in unrealized held at period end	$ -	$ (30)	$ -

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

	For the three months ended March 31, 2013			
	REMIC and CMO	Municipals	Trust preferred securities	Junior subordinated debentures
	(In thousands)			
Beginning balance	$23,475	$ 9,429	$ 6,650	$ 23,922
Transfer into Level 3	-	-	-	-
Net gain from fair value adjustment of financial assets	-	-	247	-
Net loss from fair value adjustment of financial liabilities	-	-	-	819
Increase in accrued interest payable	-	-	-	1
Change in unrealized gains (losses) included in other comprehensive income	286	(51)	530	-
Ending balance	$23,761	$ 9,378	$ 7,427	$ 24,742
Changes in unrealized held at period end	$286	$ (51)	$ 530	$ -

During the three months ended March 31, 2014 and 2013, there were no transfers between Levels 1, 2 and 3.

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

March 31, 2014	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)			
		(Dollars in thousands)					
Assets:							
Municipals	$10,170	Discounted cash flows	Discount rate	0.5%	-	4.0%	(3.3%)
			Discount rate	7.0%	-	11.0%	(8.9%)
			Prepayment assumptions	25.6%	-	36.2%	(31.1%)
Trust Preferred Securities	$13,059	Discounted cash flows	Defaults	9.4%	-	16.5%	(13.1%)
Liabilities:							
Junior subordinated debentures	$29,541	Discounted cash flows	Discount rate			7.0%	(7.0%)

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

The significant unobservable inputs used in the fair value measurement of the Company's trust preferred securities valued under Level 3 are the securities' prepayment assumptions and default rate. Significant increases or decreases in any of the inputs in isolation would result in a significantly lower or higher fair value measurement.

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

The following table sets forth the Company's assets and liabilities that are carried at fair value on a non-recurring basis and the method that was used to determine their fair value, at March 31, 2014 and December 31, 2013:

	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	
	2014	2013	2014	2013	2014	2013	2014	2013
Assets:								
Loans held for sale	$-	$-	$-	$-	$-	$425	$-	$425
Impaired loans	-	-	-	-	20,291	23,544	20,291	23,544

Other real estate owned	-	-	-	-	1,700	2,985	1,700	2,985
Total assets	$-	$-	$-	$-	$21,991	$26,954	$21,991	$26,954

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

March 31, 2014	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
		(Dollars in thousands)		
Assets:				
Impaired loans	$20,291	Fair value of collateral	Loss severity discount	0.5% - 94.6% (37.4%)
Other real estate owned	$1,700	Fair value of collateral	Loss severity discount	0.0% - 42.1% (10.6%)

The Company carries its Loans held for sale and OREO at the expected sales price less selling costs.

The Company carries its impaired collateral dependent loans at 85% of the appraised or internally estimated value of the underlying property.

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at March 31, 2014 and 2013.

The estimated fair value of each material class of financial instruments at March 31, 2014 and December 31, 2013 and the related methods and assumptions used to estimate fair value are as follows:

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

The fair values of financial instruments that are short-term or reprice frequently and have little or no risk are considered to have a fair value that approximates carrying value (Level 1).

FHLB-NY stock:

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

Securities Available for Sale:

The estimated fair values of securities available for sale are contained in Note 6 of Notes to Consolidated Financial Statements. Fair value is based upon quoted market prices (Level 1 input), where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued (Level 2 input). When there is limited activity or less transparency around inputs to the valuation, securities are valued using (Level 3 input).

Loans held for sale:

The fair value of non-performing loans held for sale is estimated through bids received on the loans and, as such, are classified as a Level 3 input.

Loans:

The estimated fair value of loans is estimated by discounting the expected future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities (Level 3 input).

For non-accruing loans, fair value is generally estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets or for collateral dependent loans 85% of the appraised or internally estimated value of the property.(Level 3 input).

Due to Depositors:

The fair values of demand, passbook savings, NOW, money market deposits and escrow deposits are, by definition, equal to the amount payable on demand at the reporting dates (i.e. their carrying value) (Level 1). The fair value of fixed-maturity certificates of deposits are estimated by discounting the expected future cash flows using the rates currently offered for deposits of similar remaining maturities (Level 2 input).

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Borrowings:

The estimated fair value of borrowings are estimated by discounting the contractual cash flows using interest rates in effect for borrowings with similar maturities and collateral requirements (Level 2 input) or using a market-standard model (Level 3 input).

Interest Rate Caps:

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

Interest Rate Swaps:

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

Other Real Estate Owned:

OREO are carried at fair value less selling costs. The fair value is based on appraised value through a current appraisal, or sometimes through an internal review, additionally adjusted by the estimated costs to sell the property (Level 3 input).

Other Financial Instruments:

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

At March 31, 2014 and December 31, 2013, the fair values of the above financial instruments approximate the recorded amounts of the related fees and were not considered to be material.

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The following table sets forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at March 31, 2014:

	March 31, 2014				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
			(in thousands)		
Assets:					
Cash and due from banks	$43,630	$43,630	$43,630	$-	$-
Mortgage-backed Securities	774,202	774,202	-	774,202	-
Other securities	279,164	279,164	-	255,935	23,229
Loans	3,499,659	3,590,164	-	-	3,590,164
FHLB-NY stock	44,698	44,698	-	44,698	-
Interest rate caps	-	-	-	-	-
Interest rate swaps	917	917	-	917	-
OREO	1,700	1,700	-	-	1,700
Total assets	$4,643,970	$4,734,475	$43,630	$1,075,752	$3,615,093
Liabilities:					
Deposits	$3,350,794	3,369,594	$2,200,730	$1,168,864	$-
Borrowings	982,873	1,004,621	-	975,080	29,541
Interest rate swaps	62	62	-	62	-
Total liabilities	$4,333,729	$4,374,277	$2,200,730	$2,144,006	$29,541

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The following table sets 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 December 31, 2013:

	December 31, 2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
			(in thousands)		
Assets:					
Cash and due from banks	$33,485	$33,485	$33,485	$-	$-
Mortgage-backed Securities	756,156	756,156	-	756,156	-
Other securities	261,634	261,634	-	237,476	24,158
Loans held for sale	425	425	-	-	425
Loans	3,434,178	3,502,792	-	-	3,502,792
FHLB-NY stock	46,025	46,025	-	46,025	-
Interest rate caps	-	-	-	-	-
Interest rate swaps	2,081	2,081	-	2,081	-
OREO	2,985	2,985	-	-	2,985
Total assets	$4,536,969	$4,605,583	$33,485	$1,041,738	$3,530,360
Liabilities					
Deposits	$3,232,780	$3,253,261	$2,111,825	$1,141,436	$-
Borrowings	1,012,122	1,034,799	-	1,005,229	29,570
Total liabilities	$4,244,902	$4,288,060	$2,111,825	$2,146,665	$29,570

11. Derivative Financial Instruments

At March 31, 2014 and December 31, 2013, the Company's derivative financial instruments consist of purchased options and swaps. The purchased options are used to mitigate the Company's exposure to rising interest rates on its financial liabilities without stated maturities. The Company's swaps are used to mitigate the Company's exposure to 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. Additionally, the Company at times may use swaps to mitigate the Company's exposure to rising interest rates on its fixed rate loans.

