

FLUSHING FINANCIAL CORP  
Form 10-K  
March 15, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended December 31, 2015

Commission file number **001-33013**

**FLUSHING FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

**11-3209278**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

**(718) 961-5400**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock \$0.01 par value (and**

**NASDAQ Global Select Market**

**associated Preferred Stock Purchase Rights)**

(Name of exchange on which registered)

(Title of each class)

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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. (Check one):

Large accelerated filer \_\_\_ Accelerated filer

Non-accelerated filer \_\_\_ Smaller reporting company \_\_\_

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

As of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter; the aggregate market value of the voting stock held by non-affiliates of the registrant was \$576,620,000. This figure is based on the closing price on that date on the NASDAQ Global Select Market for a share of the registrant's Common Stock, \$0.01 par value, which was \$21.01.

The number of shares of the registrant's Common Stock outstanding as of February 29, 2016 was 28,984,725 shares.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 17, 2016 are incorporated herein by reference in Part III.

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## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K (this “Annual Report”) relating to plans, strategies, 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 under the captions “Business — General — Allowance for Loan Losses” and “Business — General — Market Area and Competition” in Item 1 below, “Risk Factors” in Item 1A below, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” in Item 7 below, and elsewhere in this Annual Report and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecasts,” “may continue” or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

## PART I

*As used in this Annual Report on Form 10-K, the words “we,” “us,” “our” and the “Company” are used to refer to Flushing Financial Corporation and our consolidated subsidiaries, including the surviving entity of the merger (the “Merger”) on February 28, 2013 of our wholly owned subsidiary, Flushing Savings Bank, FSB (the “Savings Bank”) with and into Flushing Commercial Bank (the “Commercial Bank”). The surviving entity of the Merger was the Commercial Bank, whose name has been changed to “Flushing Bank.” References herein to the “Bank” mean the Savings Bank (including its wholly owned subsidiary, the Commercial Bank) prior to the Merger and the surviving entity after the Merger.*

### Item 1. Business.

#### GENERAL

#### Overview

We are a Delaware corporation organized in May 1994. The Savings Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Savings Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Savings Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Savings Bank. On February 28, 2013, in



the Merger, the Savings Bank merged with and into the Commercial Bank, with the Commercial Bank as the surviving entity. Pursuant to the Merger, the Commercial Bank's charter was changed to a full-service New York State commercial bank charter, and its name was changed to Flushing Bank. Also in connection with the Merger, Flushing Financial Corporation became a bank holding company. We have not made 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. The Bank has an internet branch, iGObanking.com<sup>®</sup>. 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."

Flushing Financial Corporation 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 formed to issue a total of \$60.0 million of capital securities and \$1.9 million of common securities (which are the only voting securities). Flushing Financial Corporation owns 100% of the common securities of the Trusts. The Trusts used the proceeds from the issuance of these securities to purchase junior subordinated debentures from Flushing Financial Corporation. The Trusts are not included in our consolidated financial statements as we would not absorb the losses of the Trusts if losses were to occur.

Unless otherwise disclosed, the information presented in this Annual Report reflects the financial condition and results of operations of Flushing Financial Corporation, the Bank and the Bank's subsidiaries on a consolidated basis (collectively, the "Company"). Management views the Company as operating a single unit – a community bank. Therefore, segment information is not provided. At December 31, 2015, the Company had total assets of \$5.7 billion, deposits of \$3.9 billion and stockholders' equity of \$473.1 million.

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, commercial business loans, commercial real estate mortgage loans 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); (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. At December 31, 2015, we had gross loans outstanding of \$4,372.6 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling \$3,832.9 million, or 87.7% of gross loans, and non-mortgage loans totaling \$539.7 million, or 12.3% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which totaled 83.0% of gross loans. Our revenues are derived principally from interest on our mortgage and other loans and mortgage-backed securities portfolio, and interest and dividends on other investments in our securities portfolio. Our primary sources of funds are deposits, Federal Home Loan Bank of New York ("FHLB-NY") borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed, other securities and to a lesser extent proceeds from sales of securities and loans. The Bank's primary regulator is the New York State Department of Financial Services ("NYDFS") (formerly, the New York State Banking Department), and its primary federal regulator is 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 ("FHLB") system.

Our operating results are significantly affected by national and local economic conditions, including the strength of the local economy. Since the Great Recession, improvements in unemployment in our market, the New York City metropolitan area, had lagged many other areas of the country until recently, when the unemployment rate decreased to 5.0% at December 2015 from 6.2% at December 31, 2014, for the New York City region, according to the New York Department of Labor. In this improved environment, we saw improvements in our non-performing loans, although they still remain at elevated levels. Non-performing loans totaled \$26.1 million, \$34.2 million and \$49.0 million at December 31, 2015, 2014 and 2013, respectively. Additionally, we did not experience a significant increase in foreclosed properties despite an extended foreclosure process in our market. Net charge-offs of impaired loans increased in 2015 to \$2.6 million from \$0.7 million for the year ended December 31, 2014, but decreased from \$13.3 million for the year ended December 31, 2013. Since the Great Recession, we have continued with conservative underwriting standards to reduce risk.

Although loan originations declined from 2008 through 2011, in 2012 the trend was reversed with loan originations improving year-over-year through 2015. Loan originations and purchases for 2015 increased \$275.3 million, or 28.7%, to \$1,233.5 million from \$958.2 million for 2014.

Our operating results are also affected by extensions, renewals, modifications and restructuring of loans in our loan portfolio. Loans which are renewed, modified or restructured are required to be fully underwritten in accordance with our policy for new loans, except when the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, or for a loan classified as a troubled debt restructured (“TDR”). Our policy for modifying a loan due to the borrower’s request for changes in the terms will depend on the change requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as follows: (1) for income producing properties and business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or interest. During the last three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by either the Board of Directors of the Bank (the “Bank Board of Directors”) or its Loan Committee (the “Loan Committee”).

Our operating results are also affected by losses on non-performing loans. Our policy requires a reappraisal by an independent third party when a loan becomes twelve months delinquent. We generally obtain a reappraisal by an independent third party for loans over 90 days delinquent when the outstanding loan balance is at least \$1.0 million. We also obtain reappraisals when our internally prepared valuation of a property indicates there has been a decline in value below the outstanding balance of the loan, or when a property inspection has indicated significant deterioration in the condition of the property. These internal valuations are prepared when a loan becomes 90 days delinquent.

The Bank has a business banking unit. Our business strategy includes continuing our transition from a traditional thrift to a more “commercial-like” banking institution by continuing the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2015, the business banking unit had \$525.3 million in gross loans outstanding and \$146.3 million of customer deposits.

The Bank has an internet branch, iGObanking.com®, which provides access to consumers in markets outside our geographic locations. Accounts can be opened online at [www.iGObanking.com](http://www.iGObanking.com) or by mail. The internet branch does not currently accept loan applications. As of December 31, 2015, the internet branch had \$323.7 million of customer deposits.

The Bank has a governmental banking unit, which provides banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts and the various courts throughout the New York City metropolitan area. At December 31, 2015, the government banking unit had \$975.9 million in customer deposits.

## Market Area and Competition

We are a community oriented financial institution offering a wide variety of financial services to meet the needs of the communities we serve. The Bank’s main office is in Uniondale, New York, located in Nassau County. At December 31, 2015, the Bank operated out of 19 full-service offices, located in the New York City Boroughs of Queens, Brooklyn, and Manhattan, and in Nassau County, New York. We also operate an internet branch, iGObanking.com®. We maintain our executive offices in Uniondale in Nassau County, New York. Substantially all of our mortgage loans are secured by properties located in the New York City metropolitan area.

We face intense competition both in making loans and in attracting deposits. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application.

Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. Particularly intense competition exists for deposits, as we compete with 115 banks and thrifts in the counties in which we have branch locations. Our market share of deposits, as of June 30, 2015, in these counties was approximately 0.34% of the total deposits of these FDIC insured competing financial institutions, and we are the 23rd largest financial institution. In addition, we compete with credit unions, the stock market and mutual funds for customers' funds. Competition for deposits in our market and for national brokered deposits is primarily based on the types of deposits offered and rate paid on the deposits. Particularly intense competition also exists in all of the lending activities we emphasize. In addition to the financial institutions mentioned above, we compete against mortgage banks and insurance companies located both within our market and available on the internet. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application. The internet banking arena also has many larger financial institutions which have greater financial resources, name recognition and market presence. Our future earnings prospects will be affected by our ability to compete effectively with other financial institutions and to implement our business strategies. Our strategy for attracting deposits includes using various marketing techniques, delivering enhanced technology and customer friendly banking services, and focusing on the unique personal and small business banking needs of the multi-ethnic communities we serve. Our strategy for attracting new loans is primarily dependent on providing timely response to applicants and maintaining a network of quality brokers. See "Risk Factors – The Markets in Which We Operate Are Highly Competitive" included in Item 1A of this Annual Report.

For a discussion of our business strategies, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Management Strategy” included in Item 7 of this Annual Report.

## Lending Activities

*Loan Portfolio Composition.* Our loan portfolio consists primarily of mortgage loans secured by multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential property, and commercial business loans. In addition, we also offer construction loans, SBA loans, Taxi medallion loans and other consumer loans. Substantially all of our mortgage loans are secured by properties located within our market area. At December 31, 2015, we had gross loans outstanding of \$4,372.6 million (before the allowance for loan losses and net deferred costs).