At March 31, 2014 and December 31, 2013 derivatives with a combined notional amount of $118.0 million are not designated as hedges and derivatives with a combined notional amount of $11.2 million are designated as fair value hedges. Changes in the fair value of the derivatives not designated as hedges are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income. The portion of the changes in the fair value of the derivative designated as a fair value hedge which is considered ineffective are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income.

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The following table sets forth information regarding the Company's derivative financial instruments at March 31, 2014:

	At or for the three months ended March 31, 2014		
	Notional Amount	Purchase Price	Net Carrying (1) Value
		(In thousands)	
Interest rate caps (non-hedge)	$100,000	$9,035	$ -
Interest rate swaps (non-hedge)	18,000	-	667
Interest rate swaps (hedge)	11,159	-	188
Total derivatives	$129,159	$9,035	$ 855

The following table sets forth information regarding the Company's derivative financial instruments at December 31, 2013:

	At or for the year ended December 31, 2013		
	Notional Amount	Purchase Price	Net Carrying (1) Value
		(In thousands)	
Interest rate caps (non-hedge)	$100,000	$9,035	$ -
Interest rate swaps (non-hedge)	18,000	-	1,681
Interest rate swaps (hedge)	11,217	-	400
Total derivatives	$129,217	$9,035	$ 2,081

(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.

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 March 31,	
(In thousands)	2014	2013
Financial Derivatives:		
Interest rate caps (non-hedge)	$ -	$ (3)
Interest rate swaps (non-hedge)	(1,014)	785
Interest rate swaps (hedge)	(28)	3
Net gain (loss) (1)	$ (1,042)	$ 785

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

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12. Income Taxes

Flushing Financial Corporation files consolidated Federal and combined New York State and New York City income tax returns with its subsidiaries, with the exception of Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV, which file separate Federal income tax returns as trusts, and Flushing Preferred Funding Corporation, which files a separate Federal and New York State income tax return as a real estate investment trust.

Income tax provisions are summarized as follows:

(In thousands)	For the three months ended March 31, 2014	2013
Federal:		
Current	$2,737	$2,834
Deferred	2,021	627
Total federal tax provision	4,758	3,461
State and Local:		
Current	1,266	581
Deferred	903	277
Total state and local tax provision	2,169	858
Total income tax provision	$6,927	$4,319

The effective tax rate was 40.2% and 39.0% for the three months ended March 31, 2014 and 2013, respectively. The increase in the effective tax rate was primarily due to the impact of changes to the New York State tax code passed on March 31, 2014, resulting in a reduction in the Company’s deferred tax assets. We expect to see a small reduction in our effective tax rate beginning in 2015 as a result of the changes in the New York State tax code.

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

(dollars in thousands)	For the three months ended March 31, 2014		2013	
Taxes at federal statutory rate	$6,028	35.0 %	$3,876	35.0 %
Increase (reduction) in taxes resulting from:				
State and local income tax, net of Federal income tax benefit	1,410	8.2	558	5.0
Other	(511)	(3.0)	(115)	(1.0)
Taxes at effective rate	$6,927	40.2 %	$4,319	39.0 %

The Company has recorded a deferred tax asset of $30.2 million at March 31, 2014, which is included in “Other assets” in the Consolidated Statements of Financial Condition. This represents the anticipated net federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this

balance. The Company has reported taxable income for federal, state, and local tax purposes in each of the past three fiscal years. In management's opinion, in view of the Company's previous, current and projected future earnings trend, the probability that some of the Company's $19.4 million deferred tax liability can be used to offset a portion of the deferred tax asset, as well as certain tax planning strategies, it is more likely than not that the deferred tax asset will be fully realized. Accordingly, no valuation allowance was deemed necessary for the deferred tax asset at March 31, 2014.

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13. Accumulated Other Comprehensive Income:

The following table sets forth the changes in accumulated other comprehensive income by component for the three months ended March 31, 2014:

	Unrealized Gains and (Losses) on Available for Sale Securities	Defined Benefit Pension Items	Total
		(In thousands)	
Beginning balance, net of tax	$(8,522)	$(2,853)	$(11,375)
Other comprehensive income before reclassifications, net of tax	5,360	-	$5,360
Amounts reclassified from accumulated other comprehensive income, net of tax	-	60	60
Net current period other comprehensive income, net of tax	5,360	60	5,420
Ending balance, net of tax	$(3,162)	$(2,793)	$(5,955)

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the three months ended March 31, 2014:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
	(Dollars in thousands)	
Amortization of defined benefit pension items:		
Actuarial losses	$ (175) (1)	Other expense
Prior service credits	11 (1)	Other expense
	(164)	Total before tax
	104	Tax benefit
	$ (60)	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (See Note 9 of the Notes to Consolidated Financial Statements "Pension and Other Postretirement Benefit Plans".)

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The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the three months ended March 31, 2013:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Dollars in thousands)		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains losses on available for sale securities:	$ 2,858		Net gain on sale of securities
	(1,249)		Tax expense
	$ 1,609		Net of tax
Amortization of defined benefit pension items:			
Actuarial losses	$ (309)	(1)	Other expense
Prior service credits	11	(1)	Other expense
	(298)		Total before tax
	130		Tax benefit
	$ (168)		Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (See Note 9 of the Notes to Consolidated Financial Statements "Pension and Other Postretirement Benefit Plans".)

14. Regulatory Capital

Under current capital regulations, the Bank is required to comply with three separate capital adequacy standards. As of March 31, 2014, the Bank continues to be categorized as "well-capitalized" under the prompt corrective action regulations and continues to exceed all regulatory capital requirements.

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

(Dollars in thousands)	Amount	Percent of Assets
Tier I (leverage) capital:		
Capital level	$453,127	9.56 %
Requirement to be well capitalized	236,932	5.00

Excess	216,195	4.56	
Tier I risk-based capital:			
Capital level	$453,127	14.31	%
Requirement to be well capitalized	190,026	6.00	
Excess	263,101	8.31	
Total risk-based capital:			
Capital level	$483,397	15.26	%
Requirement to be well capitalized	316,710	10.00	
Excess	166,687	5.26	

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The Holding Company is subject to the same regulatory capital requirements as the Bank. As of March 31, 2014, the Holding Company continues to be categorized as "well-capitalized" under the prompt corrective action regulations and continues to exceed all regulatory capital requirements.

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

(Dollars in thousands)	Amount	Percent of Assets	
Tier I (leverage) capital:			
Capital level	$466,356	9.86	%
Requirement to be well capitalized	236,575	5.00	
Excess	229,781	4.86	
Tier I risk-based capital:			
Capital level	$466,356	14.75	%
Requirement to be well capitalized	189,646	6.00	
Excess	276,710	8.75	
Total risk-based capital:			
Capital level	$496,626	15.71	%
Requirement to be well capitalized	316,077	10.00	
Excess	180,549	5.71	

15. New Authoritative Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, which amends the authoritative accounting guidance under ASC Topic 220 "Comprehensive Income." The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under generally accepted accounting principles in the United States of America ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption was permitted. Adoption of this update did not have a material effect on the Company's consolidated results of operations or financial condition. (See Note 13 of Notes to Consolidated Financial Statements "Stockholders' Equity".)

In January 2014, the FASB issued ASU 2014-04 to clarify that when an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon

completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014- 04 is effective for annual reporting periods beginning after December 15, 2014. Adoption of this update is not expected to have a material effect on the Company's consolidated results of operations or financial condition.

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Management's Discussion and Analysis of
Financial Condition and Results of Operations

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report should be read in conjunction with the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2013. In addition, please read this section in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements contained herein.

As used in this Quarterly Report, the words "we," "us," "our" and the "Company" are used to refer to Flushing Financial Corporation and its direct and indirect wholly owned subsidiaries, Flushing Bank (the "Bank"), Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.

Statements contained in this Quarterly Report relating to plans, strategies, objectives, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed elsewhere in this Quarterly Report and in other documents filed by us with the Securities and Exchange Commission from time to time, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2013. Forward-looking statements may be identified by terms such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," " "estimates," "predicts," "forecasts," "potential" or "continue" or similar terms or the negative of these terms. Although we believe that the expectation reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

Executive Summary

We are a Delaware corporation organized in May 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Bank. On February 28, 2013, the Bank's charter was changed to a full-service New York State chartered commercial bank, and its name was changed to Flushing Bank. On July 21, 2011, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bank's primary regulator became the Office of the Comptroller of the Currency and Flushing Financial Corporation's primary regulator became the Federal Reserve Board of Governors. As a result of the Bank's change in charter to a full-service New York State chartered commercial bank, the Bank's primary regulator became the New York State Department of Financial Services (formerly, the New York State Banking Department), and its primary federal regulator became the Federal Deposit Insurance Corporation ("FDIC"). Deposits are insured to the maximum allowable amount by the FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank system. Also in connection with the Merger, Flushing Financial Corporation became a bank holding company. We do not anticipate any significant changes to our operations or services as a result of the Merger. The primary business of Flushing Financial Corporation has been the operation of the Bank. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. In November 2006, the Bank launched an internet branch, iGObanking.com®. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Bank, issuances of junior subordinated debt, and issuances of equity securities. Flushing Financial Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol "FFIC."

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

administrative expenses and income tax expense. Our results of operations also can be significantly affected by our periodic provision for loan losses and specific provision for losses on real estate owned.

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

- continue our emphasis on the origination of multi-family residential mortgage loans;
- transition from a traditional thrift to a more 'commercial-like' banking institution;
- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community in Queens;
- maintain asset quality;
- manage deposit growth and maintain a low cost of funds through
  - § business banking deposits,
  - § municipal deposits through government banking, and
  - § new customer relationships via iGObanking.com®;
- cross sell to lending and deposit customers;
- take advantage of market disruptions to attract talent and customers from competitors;
- manage interest rate risk and capital: and
- manage enterprise-wide risk.

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

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

We carry a portion of our financial assets and financial liabilities at fair value and record changes in their fair value through earnings in non-interest income on our Consolidated Statements of Income and Comprehensive Income. A description of the financial assets and financial liabilities that are carried at fair value through earnings can be found in Note 10 of the Notes to the Consolidated Financial Statements.

The Bank continues to maintain conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans originated during the first quarter of 2014 had an average loan-to-value ratio of 40.1% and an average debt coverage ratio of 237%.

The continued improvement in credit quality allowed us to reduce our provision for loan losses this quarter. The provision for loan losses was a benefit of $1.1 million for the first quarter of 2014, compared to provisions of $1.0 million and $6.0 million for the three months ended December 31, 2013 and March 31, 2013, respectively. We continued to see reductions in delinquent loans, non-performing loans, and classified assets. Loans delinquent over 30 days decreased $7.5 million, or 8%, during the first quarter of 2014, and are at their lowest level since the third quarter of 2008. Loans delinquent over 90 days decreased $5.0 million, or 11%, during the first quarter, and are at their lowest level since the fourth quarter of 2008. Non-accrual loans decreased by $5.2 million, or 11%, during the first quarter to $43.2 million, and are at their lowest level since the fourth quarter of 2008. During the first quarter of 2014 we sold 12 delinquent loans with a book value at the time of sale of $5.2 million, realizing $5.4 million upon sale, or 104% of book value.

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Net charge-offs for the first quarter of 2014 totaled $0.4 million. We continued our practice of obtaining updated appraisals and recording charge-offs based on these current values as opposed to adding to the allowance for loan losses. This process has ensured that we have kept pace with changing values in the real estate market. The average loan-to-value ratio for our non-performing loans collateralized by real estate was 46.5% at March 31, 2014.

Net loans increased $67.0 million, or 2.0%, during the first quarter of 2014, as loan originations for the quarter totaled $198.0 million. Our loan pipeline at March 31, 2014 remained strong at $339.8 million. Our lending departments continue to emphasize full relationship banking with our borrowers. Originations continue to be focused on multi-family and commercial business loans, which represented 29% and 48%, respectively, of loan originations during the first quarter of 2014. Additionally, as part of the loan closing process, we generally obtain full banking relationships with these borrowers.

Our net interest margin for the first quarter of 2014 was 3.25%, a decrease of nine basis points from the fourth quarter of 2013. The decrease was primarily due to a 12 basis point decrease in the yield earned from interest-earning assets to 4.39% for the three months ended March 31, 2014, while our cost of funding decreased four basis points to 1.25% for the three months ended March 31, 2014. The decline in the yield of interest-earning assets was primarily due to the current interest rate environment, where new loans and securities are added at rates well below our portfolio average yield, and higher yielding loans and securities are prepaid. The decrease in the cost of interest-bearing liabilities was primarily due to a movement in deposit concentrations as the average balance of lower costing core deposits increased $119.1 million during the three months ended March 31, 2014 to $1,933.2 million from $1,814.0 million for the three months ended December 31, 2013, while the average balance of higher costing certificates of deposit decreased $70.9 million to $1,109.7 million for the three months ended March 31, 2014 from $1,180.6 million for the three months ended December 31, 2013. The increase in the yield earned during the three months ended December 31, 2013 was partially supported by additional interest collected on loans which were previously non-accrual and back payments were received. The three months ended March 31, 2014 included $0.3 million in additional interest compared to $0.9 million recorded during the three months ended December 31, 2013. Excluding this additional interest, the net interest margin would have decreased three basis points to 3.23% for the three months ended March 31, 2014 from 3.26% for the three months ended December 31, 2013. Further excluding prepayment penalty income, the net interest margin would have decreased four basis points to 3.11% for the three months ended March 31, 2014 from 3.15% for the three months ended December 31, 2013.