Since 2009 we have focused our mortgage loan origination efforts on multi-family residential mortgage loans, although during 2014 and 2015 we increased our focus on commercial real estate and business loans with full banking relationships. In prior years we had focused our mortgage loan originations on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans. These loans generally have higher yields than one-to-four family residential properties, and include prepayment penalties that we collect if the loans pay in full prior to the contractual maturity. We expect to continue this emphasis on multi-family residential mortgage loans, commercial real estate and business loans with full banking relationships through marketing and by maintaining competitive interest rates and origination fees. Our marketing efforts include frequent contact with mortgage brokers and other professionals who serve as referral sources. The reduced emphasis on commercial real estate, one-to-four family mixed-use property mortgage loans, and construction loans since 2009 was due to the increased level of risk in these types of loans in the current economic environment. However, due to the changes in our underwriting standards, which we believe has reduced risk in newly originated commercial real estate mortgage loans, we have increased our focus on the origination of commercial real estate mortgage loans.

Fully underwritten one-to-four family residential mortgage loans generally are considered by the banking industry to have less risk than other types of loans. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans generally have higher yields than one-to-four family residential property mortgage loans and shorter terms to maturity, but typically involve higher principal amounts and may expose the lender to a greater risk of credit loss than one-to-four family residential property mortgage loans. Our increased emphasis on multi-family residential mortgage loans since 2009, and on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans during years prior to 2009, has increased the overall level of credit risk inherent in our loan portfolio. The greater risk associated with multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio. See “General – Overview” in this Item 1 of this Annual Report. To date, we have not experienced significant losses in our multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loan portfolios.

Our mortgage loan portfolio consists of adjustable rate mortgage (“ARM”) loans and fixed-rate mortgage loans. Interest rates we charge on loans are affected primarily by the demand for such loans, the supply of money available for lending purposes, the rate offered by our competitors and the creditworthiness of the borrower. Many of those factors are, in turn, affected by local and national economic conditions, and the fiscal, monetary and tax policies of the federal, state and local governments.

In general, consumers show a preference for ARM loans in periods of high interest rates and for fixed-rate loans when interest rates are low. In periods of declining interest rates, we may experience refinancing activity in ARM loans, as borrowers show a preference to lock-in the lower rates available on fixed-rate loans. In the case of ARM loans we originated, volume and adjustment periods are affected by the interest rates and other market factors as discussed above as well as consumer preferences. We have not in the past, nor do we currently, originate ARM loans that provide for negative amortization.

Prior to 2007, we had grown our construction loan portfolio. During 2007, we began to deemphasize construction loans, as originations of new construction loans declined. We have continued to deemphasize construction loans since then as we reduced the balance of our construction loan portfolio, which totaled \$7.3 million at December 31, 2015. We intend to continue to deemphasize construction loans in the near term. We obtain a first lien position on the underlying collateral, and generally obtain personal guarantees on construction loans. These loans generally have a term of two years or less. Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions. The greater risk associated with construction loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. To date, we have not incurred significant losses in our construction loan portfolio.

The business banking unit focuses on loan and deposit relationships to businesses located within our market area. These loans are generally personally guaranteed by the owners, and may be secured by the assets of the business, including real estate. The interest rate on these loans is generally an adjustable rate based on a published index. These loans, while providing us a higher rate of return, also present a higher level of risk. The greater risk associated with business loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. To date, we have not incurred significant losses in our business loan portfolio.

At times, we may purchase loans from banks, mortgage bankers and other financial institutions when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated. Our lending activities are subject to federal and state laws and regulations. See “— Regulation.”



The following table sets forth the composition of our loan portfolio at the dates indicated.

	At December 31, 2015		2014		2013		2012		Percent of Total
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	
(Dollars in thousands)									
<b>Mortgage Loans:</b>									
Multi-family residential	\$2,055,228	46.98 %	\$1,923,460	50.64 %	\$1,712,039	50.02 %	\$1,534,438	47.6	47.6
Commercial real estate	1,001,236	22.90	621,569	16.36	512,552	14.97	515,438	16.0	16.0
One-to-four family - mixed-use property	573,043	13.11	573,779	15.10	595,751	17.40	637,353	19.7	19.7
One-to-four family - residential (1)	187,838	4.30	187,572	4.94	193,726	5.66	198,968	6.18	6.18
Co-operative apartment (2)	8,285	0.19	9,835	0.26	10,137	0.30	6,303	0.20	0.20
Construction	7,284	0.17	5,286	0.14	4,247	0.12	14,381	0.45	0.45
<b>Gross mortgage loans</b>	<b>3,832,914</b>	<b>87.65</b>	<b>3,321,501</b>	<b>87.44</b>	<b>3,028,452</b>	<b>88.47</b>	<b>2,906,881</b>	<b>90.2</b>	<b>90.2</b>
<b>Non-mortgage loans:</b>									
Small Business Administration	12,194	0.28	7,134	0.19	7,792	0.23	9,496	0.29	0.29
Taxi medallion	20,881	0.48	22,519	0.59	13,123	0.38	9,922	0.31	0.31
Commercial business and other	506,622	11.59	447,500	11.78	373,641	10.92	295,076	9.16	9.16
<b>Gross non-mortgage loans</b>	<b>539,697</b>	<b>12.35</b>	<b>477,153</b>	<b>12.56</b>	<b>394,556</b>	<b>11.53</b>	<b>314,494</b>	<b>9.76</b>	<b>9.76</b>
<b>Gross loans</b>	<b>4,372,611</b>	<b>100.00 %</b>	<b>3,798,654</b>	<b>100.00 %</b>	<b>3,423,008</b>	<b>100.00 %</b>	<b>3,221,375</b>	<b>100</b>	<b>100</b>
Unearned loan fees and deferred costs, net	15,368		11,719		11,170		12,746		
Less: Allowance for loan losses	(21,535 )		(25,096 )		(31,776 )		(31,104 )		
<b>Loans, net</b>	<b>\$4,366,444</b>		<b>\$3,785,277</b>		<b>\$3,402,402</b>		<b>\$3,203,017</b>		

(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2015, gross home equity loans totaled \$53.6 million and condominium loans totaled \$23.6 million.

(2) Consists of loans secured by shares representing interests in individual co-operative units that are generally owner occupied.

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The following table sets forth our loan originations (including the net effect of refinancing) and the changes in our portfolio of loans, including purchases, sales and principal reductions for the years indicated:

(In thousands)	For the years ended December 31,		
	2015	2014	2013
<b>Mortgage Loans</b>			
At beginning of year	\$3,321,501	\$3,028,452	\$2,906,881
Mortgage loans originated:			
Multi-family residential	205,393	314,148	382,041
Commercial real estate	376,036	165,054	68,968
One-to-four family mixed-use property	68,295	50,070	40,898
One-to-four family residential	40,831	24,727	27,495
Co-operative apartment	1,625	170	4,966
Construction	4,999	1,566	3,089
Total mortgage loans originated	697,179	555,735	527,457
Mortgage loans purchased:			
Multi-family residential	168,450	106,830	-
Commercial real estate	76,053	14,794	452
Total mortgage loans purchased	244,503	121,624	452
Less:			
Principal reductions	416,101	363,206	363,805
Loans transferred to loans held for sale	300	-	9,524
Mortgage loan sales	11,057	12,871	18,306
Charge-offs	1,440	1,780	12,329
Mortgage loan foreclosures	1,371	6,453	2,374
At end of year	\$3,832,914	\$3,321,501	\$3,028,452
<b>Non-mortgage loans</b>			
At beginning of year	\$477,153	\$394,556	\$314,494
Loans originated:			
Small Business Administration	11,261	1,611	603
Commercial business	243,316	227,904	292,385
Other	2,777	3,056	5,360
Total other loans originated	257,354	232,571	298,348
Non-mortgage loans purchased:			
Taxi Medallion	-	14,431	9,737
Commercial business	34,425	33,805	-

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Total non-mortgage loans purchased	34,425	48,236	9,737
Less:			
Non-mortgage loan sales	3,935	4	-
Loans transferred to loans held for sale	-	1,150	-
Principal reductions	222,895	196,394	225,509
Charge-offs	2,405	662	2,514
At end of year	\$539,697	\$477,153	\$394,556

*Loan Maturity and Repricing.* The following table shows the maturity of our total loan portfolio at December 31, 2015. Scheduled repayments are shown in the maturity category in which the payments become due.

(In thousands)	Mortgage loans					Non-mortgage loans			
	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartment	Construction	Small Business Administration	Taxi Medallion	Commercial busi
Amounts due within one year	\$177,656	\$141,261	\$41,020	\$7,897	\$311	\$5,352	\$1,856	\$18,835	\$18,835
Amounts due after one year:									
One to two years	167,393	105,249	30,671	7,650	321	311	1,292	1,774	7,774
Two to three years	162,173	92,842	27,407	7,220	333	190	936	272	6,520
Three to five years	161,414	86,397	26,401	7,004	336	194	797	-	4,401
Over five years	1,386,592	575,487	447,544	158,067	6,984	1,237	7,313	-	13,113
Total due after one year	1,877,572	859,975	532,023	179,941	7,974	1,932	10,338	2,046	32,807
Total amounts due	\$2,055,228	\$1,001,236	\$573,043	\$187,838	\$8,285	\$7,284	\$12,194	\$20,881	\$50,642
Sensitivity of loans to changes in interest rates - loans due after one year:									
Fixed rate loans	\$327,318	\$55,161	\$89,440	\$19,248	\$1,884	\$-	\$1,067	\$2,046	\$12,194
Adjustable rate loans	1,550,254	804,814	442,583	160,693	6,090	1,932	9,271	-	19,613
Total loans due after one year	\$1,877,572	\$859,975	\$532,023	\$179,941	\$7,974	\$1,932	\$10,338	\$2,046	\$32,807

*Multi-Family Residential Lending.* Loans secured by multi-family residential properties were \$2,055.2 million, or 46.98% of gross loans at December 31, 2015. Our multi-family residential mortgage loans had an average principal balance of \$0.9 million at December 31, 2015, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of \$28.0 million. We offer both fixed-rate and adjustable-rate multi-family residential mortgage loans, with maturities of up to 30 years.