At March 31, 2014, the Bank continues to be well-capitalized under regulatory requirements, with Core, Tier 1 risk-based and Total risk-based capital ratios of 9.56%, 14.31% and 15.26%, respectively. The Company is also subject to the same regulatory requirements. At March 31, 2014, the Company's capital ratios for Core, Tier 1 risk-based and Total risk-based capital ratios were 9.86%, 14.75% and 15.71%, respectively.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED
MARCH 31, 2013 AND 2012

General. Net income for the three months ended March 31, 2014 was $10.3 million, an increase of $3.5 million, or 52.4%, compared to $6.8 million for the three months ended March 31, 2013. Diluted earnings per common share were $0.34 for the three months ended March 31, 2014, an increase of $0.12, or 54.5%, from $0.22 for the three months ended March 31, 2013.

Return on average equity was 9.4% for the three months ended March 31, 2014 compared to 6.1% for the three months ended March 31, 2013. Return on average assets was 0.9% for the three months ended March 31, 2014 compared to 0.6% for the three months ended March 31, 2013.

Interest Income. Total interest and dividend income decreased $0.9 million, or 1.7%, to $49.2 million for the three months ended March 31, 2014 from $50.1 million for the three months ended March 31, 2013. The decrease in interest income was attributable to a 43 basis point decline in the yield of interest-earning assets to 4.39% for the three months ended March 31, 2014 from 4.82% in the comparable prior year period partially offset by an increase of $331.0 million in the average balance of interest-earning assets to $4,485.8 million for the three months ended March 31, 2014 from $4,154.9 million for the comparable prior year period. The 43 basis point decline in the yield of interest-earning assets was primarily due to a 42 basis point reduction in the yield of the loan portfolio to 4.97% for the three months ended March 31, 2014 from 5.39% for the three months ended March 31, 2013, combined with a 35 basis point decline in the yield on total securities to 2.72% for the three months ended March 31, 2014 from 3.07% for the comparable prior year period. The 42 basis point decrease in the loan portfolio was primarily due to the decline in the rates earned on new loan originations, existing loans modifying to lower rates, and higher yielding loans prepaying. The yield on the loan portfolio, excluding prepayment penalty income, decreased 44 basis points to 4.82% for the three months ended March 31, 2014 from 5.26% for the three months ended March 31, 2013. The 35 basis point decrease in the yield of the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio.

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Interest Expense. Interest expense decreased $3.2 million, or 20.2%, to $12.7 million for the three months ended March 31, 2014 from $15.9 million for the three months ended March 31, 2013. The decrease in interest expense was primarily due to a 43 basis point decrease in interest-bearing liabilities to 1.25% for the three months ended March 31, 2014 from 1.68% for the comparable prior year period. The 43 basis point decrease in the cost of interest-bearing liabilities was primarily due to the three months ended March 31, 2013 including a $2.6 million prepayment penalty on borrowings. Additionally, the decrease in the cost of interest-bearing liabilities was attributable to the Bank reducing the rates it pays on its deposit products. The cost of certificates of deposit, savings accounts and NOW accounts decreased three basis points, one basis point and seven basis points, respectively, partially offset by a seven basis point increase in the cost of money market accounts for the three months ended March 31, 2014 from the comparable prior year period. The cost was also positively affected by a movement in deposit concentrations as the average balance of lower costing core deposits increased $320.0 million during the three months ended March 31, 2014 to $1,933.2 million from $1,613.1 million for the comparable prior year period, while the average balance of higher costing certificates of deposit decreased $117.3 million to $1,109.7 million for the three months ended March 31, 2014 from $1,227.0 million for the comparable prior year period. These improvements resulted in a decrease in the cost of due to depositors of 16 basis points to 1.01% for the three months ended March 31, 2014 from 1.17% for the three months ended March 31, 2013.

Net Interest Income. For the three months ended March 31, 2014, net interest income was $36.5 million, an increase of $2.3 million, or 6.9%, from $34.1 million for the three months ended March 31, 2013. The increase in net interest income was primarily attributable to the three months ended March 31, 2013 including a $2.6 million prepayment penalty on borrowings, partially offset by a $56.5 million increase in average net interest-earning assets to $415.8 million for the three months ended March 31, 2014 from $359.2 million for the comparable prior year period. The yield on interest-earning assets decreased 43 basis points to 4.39% for the three months ended March 31, 2014 from 4.82% for the three months ended March 31, 2013. The cost of funds decreased 43 basis points to 1.25% for the three months ended March 31, 2014 from 1.68% for the comparable prior year period. The net interest margin declined four basis points to 3.25% for the three months ended March 31, 2014 from 3.29% for the three months ended March 31, 2013. Excluding prepayment penalty income on loans and prepayment penalties on borrowings, the net interest margin would have been 3.14% for the three months ended March 31, 2014, a 30 basis point decrease from 3.44 for the comparable prior year period.

Provision for Loan Losses. The provision for loan losses decreased $7.1 million during the three months ended March 31, 2014 to a benefit of $1.1 million from a provision of $6.0 million during the comparable prior year period. The decrease in the provision was primarily due to the continued improvement in credit conditions. During the three months ended March 31, 2014, net charge-offs totaled $0.4 million and non-accrual loans decreased $5.2 million to $43.2 million from $48.4 million at December 31, 2013. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 46.5% at March 31, 2014. When we have obtained properties through foreclosure, we have been able to quickly sell the properties at amounts that approximate book value. The Bank continues to maintain conservative underwriting standards. We anticipate that we will continue to see low loss content in our loan portfolio. As a result of the quarterly analysis of the allowance for loans losses, a reduction in the allowance was warranted, and as such, the Company recorded a benefit of $1.1 million for the three months ended March 31, 2014. See "-ALLOWANCE FOR LOAN LOSSES."

Non-Interest Income. Non-interest income for the three months ended March 31, 2014 was $1.7 million, a decrease of $3.6 million from $5.3 million for the three months ended March 31, 2013. The decrease in non-interest income was primarily due to the three months ended March 31, 2013 including a $2.9 million gain from the sale of mortgage-backed securities. Additionally, non-interest income declined due to a $0.5 million increase in net losses from fair value adjustments and $0.3 million decrease in banking service fee income primarily due to reduced ancillary loan fees, as compared to the comparable prior year period.

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Non-Interest Expense. Non-interest expense was $22.1 million for the three months ended March 31, 2014, a decrease of $0.3 million, or 1.5%, from $22.4 million for the three months ended March 31, 2013. The decrease was primarily due to decreases of $0.4 million in professional services due to decreased legal and accounting fees, $0.4 million real estate owned/ foreclosure expense primarily due to a reduction in non-performing loans and $0.3 million in FDIC insurance expense primarily due to a reduction in the assessment rate. These decreases were partially offset by increases of $0.3 million in salaries and benefits expense and $0.2 million in occupancy and equipment expense. The first quarter of each year includes the effect of grants of annual restricted stock unit awards. GAAP requires a significant portion of these awards to be expensed at the time of grant. Included in salaries and benefits expense is $1.0 million and $0.7 million for these awards in the three months ended March 31, 2014 and 2013, respectively, for accelerated expensing. Other expense includes $1.0 million and $0.8 million for these awards in the three months ended March 31, 2014 and 2013, respectively, for accelerated expensing. The increase in the current period accelerated expense as compared to the prior year period is due to the increase in the Company's stock price and additional employees whose grants are required to be fully expensed on grant date. Since this accelerated expense for the annual restricted stock unit awards occurred in the first quarter, subsequent quarters of 2014 should have a lower level of non-interest expense related to RSU expensing. The efficiency ratio was 56.6% for the three months ended March 31, 2014 compared to 56.9% for the three months ended March 31, 2013.

Income before Income Taxes. Income before the provision for income taxes increased $6.1 million, or 55.5%, to $17.2 million for the three months ended March 31, 2014 from $11.1 million for the three months ended March 31, 2013 for the reasons discussed above.

Provision for Income Taxes. Income tax expense increased $2.6 million, or 60.4%, to $6.9 million for the three months ended March 31, 2014 from $4.3 million for the three months ended March 31, 2013, primarily due to the increase in income before income taxes as discussed above. The effective tax rate was 40.2% and 39.0% for the three months ended March 31, 2014 and 2013, respectively. The increase in the effective tax rate was primarily due to the impact of changes to the New York State tax code passed on March 31, 2014, resulting in a nominal reduction in the Company's deferred tax assets.

FINANCIAL CONDITION

Assets. Total assets at March 31, 2014 were $4,820.0 million, an increase of $98.5 million, or 2.1%, from $4,721.5 million at December 31, 2013. Total loans, net increased $67.0 million during the three months ended March 31, 2014 to $3,469.4 million from $3,402.4 million at December 31, 2013. Loan originations and purchases were $198.0 million for the three months ended March 31, 2014, an increase of $76.6 million from $121.4 million for the three months ended March 31, 2013. During the three months ended March 31, 2014, we continued to focus on the origination of multi-family properties and business loans with a full relationship. Loan applications in process have continued to remain strong, totaling $339.8 million at March 31, 2014 compared to $297.5 million at December 31, 2013 and $360.4 million at March 31, 2013.

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

	For the three months ended March 31,	
(In thousands)	2014	2013
Multi-family residential	$57,812	$42,925
Commercial real estate (2)	13,416	6,986
One-to-four family – mixed-use property	9,999	4,390
One-to-four family – residential	9,100	6,510
Co-operative apartments	-	2,067
Construction	697	-
Small Business Administration	353	168
Taxi Medallion (1)	11,649	-
Commercial business and other	94,956	58,340
Total	$197,982	$121,386

(1) Includes purchases of $11.6 million for the three months ended March 31, 2014.
(2) Includes purchases of $0.5 million for the three months ended March 31, 2013.

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The Bank's non-performing assets totaled $50.3 million at March 31, 2014, a decrease of $3.6 million from $53.8 million at December 31, 2013. Total non-performing assets as a percentage of total assets were 1.04% at March 31, 2014 compared to 1.14% at December 31, 2013. The ratio of allowance for loan losses to total non-performing loans was 62.3% at March 31, 2014 and 64.9% at December 31, 2013. See – "TROUBLED DEBT RESTRUCUTURED AND NON-PERFORMING ASSETS."

During the three months ended March 31, 2014, mortgage-backed securities increased $18.0 million, or 2.4%, to $774.2 million from $756.2 million at December 31, 2013. The increase in mortgage-backed securities during the three months ended March 31, 2014 was primarily due to purchases of $32.2 million and an improvement of $5.9 million in the fair value of mortgage-backed securities, partially offset by principal repayments totaling $19.4 million.

During the three months ended March 31, 2014, other securities increased $17.5 million, or 6.7%, to $279.2 million from $261.6 million at December 31, 2013. The increase in other securities during the three months ended March 31, 2014 was primarily due to purchases of $17.0 million and an improvement in the fair value of other securities totaling $3.8 million, partially offset by $1.9 million in sales and $1.0 million in calls. Other securities primarily consist of securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds and corporate bonds.

Banking regulators issued the Volcker Rule in December 2013. The Volcker Rule, among other things, prohibits banks from owning certain investment securities. We have reviewed our investment portfolio for compliance with the Volcker Rule and in the opinion of management we do not own any securities which are prohibited under the Volcker Rule.

Liabilities. Total liabilities were $4,372.4 million at March 31, 2014, an increase of $83.4 million, or 1.9%, from $4,289.0 million at December 31, 2013. During the three months ended March 31, 2014, due to depositors increased $101.9 million, or 3.2%, to $3,301.9 million, as a result of a $72.8 million increase in core deposits and a $29.1 million increase in certificates of deposit. Borrowed funds decreased $29.2 million during the three months ended March 31, 2014.

Equity. Total stockholders' equity increased $15.0 million, or 3.5%, to $447.6 million at March 31, 2014 from $432.5 million at December 31, 2013. Stockholders' equity increased primarily due to net income of $10.3 million for the three months ended March 31, 2014, an increase in comprehensive income of $5.4 million primarily due to an increase in the fair value of the securities portfolio and $1.9 million due to the issuance of shares from the annual funding of certain employee retirement plans through the release of common shares from the Employee Benefit Trust. Additionally, the exercise of stock options increased stockholders' equity by $0.4 million, including the income tax benefit realized by the Company upon the exercise of the options. These increases were partially offset by the declaration and payment of dividends on the Company's common stock of $4.5 million and the purchase of 28,120 treasury shares at a cost of $0.6 million. Book value per common share was $14.79 at March 31, 2014 compared to $14.36 at December 31, 2013.

On May 22, 2013, the Company announced the authorization by the Board of Directors of a new common stock repurchase program, which authorizes the purchase of up to 1,000,000 shares of its common stock. During the three months ended March 31, 2014, the Company repurchased 28,120 shares, of the Company's common stock at an average cost of $19.76 per share. At March 31, 2014, 521,750 shares remain to be repurchased under the current stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions subject to market conditions and at the discretion of the management of the Company. There is no expiration or maximum dollar amount under this authorization.

Cash flow. During the three months ended March 31, 2014, funds provided by the Company's operating activities amounted to $14.4 million. These funds combined with $83.1 million provided from financing activities were utilized to fund net investing activities of $87.4 million. The Company's primary business objective is the origination and purchase of one-to-four family (including mixed-use properties), multi-family residential and commercial real estate mortgage loans and commercial, business and SBA loans. During the three months ended March 31, 2014, the net total of loan originations and purchases less loan repayments and sales was $63.7 million. During the three months ended March 31, 2014, the Company also funded $48.3 million in purchases of securities available for sale and repaid $29.5 million in short-term borrowed funds. During the three months ended March 31, 2014, funds were provided by a net increase in total deposits of $117.8 million. Additionally, funds were provided by $22.6 million in proceeds from maturities, sales, calls and prepayments of securities available for sale. The Company also used funds of $4.5 million and $1.7 million for dividend payments and purchases of treasury stock, respectively, during the three months ended March 31, 2014.