In underwriting multi-family residential mortgage loans, we review the expected net operating income generated by the real estate collateral securing the loan, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. We typically require debt service coverage of at least 125% of the monthly loan payment. We generally originate these loans up to only 75% of the appraised value or the purchase price of the property, whichever is less. Any loan with a final loan-to-value ratio in excess of 75% must be approved by the Bank Board of Directors or the Loan Committee as an exception to policy. We generally rely on the income generated by the property as the primary means by which the loan is repaid. However, personal guarantees may be obtained for additional security from these borrowers. We typically order an environmental report on our multi-family and commercial real estate loans.

Loans secured by multi-family residential property generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. The increased credit risk is the result of several factors, including the concentration of principal in a smaller number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty in evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential property is typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. Loans secured by multi-family residential property also may involve a greater degree of environmental risk. We seek to protect against this risk through obtaining an environmental report. See "—Asset Quality — Environmental Concerns Relating to Loans."

At December 31, 2015, \$1,679.8 million, or 81.73%, of our multi-family mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, due to competitive forces, we may originate ARM loans at an initial rate lower than the fully indexed rate as a result of a discount on the spread for the initial adjustment period. Multi-family adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased multi-family ARM loans totaling \$339.5 million, \$398.9 million and \$197.8 million during 2015, 2014 and 2013, respectively.

At December 31, 2015, \$375.4 million, or 18.27%, of our multi-family mortgage loans consisted of fixed rate loans. Our fixed-rate multi-family mortgage loans are generally originated for terms up to 15 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased \$34.3 million, \$22.1 million and \$184.3 million of fixed-rate multi-family mortgage loans in 2015, 2014 and 2013, respectively.

*Commercial Real Estate Lending.* Loans secured by commercial real estate were \$1,001.2 million, or 22.90% of gross loans, at December 31, 2015. Our commercial real estate mortgage loans are secured by properties such as office buildings, hotels/motels, nursing homes, small business facilities, strip shopping centers and warehouses. At December 31, 2015, our commercial real estate mortgage loans had an average principal balance of \$1.5 million and the largest of such loans, which was secured by seven multi-tenant shopping centers, had a principal balance of \$43.7 million. Commercial real estate mortgage loans are generally originated in a range of \$100,000 to \$6.0 million.

In underwriting commercial real estate mortgage loans, we employ the same underwriting standards and procedures as are employed in underwriting multi-family residential mortgage loans.

Commercial real estate mortgage loans generally carry larger loan balances than one-to-four family residential mortgage loans and involve a greater degree of credit risk for the same reasons applicable to multi-family residential mortgage loans.

At December 31, 2015, \$927.7 million, or 92.66%, of our commercial mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one to five years and generally for terms of up to 15 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased commercial ARM loans totaling \$441.1 million, \$169.6 million and \$43.9 million during 2015, 2014 and 2013, respectively.

At December 31, 2015, \$73.5 million, or 7.34%, of our commercial mortgage loans consisted of fixed-rate loans. Our fixed-rate commercial mortgage loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased \$11.0 million, \$10.2 million and \$25.5 million of fixed-rate commercial mortgage loans in 2015, 2014 and 2013, respectively.

*One-to-Four Family Mortgage Lending – Mixed-Use Properties.* We offer mortgage loans secured by one-to-four family mixed-use properties. These properties contain up to four residential dwelling units and a commercial unit. We offer both fixed-rate and adjustable-rate one-to-four family mixed-use property mortgage loans with maturities of up to 30 years and a general maximum loan amount of \$1.0 million. Loan originations primarily result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and persons who respond to our marketing efforts and referrals. One-to-four family mixed-use property mortgage loans were \$573.0 million, or 13.11% of gross loans, at December 31, 2015.

In underwriting one-to-four family mixed-use property mortgage loans, we employ the same underwriting standards as are employed in underwriting multi-family residential mortgage loans.

At December 31, 2015, \$464.0 million, or 80.97%, of our one-to-four family mixed-use property mortgage loans consisted of ARM loans. We offer adjustable-rate one-to-four family mixed-use property mortgage loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by the Bank are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. One-to-four family mixed-use property adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased one-to-four family mixed-use property ARM loans totaling \$54.6 million, \$39.4 million and \$20.3 million during 2015, 2014 and 2013, respectively.

At December 31, 2015, \$109.0 million, or 19.03%, of our one-to-four family mixed-use property mortgage loans consisted of fixed-rate loans. Our fixed-rate one-to-four family mixed-use property mortgage loans are originated for terms of up to 15 years and are competitively priced based on market conditions and the Bank's cost of funds. We originated and purchased \$13.7 million, \$10.7 million and \$20.6 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2015, 2014 and 2013, respectively.

*One-to-Four Family Mortgage Lending – Residential Properties.* We offer mortgage loans secured by one-to-four family residential properties, including townhouses and condominium units. For purposes of the description contained in this section, one-to-four family residential mortgage loans, co-operative apartment loans and home equity loans are collectively referred to herein as "residential mortgage loans." We offer both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and a general maximum loan amount of \$1.0 million. Loan originations generally result from applications received from mortgage brokers and mortgage bankers, existing or past

customers, and referrals. Residential mortgage loans were \$196.1 million, or 4.49% of gross loans, at December 31, 2015.

We generally originate residential mortgage loans in amounts up to 80% of the appraised value or the sale price, whichever is less. We may make residential mortgage loans with loan-to-value ratios of up to 90% of the appraised value of the mortgaged property; however, private mortgage insurance is required whenever loan-to-value ratios exceed 80% of the appraised value of the property securing the loan.

In addition to income verified loans, we have in the past originated residential mortgage loans to self-employed individuals within our local community based on stated income and verifiable assets that allowed us to assess repayment ability, provided that the borrower's stated income is considered reasonable for the borrower's type of business. The preponderance of stated income one-to-four family residential mortgage loans were made available to self-employed individuals within our local community for their primary residence. Our underwriting standards required that we verify the assets of the borrowers and the sources of their cash flows. The information reviewed for purchases included at least three months and refinances included at least one month of personal bank statements (checking and savings accounts), statements of investment accounts, business checking account statements (when applicable), and other information provided by the borrowers about their personal holdings. Our review of these bank statements allowed us to assess whether or not their stated income appeared reasonable in comparison to their cash flows, and if their income level supported their personal holdings. We also obtained and reviewed credit reports on these borrowers. An acceptable credit report was one of the key factors in approving this type of mortgage loan. We obtained appraisals from an independent third party for the property, and limited the amount we lent on the properties to 80% of the lesser of the property's appraised value or the purchase price. Home equity lines of credit were offered on one-to-four residential properties to homeowners based on various levels of income verification. We limited the amount available under a home equity line of credit to 80% of the lesser of the appraised value of the property and the purchase price. These loans involve a higher degree of risk as compared to our other fully underwritten residential mortgage loans as there is a greater opportunity for self-employed borrowers to falsify or overstate their level of income and ability to service indebtedness. This risk is mitigated by the requirements discussed above in our loan policy. In addition, since 2009, the underwriting standards for home equity loans were modified to discontinue originating home equity lines of credit without verifying the borrower's income. We also discontinued offering one-to-four family residential property mortgage loans to self-employed individuals based on stated income and verifiable assets in June 2010. We had \$9.9 million and \$12.9 million outstanding of one-to four family residential mortgage loans originated to individuals based on stated income and verifiable assets at December 31, 2015 and 2014, respectively. We had \$41.4 million and \$44.8 million advanced on home equity lines of credit for which we did not verify the borrowers' income at December 31, 2015 and 2014, respectively.



At December 31, 2015, \$172.8 million, or 88.09%, of our residential mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one, three, five, seven or ten years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. ARM loans generally are subject to limitations on interest rate increases of 2% per adjustment period and an aggregate adjustment of 6% over the life of the loan and have interest rate floors. We originated and purchased adjustable rate residential mortgage loans totaling \$39.2 million, \$21.0 million and \$17.6 million during 2015, 2014 and 2013, respectively.

The retention of ARM loans in our portfolio helps us reduce our exposure to interest rate risks. However, in an environment of rapidly increasing interest rates, it is possible for the interest rate increase to exceed the maximum aggregate adjustment on one-to-four family residential ARM loans and negatively affect the spread between our interest income and our cost of funds.

ARM loans generally involve credit risks different from those inherent in fixed-rate loans, primarily because if interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. However, this potential risk is lessened by our policy of originating one-to-four family residential ARM loans with annual and lifetime interest rate caps that limit the increase of a borrower's monthly payment.