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INTEREST RATE RISK

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

The Company manages the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust its exposure to interest rate risk. On a quarterly basis, management prepares the "Earnings and Economic Exposure to Changes in Interest Rate" report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The Company's regulators currently place focus on the net portfolio value, focusing on a rate shock up or down of 200 basis points. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 2014. Various estimates regarding prepayment assumptions are made at each level of rate shock. However, prepayment penalty income is excluded from this analysis. Actual results could differ significantly from these estimates. At March 31, 2014, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

The following table presents the Company's interest rate shock as of March 31, 2014:

	Projected Percentage Change In					
Change in Interest Rate	Net Interest Income		Net Portfolio Value		Net Portfolio Value Ratio	
-200 Basis points	-3.46	%	6.06	%	14.23	%
-100 Basis points	0.23		6.06		14.43	
Base interest rate	-		-		13.95	
+100 Basis points	-4.76		-12.34		12.65	
+200 Basis points	-9.87		-24.67		11.25	

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AVERAGE BALANCES

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following table sets forth certain information relating to the Company's Consolidated Statements of Financial Condition and Consolidated Statements of Income for the three months ended March 31, 2014 and 2013, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

	For the three months ended March 31,					
	2014			2013		
	Average Balance	Interest	Cost	Average Balance	Interest	Cost
Assets						
Interest-earning assets:						
Mortgage loans, net (1)	$2,990,670	38,582	5.16 %	$2,882,021	39,747	5.52 %
Other loans, net (1)	400,646	3,538	3.53	304,704	3,193	4.19
Total loans, net	3,391,316	42,120	4.97	3,186,725	42,940	5.39
Mortgage-backed securities	769,914	5,390	2.80	708,977	5,721	3.23
Other securities	270,053	1,674	2.48	220,181	1,408	2.56
Total securities	1,039,967	7,064	2.72	929,158	7,129	3.07
Interest-earning deposits and federal funds sold	54,555	27	0.20	38,975	17	0.17
Total interest-earning assets	4,485,838	49,211	4.39	4,154,858	50,086	4.82
Other assets	251,801			271,809		
Total assets	$4,737,639			$4,426,667		
Liabilities and Equity						
Interest-bearing liabilities:						
Deposits:						
Savings accounts	$263,691	119	0.18	$284,982	135	0.19
NOW accounts	1,472,015	1,693	0.46	1,184,758	1,582	0.53
Money market accounts	197,454	107	0.22	143,405	54	0.15
Certificate of deposit accounts	1,109,738	5,786	2.09	1,227,033	6,511	2.12
Total due to depositors	3,042,898	7,705	1.01	2,840,178	8,282	1.17
Mortgagors' escrow accounts	43,296	13	0.12	42,139	9	0.09
Total deposits	3,086,194	7,718	1.00	2,882,317	8,291	1.15
Borrowed funds	983,867	5,006	2.04	913,298	7,649	3.35
Total interest-bearing liabilities	4,070,061	12,724	1.25	3,795,615	15,940	1.68
Non interest-bearing deposits	189,688			148,357		
Other liabilities	37,464			41,245		
Total liabilities	4,297,213			3,985,217		
Equity	440,426			441,450		
Total liabilities and equity	$4,737,639			$4,426,667		

Net interest income / net interest rate spread		$36,487	3.14	%		$34,146	3.14	%
Net interest-earning assets / net interest margin	$415,777		3.25	%	$359,243		3.29	%
Ratio of interest-earning assets to interest-bearing liabilities			1.10	X			1.09	X

(1) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately $1.0 million and $0.8 million for the three months ended March 31, 2014 and 2013, respectively.

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LOANS

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

(In thousands)	For the three months ended March 31, 2014	2013
Mortgage Loans		
At beginning of period	$ 3,028,452	$ 2,906,881
Mortgage loans originated:		
Multi-family residential	57,812	42,925
Commercial real estate	13,416	6,534
One-to-four family – mixed-use property	9,999	4,390
One-to-four family – residential	9,100	6,510
Co-operative apartments	-	2,067
Construction	697	-
Total mortgage loans originated	91,024	62,426
Mortgage loans purchased:		
Commercial real estate	-	452
Total mortgage loans purchased	-	452
Less:		
Principal and other reductions	85,749	96,853
Sales	4,309	4,519
At end of period	$ 3,029,418	$ 2,868,387
Commercial Business and Other Loans		
At beginning of period	$ 394,556	$ 314,494
Other loans originated:		
Small Business Administration	353	168
Commercial business	94,492	57,139
Other	464	1,201
Total other loans originated	95,309	58,508
Other loans purchased:		
Taxi medallion	11,649	-
Total other loans purchased	11,649	-
Less:		
Principal and other reductions	42,353	52,687

Sales	-	-
At end of period	$ 459,161	$ 320,315

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TROUBLED DEBT RESTRUCUTURED ("TDR") AND NON-PERFORMING ASSETS

Management continues to adhere to the Bank's conservative underwriting standards. The majority of the Bank's non-performing loans are collateralized by residential income producing properties that are occupied, thereby retaining more of their value and reducing the potential loss. The Bank takes a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with a Bank representative. The Bank has been developing short-term payment plans that enable certain borrowers to bring their loans current. The Bank reviews its delinquencies on a loan by loan basis and continually explores ways to help borrowers meet their obligations and return them back to current status. At times, the Bank may restructure a loan to enable a borrower to continue making payments when it is deemed to be in the best long-term interest of the Bank. This restructure may include making concessions to the borrower that the Bank would not make in the normal course of business, such as reducing the interest rate until the next reset date, extending the amortization period thereby lowering the monthly payments, or changing the loan to interest only payments for a limited time period. At times, certain problem loans have been restructured by combining more than one of these options. The Bank believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. The Bank classifies these loans as TDR. Loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status until they have made timely payments for six consecutive months. Loans that are restructured as TDR but are not performing in accordance with the restructured terms are excluded from the TDR table below, as they are placed on non-accrual status and reported as non-performing loans.

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

(In thousands)	March 31, 2014	December 31, 2013
Accrual Status:		
Multi-family residential	$3,074	$3,087
Commercial real estate	2,398	2,407
One-to-four family - mixed-use property	2,288	2,297
One-to-four family - residential	362	364
Construction	-	442
Commercial business and other	2,367	4,406
Total	10,489	13,003
Non-accrual status:		
One-to-four family - mixed-use property	382	383
Total	382	383
Total performing troubled debt restructured	$10,871	$13,386

During the three months ended March 31, 2014, two TDR totaling $2.4 million were transferred to non-performing status. While these borrowers continue to remit monthly payments on these loans, they are over 90 days past maturity, which results in these loans being included in non-performing loans.

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

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

(In thousands)	March 31, 2014	December 31, 2013
Loans 90 days or more past due and still accruing:		
Multi-family residential	$ 188	$ 52
Commercial real estate	793	-
One-to-four family - mixed-use property	874	-
One-to-four family - residential	15	15
Construction	1,012	-
Commercial business and other	2,490	539
Total	5,372	606
Non-accrual loans:		
Multi-family residential	12,062	13,682
Commercial real estate	8,769	9,962
One-to-four family - mixed-use property	7,977	9,063
One-to-four family - residential	12,208	13,250
Co-operative apartments	-	57
Commercial business and other	2,165	2,348
Total	43,181	48,362
Total non-performing loans	48,553	48,968
Other non-performing assets:		
Real estate acquired through foreclosure	1,700	2,985
Investment securities	-	1,871
Total	1,700	4,856
Total non-performing assets	$ 50,253	$ 53,824

Included in loans over 90 days past due and still accruing were 13 loans totaling $5.4 million and six loans totaling $0.6 million at March 31, 2014 and December 31, 2013, respectively. These loans are all past their respective maturity dates and are still remitting payments. The Bank is actively working with these borrowers to extend the maturity of or repay these loans.