At December 31, 2015, \$23.4 million, or 11.91%, of our residential mortgage loans consisted of fixed-rate loans. Our fixed-rate residential mortgage loans typically are originated for terms of 15 and 30 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased \$3.3 million, \$3.9 million and \$4.3 million in 15-year fixed-rate residential mortgages in 2015, 2014 and 2013, respectively. We did not originate or purchase any 30-year fixed-rate residential mortgages in 2015, 2014 and 2013.

At December 31, 2015, home equity loans totaled \$53.6 million, or 1.23%, of gross loans. Home equity loans are included in our portfolio of residential mortgage loans. These loans are offered as adjustable-rate "home equity lines of credit" on which interest only is due for an initial term of 10 years and thereafter principal and interest payments sufficient to liquidate the loan are required for the remaining term, not to exceed 30 years. These adjustable "home equity lines of credit" may include a "floor" and/or a "ceiling" on the interest rate that we charge for these loans. These loans also may be offered as fully amortizing closed-end fixed-rate loans for terms up to 15 years. The majority of home equity loans originated are owner occupied one-to-four family residential properties and condominium units. To a lesser extent, home equity loans are also originated on one-to-four residential properties held for investment and second homes. All home equity loans are subject to an 80% loan-to-value ratio computed on the basis of the aggregate of the first mortgage loan amount outstanding and the proposed home equity loan. They are generally granted in amounts from \$25,000 to \$300,000.

*Construction Loans.* At December 31, 2015, construction loans totaled \$7.3 million, or 0.17%, of gross loans. Our construction loans primarily have been made to finance the construction of one-to-four family residential properties, multi-family residential properties and residential condominiums. We also, to a limited extent, finance the

construction of commercial real estate. Our policies provide that construction loans may be made in amounts up to 70% of the estimated value of the developed property and only if we obtain a first lien position on the underlying real estate. However, we generally limit construction loans to 60% of the estimated value of the developed property. In addition, we generally require personal guarantees on all construction loans. Construction loans are generally made with terms of two years or less. Advances are made as construction progresses and inspection warrants, subject to continued title searches to ensure that we maintain a first lien position. We made construction loans of \$5.0 million, \$1.6 million and \$3.1 million during 2015, 2014 and 2013, respectively.

Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions.

*Small Business Administration Lending.* At December 31, 2015, SBA loans totaled \$12.2 million, representing 0.28%, of gross loans. These loans are extended to small businesses and are guaranteed by the SBA up to a maximum of 85% of the loan balance for loans with balances of \$150,000 or less, and to a maximum of 75% of the loan balance for loans with balances greater than \$150,000. We also provide term loans and lines of credit up to \$350,000 under the SBA Express Program, on which the SBA provides a 50% guaranty. The maximum loan size under the SBA guarantee program was \$2.0 million, with a maximum loan guarantee of \$1.5 million. The Small Business Jobs Act of 2010 permanently increased the limits to a maximum loan size of \$5.0 million, with a maximum loan guarantee of \$3.75 million. All SBA loans are underwritten in accordance with SBA Standard Operating Procedures which requires collateral and the personal guarantee of the owners with more than 20% ownership from SBA borrowers. Typically, SBA loans are originated in the range of \$25,000 to \$2.0 million with terms ranging from one to seven years and up to 25 years for owner occupied commercial real estate mortgages. SBA loans are generally offered at adjustable rates tied to the prime rate (as published in the *Wall Street Journal*) with adjustment periods of one to three months. At times, we may sell the guaranteed portion of certain SBA term loans in the secondary market, realizing a gain at the time of sale, and retaining the servicing rights on these loans, collecting a servicing fee of approximately 1%. We originated and purchased \$11.3 million, \$1.6 million and \$0.6 million of SBA loans during 2015, 2014 and 2013, respectively.

*Taxi Medallion.* At December 31, 2015, taxi medallion loans consisted of loans made to New York City and Chicago taxi medallion owners, which are secured by liens on the taxi medallions, totaling \$20.9 million, or 0.48%, of gross loans. In 2015, we decided to no longer originate or purchase taxi medallion loans. We did not originate or purchase taxi medallion loans during 2015. We originated and purchased \$14.4 million and \$9.7 million of taxi medallion loans during 2014 and 2013.

*Commercial Business and Other Lending.* At December 31, 2015, commercial business and other loans totaled \$506.6 million, or 11.59%, of gross loans. We originate and purchase commercial business loans and other loans for business, personal, or household purposes. Commercial business loans are provided to businesses in the New York City metropolitan area with annual sales of up to \$250.0 million. Our commercial business loans include lines of credit and term loans including owner occupied mortgages. These loans are secured by business assets, including accounts receivables, inventory and real estate and generally require personal guarantees. The Bank also, at times, enters into participations/syndications with other banks on senior secured commercial business loans. Commercial business loans are generally originated in a range of \$100,000 to \$10.0 million.

At December 31, 2015, \$357.7 million, or 70.60%, of our commercial business loans consisted of adjustable rate loans. We generally offer adjustable rate loans with adjustment periods of five years for owner occupied mortgages and for lines of credit the adjustment period is generally monthly. Interest rates on adjustable rate loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY

corresponding Regular Advance Rate for owner occupied mortgages and a fixed spread above the London Interbank Offered Rate (“LIBOR”) or Prime Rate for lines of credit. Commercial business adjustable-rate loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan, however they generally are subject to interest rate floors.

At December 31, 2015, \$149.0 million, or 29.40%, of our commercial business loans consisted of fixed-rate loans. Our fixed-rate commercial business loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds.

Other loans generally consist of overdraft lines of credit. Generally, unsecured consumer loans are limited to amounts of \$5,000 or less for terms of up to five years. We originated and purchased \$2.8 million, \$3.1 million and \$5.4 million of other loans during 2015, 2014 and 2013, respectively. The underwriting standards employed by us for consumer and other loans include a determination of the applicant’s payment history on other debts and assessment of the applicant’s ability to meet payments on all of his or her obligations. In addition to the creditworthiness of the applicant, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Unsecured loans tend to have higher risk, and therefore command a higher interest rate.

*Loan Extensions, Renewals, Modifications and Restructuring.* Extensions, renewals, modifications or restructuring a loan, other than a loan that is classified as a TDR, requires the loan to be fully underwritten in accordance with our policy. The borrower must be current to have a loan extended, renewed or restructured. Our policy for modifying a mortgage loan due to the borrower's request for changes in the terms will depend on the changes requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as follows: (1) for income producing properties and business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or interest. During the most recent three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by the appropriate Loan Committee.

*Loan Approval Procedures and Authority.* The Board of Directors of the Company (the "Board of Directors") approved lending policies establishing loan approval requirements for our various types of loan products. Our Residential Mortgage Lending Policy (which applies to all one-to-four family mortgage loans, including residential and mixed-use property) establishes authorized levels of approval. One-to-four family mortgage loans that do not exceed \$750,000 require two signatures for approval, one of which must be from either the Senior Executive Vice President or a Senior Vice President (collectively, "Authorized Officers") and the other from a Senior Underwriter, Manager, Underwriter or Junior Underwriter in the Residential Mortgage Loan Department (collectively, "Loan Officers"), and ratification by the Management Loan Committee. For one-to-four family mortgage loans in excess of \$750,000 up to \$2.5 million, three signatures are required for approval, at least two of which must be from Authorized Officers, and the other one may be a Loan Officer, and ratification by the Management Loan Committee and the Director's Loan Committee. The Director's Loan Committee or the Bank Board of Directors also must approve one-to-four family mortgage loans in excess of \$2.5 million. Pursuant to our Commercial Real Estate Lending Policy, loans secured by commercial real estate and multi-family residential properties up to \$2.0 million are approved by the Executive Vice President of Commercial Real Estate and the Senior Executive Vice President, Chief of Real Estate Lending and then ratified by the Management Loan Committee and/or the Directors Loan Committee. Loans provided in excess of \$2.0 million and up to and including \$5.0 million must be submitted to the Management Loan Committee for final approval and then to the Directors Loan Committee and/or Board of Directors for ratification. Loans in excess of \$5.0 million and up to and including \$25.0 million must be submitted to the Directors Loan Committee and/ or the Board of Directors for approval. Loan amounts in excess of \$25.0 million must be approved by the Board of Directors. In accordance with our Business Credit Policy all business and SBA loans up to \$2.5 million must be approved by the Business Loan Committee and ratified by the Management Loan Committee. Business and SBA loans in excess of \$2.5 million up to \$5.0 million must be approved by the Management Loan Committee and ratified by the Loan Committee. Commercial business and other loans require two signatures for approval, one of which must be from an Authorized Officer. Our Construction Loan Policy requires construction loans up to and including \$1.0 million must be approved by the Senior Executive Vice President, Chief of Real Estate Lending and the Executive Vice President of Commercial Real Estate, and ratified by the Management Loan Committee or the Loan Committee. Such loans in excess of \$1.0 million up to and including \$2.5 million require the same officer approvals, approval of the Management Loan Committee, and

ratification of the Loan Committee or the Bank Board of Directors. Construction loans in excess of \$15.0 million require the same officer approvals, approval by the Management Loan Committee, and approval of the Bank Board of Directors. Any loan, regardless of type, that deviates from our written credit policies must be approved by the Loan Committee or the Bank Board of Directors.

For all loans originated by us, upon receipt of a completed loan application, a credit report is ordered and certain other financial information is obtained. An appraisal of the real estate intended to secure the proposed loan is required to be received. An independent appraiser designated and approved by us currently performs such appraisals. Our staff appraisers review all appraisals. The Bank Board of Directors annually approves the independent appraisers used by the Bank and approves the Bank's appraisal policy. It is our policy to require borrowers to obtain title insurance and hazard insurance on all real estate loans prior to closing. For certain borrowers, and/or as required by law, the Bank may require escrow funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which we make disbursements for items such as real estate taxes and, in some cases, hazard insurance premiums.

*Loan Concentrations.* The maximum amount of credit that the Bank can extend to any single borrower or related group of borrowers generally is limited to 15% of the Bank's unimpaired capital and surplus, or \$74.2 million at December 31, 2015. Applicable laws and regulations permit an additional amount of credit to be extended, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. See "-Regulation." However, it is currently our policy not to extend such additional credit. At December 31, 2015, there were no loans in excess of the maximum dollar amount of loans to one borrower that the Bank was authorized to make. At that date, the three largest concentrations of loans to one borrower consisted of loans secured by commercial real estate, multi-family income producing properties and business loans with an aggregate principal balance of \$65.5 million, \$58.0 million and \$56.0 million for each of the three borrowers, respectively.

*Loan Servicing.* At December 31, 2015, we were servicing \$4.5 million of mortgage loans and \$13.2 million of SBA loans for others. Our policy is to retain the servicing rights to the mortgage and SBA loans that we sell in the secondary market, other than non-performing loans that are sold with servicing released to the buyer. In order to increase revenue, management intends to continue this policy.

#### Asset Quality

*Loan Collection.* When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. In the case of mortgage loans, personal contact is made with the borrower after the loan becomes 30 days delinquent. We take a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with one of our representatives. When deemed appropriate, we develop short-term payment plans that enable borrowers to bring their loans current, generally within six to nine months. At times, when a borrower is experiencing financial difficulties, we may restructure a loan to enable a borrower to continue making payments when it is deemed to be in our 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 TDR. At December 31, 2015, we had \$9.9 million of loans classified as TDR, with \$9.5 million of these loans performing according to their restructured terms and \$0.4 million not performing according to their restructured terms. We review delinquencies on a loan by loan basis, diligently exploring ways to help borrowers meet their obligations and return them back to current status, and we have increased staffing to handle delinquent loans by hiring people experienced in loan workouts.

When the borrower has indicated that they will be unable to bring the loan current, or due to other circumstances which, in our opinion, indicate the borrower will be unable to bring the loan current within a reasonable time, the loan is classified as non-performing. 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. At December 31, 2015, there were 10 loans, which totaled \$3.3 million, past due 90 days or more and still accruing interest.

Upon classifying a loan as non-performing, we review available information and conditions that relate to the status of the loan, including the estimated value of the loan's collateral and any legal considerations that may affect the borrower's ability to continue to make payments. Based upon the available information, we will consider the sale of the loan or retention of the loan. If the loan is retained, we may continue to work with the borrower to collect the amounts due or start foreclosure proceedings. If a foreclosure action is initiated and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is sold at foreclosure or by us as soon thereafter as practicable.

Once the decision to sell a loan is made, we determine what we would consider adequate consideration to be obtained when that loan is sold, based on the facts and circumstances related to that loan. Investors and brokers are then contacted to seek interest in purchasing the loan. We have been successful in finding buyers for some of our non-performing loans offered for sale that are willing to pay what we consider to be adequate consideration. Terms of the sale include cash due upon closing of the sale, no contingencies or recourse to us, servicing is released to the buyer and time is of the essence. These sales usually close within a reasonably short time period.



This strategy of selling non-performing loans has allowed us to optimize our return by quickly converting our non-performing loans to cash, which can then be reinvested in earning assets. This strategy also allows us to avoid lengthy and costly legal proceedings that may occur with non-performing loans. We sold 23 delinquent loans totaling \$9.0 million, 34 delinquent loans totaling \$15.9 million, and 72 delinquent loans totaling \$33.4 million during the years ended December 31, 2015, 2014 and 2013, respectively. We recorded net recoveries on delinquent loans that were sold during 2015 of \$0.1 million, compared to net recoveries of \$0.4 million during 2014 and net charge-offs of \$4.7 million during 2013. We realized gross gains of \$71,000, \$67,000 and \$134,000 on the sale of delinquent loans for the years ended December 31, 2015, 2014 and 2013, respectively. We realized gross losses of \$2,000 and \$81,000 on the sale of delinquent loans for the years ended December 31, 2015 and 2013, respectively. We did not record any gross losses during the year ended December 31, 2014. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration.

On mortgage loans or loan participations purchased by us for whom the seller retains the servicing rights, we receive monthly reports with which we monitor the loan portfolio. Based upon servicing agreements with the servicers of the loans, we rely upon the servicer to contact delinquent borrowers, collect delinquent amounts and initiate foreclosure proceedings, when necessary, all in accordance with applicable laws, regulations and the terms of the servicing agreements between us and our servicing agents. The servicers are required to submit monthly reports on their collection efforts on delinquent loans. At December 31, 2015, we held \$623.0 million of loans that were serviced by others.

In the case of commercial business or other loans, we generally send the borrower a written notice of non-payment when the loan is first past due. In the event payment is not then received, additional letters and phone calls generally are made in order to encourage the borrower to meet with one of our representatives to discuss the delinquency. If the loan still is not brought current and it becomes necessary for us to take legal action, which typically occurs after a loan is delinquent 90 days or more, we may attempt to repossess personal or business property that secures an SBA loan, commercial business loan or consumer loan.

*Troubled Debt Restructured* . We have restructured certain problem loans for borrowers who are experiencing financial difficulties by either: reducing the interest rate until the next reset date, extending the amortization period thereby lowering the monthly payments, deferring a portion of the interest payment, 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. These restructurings have not included a reduction of principal balance. We believe that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. These restructured loans are classified 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.

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

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(Dollars in thousands)	At December 31,				
	2015	2014	2013	2012	2011
Multi-family residential	\$2,626	\$3,035	\$3,087	\$2,347	\$9,412
Commercial real estate	2,371	2,373	2,407	7,190	2,499
One-to-four family mixed-use property	2,052	2,381	2,692	2,336	795
One-to-four family residential	343	354	364	374	-
Construction	-	-	746	3,805	5,888
Small business administration	34	-	-	-	-
Commercial business and other	2,083	2,249	4,406	3,849	2,000
Total performing troubled debt restructured	\$9,509	\$10,392	\$13,702	\$19,901	\$20,594

Loans that are restructured as TDR but are not performing in accordance with the restructured terms are excluded from the TDR table above, as they are placed on non-accrual status and reported as non-performing loans. At December 31, 2015 and 2014, there was one loan for \$0.4 million and two loans totaling \$2.4 million, respectively, which were restructured as TDR which were not performing in accordance with their restructured terms.

*Delinquent Loans and Non-performing Assets.* We generally discontinue accruing interest on delinquent loans when a loan is 90 days past due or foreclosure proceedings have been commenced, whichever first occurs. At that time, previously accrued but uncollected interest is reversed from income. Loans in default 90 days or more as to their maturity date but not their payments, however, continue to accrue interest as long as the borrower continues to remit monthly payments.

The following table shows our non-performing assets, including loans held for sale, at the dates indicated. During the years ended December 31, 2015, 2014 and 2013, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled \$1.7 million, \$2.1 million and \$3.4 million, respectively. These amounts were not included in our interest income for the respective periods.

(Dollars in thousands)	At December 31,				
	2015	2014	2013	2012	2011
Loans 90 days or more past due and still accruing:					
Multi-family residential	\$233	\$676	\$52	\$-	\$6,287
Commercial real estate	1,183	820	-	-	92
One-to-four family mixed-use property	611	405	-	-	-
One-to-four family - residential	13	14	15	-	-
Construction	1,000	-	-	-	-
Commercial Business and other	220	386	539	644	-
Total	3,260	2,301	606	644	6,379
Non-accrual mortgage loans:					
Multi-family residential	3,561	6,878	13,682	16,486	19,946
Commercial real estate	2,398	5,689	9,962	15,640	19,895
One-to-four family mixed-use property	5,952	6,936	9,063	18,280	28,429
One-to-four family residential	10,120	11,244	13,250	13,726	12,766
Co-operative apartments	-	-	57	234	152
Construction	-	-	-	7,695	14,721
Total	22,031	30,747	46,014	72,061	95,909
Non-accrual non-mortgage loans:					
Small Business Administration	218	-	-	283	493
Commercial Business and other	568	1,143	2,348	16,860	14,660
Total	786	1,143	2,348	17,143	15,153
Total non-accrual loans	22,817	31,890	48,362	89,204	111,062
Total non-performing loans	26,077	34,191	48,968	89,848	117,441
Other non-performing assets:					
Real Estate Owned	4,932	6,326	2,985	5,278	3,179
Investment securities	-	-	1,871	3,332	2,562
Total	4,932	6,326	4,856	8,610	5,741
Total non-performing assets	\$31,009	\$40,517	\$53,824	\$98,458	\$123,182
Non-performing loans to gross loans	0.60	% 0.90	% 1.43	% 2.79	% 3.65
Non-performing assets to total assets	0.54	% 0.80	% 1.14	% 2.21	% 2.87