Included in non-performing loans were three loans totaling $4.7 million and one loan for $2.3 million which were restructured as TDR and not performing in accordance with their restructured terms at March 31, 2014 and December 31, 2013, respectively.

Hurricane Sandy caused significant damage to numerous homes and businesses throughout the New York Metropolitan area. In working with its borrowers and depositors affected by this hurricane, the Bank had entered into payment agreements on 30 loans totaling $18.9 million. These agreements originally provided for partial payment deferrals, generally for 90 days, but some agreements provide for longer deferral periods. These agreements were intended to provide the borrowers the opportunity to fully assess any damage to the properties, apply for and receive insurance proceeds, and repair damages to the properties. At March 31, 2014, 10 loans totaling $5.6 million remain under these agreements, of which seven loans totaling $4.7 million are considered non-performing and we have placed them on non-accrual status until they reestablish a payment history and bring the loans current. Eight loans are current under their repayment plans and have had their agreements extended into 2014 to give the borrowers additional time to recover. Two loans are delinquent under their repayment plans. Each borrower was required, commencing at the end of the deferral period, to make their regularly scheduled loan payments plus a portion of the deferred amounts. As of March 31, 2014, the Bank has not incurred, and does not expect to incur, any losses related to these agreements.

The Bank’s non-performing assets totaled $50.3 million at March 31, 2014, a decrease of $3.6 million from $53.8 million at December 31, 2013. Total non-performing assets as a percentage of total assets were 1.04% at March 31, 2014 compared to 1.14% at December 31, 2013. The ratio of allowance for loan losses to total non-performing loans was 62.3% at March 31, 2014 and 64.9% at December 31, 2013.

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During the three months ended March 31, 2014, 24 loans totaling $6.1 million were added to non-accrual loans, 18 loans totaling $4.9 million were returned to performing status, eight loans totaling $1.5 million were paid in full, nine loans totaling $3.9 million were sold, one loan totaling $0.1 million was transferred to other real estate owned, and charge-offs of $0.6 million were recorded on non-accrual loans that were non-accrual at the beginning of the first quarter of 2014.

At December 31, 2013, non-accrual investment securities included one pooled trust preferred security with a carrying amount of $1.9 million for which we were not receiving payments. During the three months ended March 31, 2014, the Company sold the one non-accrual trust preferred security for total proceeds of $2.1 million.

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

	March 31, 2014		December 31, 2013	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	$2,204	$13,267	$2,555	$14,102
Commercial real estate	726	4,876	523	5,029
One-to-four family - mixed-use property	1,382	13,193	1,099	14,017
One-to-four family - residential	903	1,848	517	3,927
Co-operative apartments	-	-	-	-
Construction loans	-	-	-	-
Small Business Administration	-	198	-	105
Taxi medallion	-	-	-	-
Commercial business and other	-	210	2	187
Total delinquent loans	$5,215	$33,592	$4,696	$37,367

CRITICIZED AND CLASSIFIED ASSETS

Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as "Special Mention," which is considered a "Criticized Asset," and "Substandard," "Doubtful," or "Loss" which are considered "Classified Assets," as deen necessary. These loan designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard or Doubtful. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were $144.6 million at March 31, 2014, an increase of $14.4 million from $130.2 million at December 31, 2013.

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The following table sets forth the Bank's assets designated as Criticized and Classified at March 31, 2014:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$10,554	$16,216	$1,607	$-	$28,377
Commercial real estate	32,374	19,005	-	-	51,379
One-to-four family - mixed-use property	6,757	14,029	-	-	20,786
One-to-four family - residential	2,423	13,580	-	-	16,003
Co-operative apartments	-	-	-	-	-
Construction loans	-	1,316	-	-	1,316
Small Business Administration	302	-	-	-	302
Commercial business and other	5,288	10,104	50	-	15,442
Total loans	57,698	74,250	1,657	-	133,605
Investment Securities: (1)					
Pooled trust preferred securities	-	9,262	-	-	9,262
Total investment securities	-	9,262	-	-	9,262
Other Real Estate Owned	-	1,700	-	-	1,700
Total	$57,698	$85,212	$1,657	$-	$144,567

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2013:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 9,940	$ 19,089	$ -	$ -	$ 29,029
Commercial real estate	13,503	16,820	-	-	30,323
One-to-four family - mixed-use property	7,992	14,898	-	-	22,890
One-to-four family - residential	2,848	14,026	-	-	16,874
Co-operative apartments	-	59	-	-	59
Construction loans	746	-	-	-	746
Small Business Administration	310	-	-	-	310
Commercial business and other	7,314	8,450	50	-	15,814
Total loans	42,653	73,342	50	-	116,045
Investment Securities: (1)					
Pooled trust preferred securities	-	11,134	-	-	11,134
Total investment securities	-	11,134	-	-	11,134

Other Real Estate Owned	-	2,985	-	-	2,985
Total	$ 42,653	$ 87,461	$ 50	$ -	$ 130,164

(1) Our investment securities are classified as securities available for sale and as such are carried at their fair value in our Consolidated Financial Statements. The securities above had a fair value of $6.0 million and $7.9 million at March 31, 2014 and December 31, 2013, respectively. Under current applicable regulatory guidelines, we are required to disclose the classified investment securities, as shown in the tables above, at their book values (amortized cost, or fair value for securities that are under the fair value option). Additionally, the requirement is only for the Bank's securities. Flushing Financial Corporation did not have any securities classified or criticized at March 31, 2014 and December 31, 2013.

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On a quarterly basis all collateral dependent loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At March 31, 2014, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 46.5%.

We classify investment securities as Substandard when, based on an internal review, we concluded the securities are below investment grade. We have designated a total of two investment securities that are held at the Bank as Substandard at March 31, 2014. Our classified investment securities at March 31, 2014 held by the Bank include two issues of pooled trust preferred securities. The Investment Securities which are classified as Substandard at March 31, 2014 are securities that were rated investment grade when we purchased them. These securities have each been subsequently downgraded by at least one rating agency to below investment grade. We test each of these securities quarterly for impairment, through an independent third party.

ALLOWANCE FOR LOAN LOSSES

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

In assessing the adequacy of the allowance for loan losses, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. We incurred total net charge-offs of $0.4 million and $6.1 million during the three months ended March 31, 2014 and 2013, respectively. Non-performing loans totaled $48.6 million and $88.0 million at March 31, 2014 and 2013, respectively. The Bank's underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At March 31, 2014, the average loan-to-value ratio for our non-performing loans collateralized by real estate was 46.5%. A provision (benefit) for loan losses of ($1.1 million) and $6.0 million was recorded for the three months ended March 31, 2014 and 2013, respectively. Management has concluded, and the Board of Directors has concurred, that at March 31, 2014, the allowance for loan losses was sufficient to absorb losses inherent in our loan portfolio.