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

	December 31, 2015		December 31, 2014	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	\$804	\$9,422	\$1,729	\$7,721
Commercial real estate	153	2,820	1,345	2,171
One-to-four family - mixed-use property	1,257	8,630	1,153	10,408
One-to-four family - residential	154	4,261	2,038	1,751
Construction loans	-	-	-	3,000
Small Business Administration	-	42	-	90
Commercial business and other	2	-	1,585	6
Total	\$2,370	\$25,175	\$7,850	\$25,147

*Other Real Estate Owned.* We aggressively market our Other Real Estate Owned (“OREO”) properties. At December 31, 2015, we owned four OREO properties with a combined fair value of \$4.9 million. At December 31, 2014, we owned eight OREO properties with a combined fair value of \$6.3 million. At December 31, 2013, we owned 12 OREO properties with a combined fair value of \$3.0 million.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure as an in-substance repossession. During the year ended December 31, 2015, we did not foreclose on any consumer mortgages through in-substance repossession. At December 31, 2015, we held one foreclosed residential real estate totaling \$0.1 million. At December 31, 2014, we held foreclosed residential real estate totaling \$1.3 million. Included within net loans as of December 31, 2015 was a recorded investment of \$15.2 million of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

*Environmental Concerns Relating to Loans.* We currently obtain environmental reports in connection with the underwriting of commercial real estate loans, and typically obtain environmental reports in connection with the underwriting of multi-family loans. For all other loans, we obtain environmental reports only if the nature of the current or, to the extent known to us, prior use of the property securing the loan indicates a potential environmental risk. However, we may not be aware of such uses or risks in any particular case, and, accordingly, there is no assurance that real estate acquired by us in foreclosure is free from environmental contamination or that, if any such contamination or other violation exists, whether we will have any liability.

*Classified Assets.* Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as “Special Mention,” which is considered a “Criticized Asset,” and “Substandard,” “Doubtful,” or “Loss” which are considered “Classified Assets,” as deemed necessary. These loan designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard, Doubtful or Loss. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were \$54.8 million at December 31, 2015, a decrease of \$21.7 million from \$76.5 million at December 31, 2014.

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

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$4,361	\$ 5,421	\$ -	\$ -	\$9,782
Commercial real estate	1,821	3,812	-	-	5,633
One-to-four family - mixed-use property	3,087	10,990	-	-	14,077
One-to-four family - residential	1,437	12,255	-	-	13,692
Construction loans	-	1,000	-	-	1,000
Small Business Administration	229	224	-	-	453
Taxi Medallion	-	2,118	-	-	2,118
Commercial business and other	-	3,123	-	-	3,123
Total loans	10,935	38,943	-	-	49,878
Other Real Estate Owned	-	4,932	-	-	4,932
Total	\$10,935	\$ 43,875	\$ -	\$ -	\$54,810

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

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$6,494	\$ 10,226	\$ -	\$ -	\$16,720
Commercial real estate	5,453	7,100	-	-	12,553
One-to-four family - mixed-use property	5,254	12,499	-	-	17,753
One-to-four family - residential	2,352	13,056	-	-	15,408
Co-operative apartments	623	-	-	-	623
Small Business Administration	479	-	-	-	479
Commercial business and other	2,841	3,779	-	-	6,620
Total loans	23,496	46,660	-	-	70,156
Other Real Estate Owned	-	6,326	-	-	6,326
Total	\$23,496	\$ 52,986	\$ -	\$ -	\$76,482

On a quarterly basis all mortgage 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, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the

most recent reported arm's length transaction. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At December 31, 2015, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 38.49%.

## 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 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 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 ordinarily is evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired mortgage loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependent impaired loans are then compared to the 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 mortgage loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties' estimated value had declined from when the loan was originated. 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, 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. The national and local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This resulted in increased unemployment and declining property values, although the property value declines in our market, the New York City metropolitan area, have not been as great as many other areas of the country. While the national and local economies have shown signs of improvement since the middle of 2010, improvements in unemployment have lagged until recently when the unemployment rate decreased to 5.0% at December 2015 from 6.2% at December 2014, for the New York City region, according to the New York Department of Labor. The improvement in the level of unemployment has had a positive effect on our loan portfolio. Non-performing loans totaled \$26.1 million and \$34.2 million at December 31,



2015 and 2014, 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 December 31, 2015, the outstanding principal balance of our impaired mortgage loans was approximately 38% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. We incurred total net charge-offs of \$2.6 million and \$0.7 million during the years ended December 31, 2015 and 2014, respectively. The improvement in non-performing loans allowed us to record a benefit in the provision for loan losses of \$1.0 million and \$6.0 million for the years ended December 31, 2015 and 2014, respectively, compared to a provision expense of \$13.9 million recorded for the year ended December 31, 2013. Management has concluded, and the Board of Directors has concurred, that at December 31, 2015, the allowance was sufficient to absorb losses inherent in our loan portfolio.

Our determination as to the classification of our assets and the amount of our valuation allowance is subject to review by our regulators, which can require the establishment of additional general allowances or specific loss allowances or require charge-offs. Such authorities may require us to make additional provisions to the allowance based on their judgments about information available to them at the time of their examination. A policy statement provides guidance for examiners in determining whether the levels of general valuation allowances for banking institutions are adequate. The policy statement requires that if a bank's general valuation allowance policies and procedures are deemed to be inadequate, recommendations for correcting deficiencies, including any examiner concerns regarding the level of the allowance, should be noted in the report of examination. Additional supervisory action may also be taken based on the magnitude of the observed shortcomings in the allowance process, including the materiality of any error in the reported amount of the allowance.

Management believes that our current allowance for loan losses is adequate in light of current economic conditions, the composition of our loan portfolio, the level and type of delinquent loans, our level of classified loans, charge-offs recorded and other available information and the Board of Directors concurs in this belief. At December 31, 2015, the total allowance for loan losses was \$21.5 million, representing 82.58% of non-performing loans and 69.45% of non-performing assets, compared to 73.40% of non-performing loans and 61.94% of non-performing assets at December 31, 2014. We continue to monitor and, as necessary, modify the level of our allowance for loan losses in order to maintain the allowance at a level which we consider adequate to provide for probable loan losses based on available information.

Many factors may require additions to the allowance for loan losses in future periods beyond those currently revealed. These factors include further adverse changes in economic conditions, changes in interest rates and changes in the financial capacity of individual borrowers (any of which may affect the ability of borrowers to make repayments on loans), changes in the real estate market within our lending area and the value of collateral, or a review and evaluation of our loan portfolio in the future. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraised values of collateral, national and local economic conditions, interest rates and other factors. In addition, our overall level of credit risk inherent in our loan portfolio can be affected by the loan portfolio's composition. At December 31, 2015, multi-family residential, commercial real estate, construction and one-to-four family mixed-use property mortgage loans, totaled 83.2% of our gross loans. The greater risk associated with these loans, as well as business loans, could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans that is in excess of the allowance we currently maintain. Provisions for loan losses are charged against net income. See “—Lending Activities” and “—Asset Quality.”



The following table sets forth changes in, and the balance of, our allowance for loan losses.

(Dollars in thousands)	At and for the years ended December 31,				
	2015	2014	2013	2012	2011
Balance at beginning of year	\$25,096	\$31,776	\$31,104	\$30,344	\$27,699
Provision (benefit) for loan losses	(956 )	(6,021 )	13,935	21,000	21,500
Loans charged-off:					
Multi-family residential	(474 )	(1,161 )	(3,585 )	(6,016 )	(6,807 )
Commercial real estate	(32 )	(325 )	(1,051 )	(2,746 )	(5,172 )
One-to-four family mixed-use property	(592 )	(423 )	(4,206 )	(4,286 )	(2,644 )
One-to-four family residential	(342 )	(103 )	(701 )	(1,583 )	(2,226 )
Co-operative apartment	-	-	(108 )	(62 )	-
Construction	-	-	(2,678 )	(4,591 )	(1,088 )
SBA	(34 )	(49 )	(457 )	(324 )	(871 )
Commercial business and other loans	(2,371 )	(381 )	(2,057 )	(1,661 )	(642 )
Total loans charged-off	(3,845 )	(2,442 )	(14,843 )	(21,269 )	(19,450 )
Recoveries:					
Mortgage loans	888	1,515	1,407	838	523
SBA, commercial business and other loans	352	268	173	191	72
Total recoveries	1,240	1,783	1,580	1,029	595
Net charge-offs	(2,605 )	(659 )	(13,263 )	(20,240 )	(18,855 )
Balance at end of year	\$21,535	\$25,096	\$31,776	\$31,104	\$30,344
Ratio of net charge-offs during the year to average loans outstanding during the year	0.06 %	0.02 %	0.41 %	0.64 %	0.59 %
Ratio of allowance for loan losses to gross loans at end of the year	0.49 %	0.66 %	0.93 %	0.97 %	0.94 %
Ratio of allowance for loan losses to non-performing loans at the end of the year	82.58 %	73.40 %	64.89 %	34.62 %	25.84 %
Ratio of allowance for loan losses to non-performing assets at the end of the year	69.45 %	61.94 %	59.04 %	31.59 %	24.63 %

The following table sets forth our allocation of the allowance for loan losses to the total amount of loans in each of the categories listed at the dates indicated. The numbers contained in the “Amount” column indicate the allowance for loan losses allocated for each particular loan category. The numbers contained in the column entitled “Percentage of Loans in Category to Total Loans” indicate the total amount of loans in each particular category as a percentage of our loan portfolio.

Loan Category	At December 31, 2015		2014		2013		2012		2011	
	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans
(Dollars in thousands)										
Mortgage loans:										
Multi-family residential	\$6,718	46.98 %	\$8,827	50.64 %	\$12,084	50.02 %	\$13,001	47.62 %	\$11,267	
Commercial real estate	4,239	22.90	4,202	16.36	4,959	14.97	5,705	16.00	5,210	
One-to-four family mixed-use property	4,227	13.11	5,840	15.10	6,328	17.40	5,960	19.79	5,314	
One-to-four family residential	1,227	4.30	1,690	4.94	2,079	5.66	1,999	6.18	1,649	
Co-operative apartment Construction	-	0.19	-	0.26	104	0.30	46	0.20	80	
	50	0.17	42	0.14	444	0.12	66	0.45	668	
Gross mortgage loans	16,461	87.65	20,601	87.44	25,998	88.47	26,777	90.24	24,188	
Non-mortgage loans:										
Small Business Administration	262	0.28	279	0.19	458	0.23	505	0.29	987	
Taxi Medallion	343	0.48	11	0.59	-	0.38	7	0.31	41	
Commercial business and other	4,469	11.59	4,205	11.78	5,320	10.92	3,815	9.16	5,128	
Gross non-mortgage loans	5,074	12.35	4,495	12.56	5,778	11.53	4,327	9.76	6,156	
Total loans	\$21,535	100.00%	\$25,096	100.00%	\$31,776	100.00%	\$31,104	100.00%	\$30,344	

## Investment Activities

*General.* 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 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview—Management Strategy” in Item 7 of this Annual Report.

Although we have authority to invest in various types of assets, we primarily invest in mortgage-backed securities, securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds, corporate bonds and collateralized loan obligations (“CLO”). We did not hold any issues of foreign sovereign debt at December 31, 2015 and 2014.

Our Investment Committee meets quarterly to monitor investment transactions and to establish investment strategy. The Board of Directors reviews the investment policy on an annual basis and investment activity on a monthly basis.

We classify our investment securities as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities are classified as held-to-maturity when management intends to hold the securities until maturity. We carry some of our investments under the fair value option. Unrealized gains and losses for investments carried under the fair value option are included in our Consolidated Statements of Income. Unrealized gains and losses on securities available for sale, other than unrealized credit losses considered other than temporary, are excluded from earnings and included in Accumulated Other Comprehensive Income (a separate component of equity), net of taxes. Securities held-to-maturity are carried at their cost basis. At December 31, 2015, we had \$993.4 million in securities available for sale and \$6.2 million in securities held-to-maturity, which together represented 17.52% of total assets. These securities had an aggregate market value at December 31, 2015 that was approximately 2.1 times the amount of our equity at that date.

There were no credit related OTTI charges recorded during the years ended December 31, 2015 and 2014. During 2013 we recorded OTTI charges of \$1.4 million on four private issue collateralized mortgage obligations. We sold these private issue collateralized mortgage obligations during 2013. As a result of the magnitude of our holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in our operating results and equity. (See Notes 6 and 18 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)



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The table below sets forth certain information regarding the amortized cost and market values of our securities portfolio, interest-earning deposits and federal funds sold, at the dates indicated. Securities available for sale are recorded at market value. (See Notes 6 and 18 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)

	At December 31,		2014		2013	
	Amortized	Market	Amortized	Market	Amortized	Market
	Cost	Value	Cost	Value	Cost	Value
	(In thousands)					
Securities held-to-maturity						
Bonds and other debt securities:						
Municipal securities	\$6,180	\$6,180	\$-	\$-	\$-	\$-
Total bonds and other debt securities	6,180	6,180	-	-	-	-
Securities available for sale						
Bonds and other debt securities:						
Municipal securities	127,696	131,583	145,864	148,896	127,967	123,423
Corporate debentures	115,976	111,674	90,719	91,273	100,362	101,711
Collateralized loan obligations	53,225	52,898	-	-	-	-
Total bonds and other debt securities	296,897	296,155	236,583	240,169	228,329	225,134
Mutual funds	21,290	21,290	21,118	21,118	21,565	21,565
Equity securities:						
Common stock	871	871	864	864	888	888
Preferred stock	6,343	6,341	6,234	6,226	17,272	14,047
Total equity securities	7,214	7,212	7,098	7,090	18,160	14,935
Mortgage-backed securities:						
REMIC and CMO	469,987	469,936	504,207	505,768	494,984	489,670
GNMA	11,635	11,798	13,862	14,159	38,974	40,874
FNMA	170,327	170,057	169,956	170,367	217,615	212,322
FHLMC	16,961	16,949	14,505	14,639	13,297	13,290
Total mortgage-backed securities	668,910	668,740	702,530	704,933	764,870	756,156
Total securities available for sale	994,311	993,397	967,329	973,310	1,032,924	1,017,790
Interest-earning deposits and Federal funds sold						
	32,825	32,825	22,977	22,977	23,748	23,748
Total	\$1,033,316	\$1,032,402	\$990,306	\$996,287	\$1,056,672	\$1,041,538

*Mortgage-backed securities.* At December 31, 2015, we had \$668.7 million invested in mortgage-backed securities, of which \$3.1 million was invested in adjustable-rate mortgage-backed securities. The mortgage loans underlying these



adjustable-rate securities generally are subject to limitations on annual and lifetime interest rate increases. We anticipate that investments in mortgage-backed securities may continue to be used in the future to supplement mortgage-lending activities. Mortgage-backed securities are more liquid than individual mortgage loans and may be used more easily to collateralize our obligations, including collateralizing of the governmental deposits of the Bank.

The following table sets forth our mortgage-backed securities purchases, sales and principal repayments for the years indicated:

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Balance at beginning of year	\$704,933	\$756,156	\$720,113
Purchases of mortgage-backed securities	169,383	125,897	357,022
Amortization of unearned premium, net of accretion of unearned discount	(2,747 )	(2,699 )	(3,577 )
Net change in unrealized gains on mortgage-backed securities available for sale	(2,573 )	11,117	(41,546 )
Net realized gains (losses) recorded on mortgage-backed securities carried at fair value	77	84	(589 )
Net change in interest due on securities carried at fair value	(6 )	(8 )	(62 )
Sales of mortgage-backed securities	(103,100)	(85,021 )	(126,848)
Other-than-temporary impairment charges	-	-	(1,419 )
Principal repayments received on mortgage-backed securities	(97,227 )	(100,593)	(146,938)
Net increase (decrease) in mortgage-backed securities	(36,193 )	(51,223 )	36,043
Balance at end of year	\$668,740	\$704,933	\$756,156

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed and value of such securities.

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The table below sets forth certain information regarding the amortized cost, fair value, annualized weighted average yields and maturities of our investment in debt and equity securities and interest-earning deposits at December 31, 2015. The stratification of balances is based on stated maturities. Equity securities are shown as immediately maturing, except for preferred stocks with stated redemption dates, which are shown in the period they are scheduled to be redeemed. Assumptions for repayments and prepayments are not reflected for mortgage-backed securities. We carry these investments at their estimated fair value in the consolidated financial statements.

	One year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Securities	
	Weighted		Weighted		Weighted		Weighted		Average	
	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average	Remaining	
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Years	
	(Dollars in thousands)									
<b>Securities held-to-maturity</b>										
<b>Bonds and other debt securities:</b>										
Municipal securities	\$6,140	0.78%	\$40	1.50%	\$-	-	% \$-	-	% 0.38	\$
Total bonds and other debt securities	6,140	0.78	40	1.50	-	-	-	-	0.38	
<b>Securities available for sale</b>										
<b>Bonds and other debt securities:</b>										
Municipal securities	\$-	-	% \$-	-	% \$21,791	4.43%	\$105,905	4.62%	15.75	\$
Corporate debentures	5,976	1.22	-	-	55,000	2.82	55,000	4.05	9.67	
Corporate debentures	-	-	-	-	-	-	53,224	2.42	11.21	
Total bonds and other debt securities	5,976	1.22	-	-	76,791	3.28	214,129	3.93	12.56	
Mutual funds	21,290	1.70	-	-	-	-	-	-	N/A	
<b>Equity securities:</b>										
Common stock	-	-	-	-	-	-	871	3.92	N/A	
Preferred stock	-	-	-	-	-	-	6,344	6.95	N/A	
Total equity securities	-	-	-	-	-	-	7,215	6.58	N/A	
<b>Mortgage-backed securities:</b>										
FNMA	10	6.00	15,294	1.92	64,880	2.78	90,143	3.01	12.73	
REMIC and CMO	-	-	9,527	4.29	12,798	3.59	447,662	2.86	26.90	
FHLMC	-	-	4	2.16	2,093	4.51	14,864	2.76	16.43	
GNMA	-	-	-	-	-	-	11,635	3.41	16.04	
Total mortgage-backed securities	10	6.00	24,825	2.83	79,771	2.96	564,304	2.89	22.84	
Interest-earning deposits	32,825	0.50	-	-	-	-	-	-	N/A	
<b>Total</b>	<b>\$66,241</b>	<b>0.98%</b>	<b>\$24,865</b>	<b>2.83%</b>	<b>\$156,562</b>	<b>3.11%</b>	<b>\$785,648</b>	<b>3.21%</b>	<b>19.68</b>	<b>\$</b>



## Sources of Funds

*General.* Deposits, FHLB-NY borrowings, other borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed and other securities, and proceeds from sales of loans and securities are our primary sources of funds for lending, investing and other general purposes.