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

(Dollars in thousands)	For the three months ended March 31, 2014	2013
Balance at beginning of period	$31,776	$31,104
Provision (benefit) for loan losses	(1,119)	6,000
Loans charged-off:		
Multi-family residential	(605)	(1,488)
Commercial real estate	(47)	(681)
One-to-four family – mixed-use property	(83)	(2,606)
One-to-four family – residential	(42)	(691)
Co-operative apartments	-	(74)
Construction	-	(234)
Small Business Administration	-	(204)
Commercial business and other	(124)	(304)
Total loans charged-off	(901)	(6,282)
Recoveries:		
Multi-family residential	7	11
Commercial real estate	382	80
One-to-four family – mixed-use property	40	53
One-to-four family – residential	68	31
Co-operative apartments	7	-
Small Business Administration	10	30
Commercial business and other	-	-
Total recoveries	514	205
Net charge-offs	(387)	(6,077)
Balance at end of period	$30,270	$31,027
Ratio of net charge-offs during the period to average loans outstanding during the period	0.05%	0.76%
Ratio of allowance for loan losses to gross loans at end of period	0.87%	0.97%
Ratio of allowance for loan losses to non-performing assets at end of period	60.24%	33.02%
Ratio of allowance for loan losses to non-performing loans at end of period	62.34%	35.27%

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Basel III

In the summer of 2012, our primary federal regulators published two Notices of Proposed Rulemaking ("NPRs") that would have substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the then current U.S. risk-based capital rules, which are based on the international capital accords of the Basel Committee on Banking Supervision, which are generally referred to as "Basel I."

During July 2013, our primary federal regulators issued revised NPRs that will revise and replace the agencies' current capital rules. The NPRs include numerous revisions to the existing capital regulations, including, but not limited to, the following:

- Revises the definition of regulatory capital components and related calculations.
- Adds a new common equity tier 1 capital ratio.
- Increases the minimum tier 1 capital ratio requirement from four percent to six percent.
- Incorporates the revised regulatory capital requirements into the Prompt Corrective Action framework.
- Implements a new capital conservation buffer that would limit payment of capital distributions and certain discretionary bonus payments to executive officers and key risk takers if the banking organization does not hold certain amounts of common equity tier 1 capital in addition to those needed to meet its minimum risk-based capital requirements.
- Provides a transition period for several aspects of the proposed rule: the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions.
- Increases capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments.
- Removes references to credit ratings consistent with Section 939A of the Dodd-Frank Act.
- Establishes due diligence requirements for securitization exposures.

The capital regulations would be effective January 1, 2015 for bank holding companies and banks with less than $15 billion in total assets, such as our Company and Bank. Based on our preliminary assessment of the NPRs, we believe we will see an increase in our total risk-weighted assets. However, the Company and the Bank, based on our preliminary assessment, would meet the requirements of the NPRs and will continue to be considered well-capitalized.

Volcker Rule

On December 10, 2013, our primary federal regulators adopted Section 619 of the Dodd-Frank Act, commonly referred to as the "Volcker Rule," which prohibits insured depository institutions from engaging in short-term proprietary trading of certain securities, derivatives and other financial instruments for the firm's own account, subject to certain exemptions, including market making and risk-mitigating hedging. The Volcker Rule also imposes limits on banking entities' investments in, and other relationships with, hedge funds and private equity funds.

The rule as adopted prohibited banking entities from owning collateralized debt obligations backed primarily by trust preferred securities ("TruPS CDOs") after July 21, 2015. At March 31, 2014, the Company held TruPs CDOs with an amortized cost and market value totaling $9.3 million and $6.0 million, respectively.

On January 14, 2014, our primary federal regulators approved an interim final rule to permit banking entities to retain interests in certain TruPS CDOs from the investment prohibitions of Section 619 of the Dodd-Frank Act.

Under the interim final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities if the following qualifications are met:

- the TruPS CDO was established, and the interest was issued, before May 19, 2010;
- the banking entity reasonably believes that the offering proceeds received by the TruPS CDO were invested primarily in Qualifying TruPS Collateral; and
- the banking entity's interest in the TruPS CDO was acquired on or before December 10, 2013.

The interim final rule defines Qualifying TruPS Collateral as any trust preferred security or subordinated debt instrument that was:

- issued prior to May 19, 2010, by a depository institution holding company that as of the end of any reporting period within 12 months immediately preceding the issuance of such trust preferred security or subordinated debt instrument had total consolidated assets of less than $15 billion; or
- issued prior to May 19, 2010, by a mutual holding company.

As a result of the interim final rule, the Company determined that the TruPS CDOs it owns at March 31, 2014 are not prohibited by the Volcker Rule.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2014, the design and operation of these disclosure controls and procedures were effective. During the period covered by this Quarterly Report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended March 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
January 1 to January 31, 2014	-	$ -	-	549,870
February 1 to February 28, 2014	28,120	19.76	28,120	521,750
March 1 to March 31, 2014	-	-	-	521,750
Total	28,120	$ 19.76	28,120	

During the year ended December 31, 2013, the Company completed the common stock repurchase program that was approved by the Company's Board of Directors on September 20, 2011. On May 22, 2013, the Company announced the authorization by the Board of Directors of a new common stock repurchase program, which authorizes the purchase of up to 1,000,000 shares of its common stock. During the three months ended March 31, 2014, the Company repurchased 28,120 shares of the Company's common stock at an average cost of $19.76 per share. At March 31, 2014, 521,750 shares remain to be repurchased under the current stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions subject to market conditions and at the discretion of the management of the Company. There is no expiration or maximum dollar amount under this authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated as of December 20, 2005 by and between Flushing Financial Corporation and Atlantic Liberty Financial Corp. (7)
3.1	Certificate of Incorporation of Flushing Financial Corporation (1)
3.2	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3)
3.3	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (6)
3.4	Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4)
3.5	Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2)
3.6	Amended and Restated By-Laws of Flushing Financial Corporation (8)
4.1	Rights Agreement, dated as of September 8, 2006, between Flushing Financial Corporation and Computershare Trust Company N.A., as Rights Agent, which includes the form of Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (5)
4.2	Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)
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101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
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(1) Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488.
(2) Incorporated by reference to Exhibits filed with Form 8-K filed September 26, 2006.
(3) Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.
(4) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.
(5) Incorporated by reference to Exhibit filed with Form 8-K filed September 11, 2006.
(6) Incorporated by reference to Exhibit filed with Form 10-K filed December 31, 2011.
(7) Incorporated by reference to Exhibit filed with Form 8-K filed December 23, 2005.
(8) Incorporated by reference to Exhibit filed with Form 8-K filed December 18, 2013.

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
SIGNATURES

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

Flushing Financial Corporation,

Dated: May 12, 2014 John R. Buran President and Chief Executive Officer	By: /s/John R. Buran
Dated: May 12, 2014 David Fry Senior Executive Vice President, Treasurer and Chief Financial Officer	By: /s/David Fry

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
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