*Deposits.* We offer a variety of deposit accounts having a range of interest rates and terms. Our deposits primarily consist of savings accounts, money market accounts, demand accounts, NOW accounts and certificates of deposit. We have a relatively stable retail deposit base drawn from our market area through our 19 full-service offices. We seek to retain existing depositor relationships by offering quality service and competitive interest rates, while keeping deposit growth within reasonable limits. It is management's intention to balance its goal to maintain competitive interest rates on deposits while seeking to manage its cost of funds to finance its strategies.

In addition to our full-service offices we have an internet branch "iGObanking.com®", which currently offers savings accounts, money market accounts, checking accounts, and certificates of deposit. This allows us to compete on a national scale without the geographical constraints of physical locations. Since the number of U.S. households with accounts at Web-only banks has grown, our strategy was to join the market place by creating a branch that offers clients the simplicity and flexibility of a virtual online bank, which is a division of a stable, traditional bank that was established in 1929. At December 31, 2015 and 2014, total deposits for the internet branch were \$323.7 million and \$281.6 million, respectively.

We have a government banking division, which prior to the Merger in 2013 operated as the Commercial Bank, a New York State-chartered commercial bank, which provided banking services to public municipalities, including counties, cities, towns, villages, school districts, libraries, fire districts, and the various courts throughout the New York City metropolitan area as an additional source of deposits. At December 31, 2015 and 2014, total deposits in our government banking division totaled \$975.9 million and \$891.9 million, respectively.

Our core deposits, consisting of savings accounts, NOW accounts, money market accounts, and non-interest bearing demand accounts, are typically more stable and lower costing than other sources of funding. However, the flow of deposits into a particular type of account is influenced significantly by general economic conditions, changes in prevailing money market and other interest rates, and competition. We experienced an increase in our Due to depositors' during 2015 of \$382.8 million. During the year ended December 31, 2015, the cost of Due to depositors' decreased nine basis points to 0.88% from 0.97% for the year ended December 31, 2014. This decrease in the cost of deposits is primarily attributable to the Bank's reducing the rates it pays on its deposit products. While we are unable to predict the direction of future interest rate changes, if interest rates rise during 2016, the result could be an increase in our cost of deposits, which could reduce our net interest margin. Similarly, if interest rates remain at their current level or decline in 2016, we could see a decline in our cost of deposits, which could increase our net interest margin.

Included in deposits are certificates of deposit with balances of \$100,000 or more (excluding brokered deposits issued in \$1,000.00 amounts under a master certificate of deposit) totaling \$484.7 million, \$403.1 million and \$335.4 million at December 31, 2015, 2014 and 2013, respectively.

We utilize brokered deposits as an additional funding source and to assist in the management of our interest rate risk. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered certificates of deposit provide a large deposit for us at a lower operating cost as compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. The Depository Trust Company is used as the clearing house, maintaining each deposit under the name of CEDE & Co. These deposits are transferable just like a stock or bond investment and the customer can open the account with only a phone call, just like buying a stock or bond. Unlike non-brokered certificates of deposit, where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death, or court declared mental incompetence, of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. We also utilized brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is the same or below the rate we pay on non-brokered money market accounts, and the rate is agreed to in a contract between the Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor.

We also offer access to FDIC insurance coverage in excess of \$250,000 through a Certificate of Deposit Account Registry Service (“CDARS®”) and through an Insured Cash Sweep service (“ICS”). CDARS® and ICS are deposit placement services. These networks arrange for placement of funds into certificate of deposit accounts or money market accounts issued by other member banks of the network in increments of less than \$250,000 to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows us to accept deposits in excess of \$250,000 from a depositor, and place the deposits through the network to other member banks to provide full FDIC deposit insurance coverage. We may receive deposits from other member banks in exchange for the deposits we place into the network. We may also obtain deposits from other network member banks without placing deposits into the network. We will obtain deposits in this manner primarily as a short-term funding source. We also can place deposits with other member banks without receiving deposits from other member banks. Depositors are allowed to withdraw funds, with a penalty, from these accounts at one or more of the member banks that hold the deposits. Additionally, we place a portion of our government deposits in an ICS brokered money market product which does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. At December 31, 2015 and 2014 the Bank held government ICS deposits totaling \$210.7 million and \$94.0 million, respectively.

We also utilize brokers to obtain money market account deposits. These accounts are similar to brokered certificate of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor.

Brokered deposits and funds obtained through the CDARS® and ICS networks are classified as brokered deposits for financial reporting purposes. At December 31, 2015, we had \$982.8 million classified as brokered deposits, with \$625.2 million in brokered certificates of deposit, \$339.8 million in brokered money market accounts and \$17.8 million in brokered checking accounts. The brokered certificates of deposit include \$7.5 million obtained through the CDARS® network and the brokered money market accounts include \$265.6 million obtained through the ICS network.

The following table sets forth the distribution of our deposit accounts at the dates indicated and the weighted average nominal interest rates on each category of deposits presented.

	At December 31, 2015			2014			2013		
	Amount (Dollars in thousands)	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate
Savings accounts	\$261,748	6.72 %	0.45 %	\$261,942	7.47 %	0.38 %	\$265,003	8.20 %	
NOW accounts <sup>(9)</sup>	1,448,695	37.22	0.49	1,359,057	38.74	0.45	1,416,774	43.83	
Demand accounts <sup>(10)</sup>	269,469	6.92	-	255,834	7.29	-	197,343	6.10	
Mortgagors' escrow deposits	36,844	0.95	0.17	35,679	1.02	0.09	32,798	1.01	
Total	2,016,756	51.81	0.42	1,912,512	54.51	0.37	1,911,918	59.14	
Money market accounts <sup>(8)</sup>	472,489	12.14	0.46	290,263	8.27	0.32	199,907	6.18	
Certificate of deposit accounts with original maturities of:									
Less than 6 Months <sup>(2)</sup>	19,615	0.50	0.40	7,059	0.20	0.10	10,116	0.31	
6 to less than 12 Months <sup>(3)</sup>	21,962	0.56	0.41	82,966	2.36	0.80	20,671	0.64	
12 to less than 30 Months <sup>(4)</sup>	496,343	12.75	1.08	275,828	7.86	0.89	246,416	7.62	
30 to less than 48 Months <sup>(5)</sup>	316,475	8.13	1.20	198,290	5.65	1.08	132,965	4.11	
48 to less than 72 Months <sup>(6)</sup>	461,843	11.86	1.73	622,908	17.75	2.06	585,203	18.10	
72 Months or more <sup>(7)</sup>	87,064	2.24	2.77	118,772	3.39	2.88	125,584	3.88	
Total certificate of deposit accounts	1,403,302	36.05	1.41	1,305,823	37.22	1.65	1,120,955	34.67	
Total deposits <sup>(1)</sup>	\$3,892,547	100.00 %	0.78 %	\$3,508,598	100.00 %	0.84 %	\$3,232,780	100.00 %	

(1) Included in the above balances are IRA and Keogh deposits totaling \$71.5 million, \$91.0 million and \$117.4 million at December 31, 2015, 2014 and 2013, respectively.

(2) Includes brokered deposits of \$5.0 million, \$3.0 million and \$4.8 million at December 31, 2015, 2014 and 2013, respectively.

(3) Includes brokered deposits of \$0.8 million, \$5.7 million and \$0.8 million at December 31, 2015, 2014 and 2013, respectively.

(4) Includes brokered deposits of \$168.2 million, \$85.9 million and \$10.0 million at December 31, 2015, 2014 and 2013, respectively.

(5) Includes brokered deposits of \$244.6 million, \$145.2 million and \$105.4 million at December 31, 2015, 2014 and 2013, respectively.

(6) Includes brokered deposits of \$165.6 million, \$271.4 million and \$262.8 million at December 31, 2015, 2014 and 2013, respectively.

(7) Includes brokered deposits of \$41.0 million, \$72.4 million and \$63.1 million at December 31, 2015, 2014 and 2013, respectively.



- (8) Includes brokered deposits of \$339.8 million, \$180.2 million and \$70.5 million at December 31, 2015, 2014 and 2013, respectively.
- (9) Includes brokered deposits of \$15.0 million at December 31, 2015 and none at December 31, 2014 and 2013.
- (10) Includes brokered deposits of \$2.8 million at December 31, 2015 and none at December 31, 2014 and 2013.

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The following table presents by various rate categories, the amount of time deposit accounts outstanding at the dates indicated, and the years to maturity of the certificate accounts outstanding at December 31, 2015.

	At December 31,			At December 31, 2015		
	2015	2014	2013	Within One Year	One to Three Years	Thereafter
(In thousands)						
Interest rate:						
1.99% or less	(1) \$1,074,229	\$817,100	\$543,759	\$373,692	\$642,319	\$58,218
2.00% to 2.99%	(2) 279,688	301,445	212,971	51,529	81,506	146,653
3.00% to 3.99%	(3) 49,385	184,172	344,884	23,008	1,885	24,492
Total	\$1,403,302	\$1,302,717	\$1,101,614	\$448,229	\$725,710	\$229,363

(1) Includes brokered deposits of \$542.3 million, \$435.3 million and \$204.4 million at December 31, 2015, 2014 and 2013, respectively.

(2) Includes brokered deposits of \$59.9 million, \$83.1 million and \$108.6 million at December 31, 2015, 2014 and 2013, respectively.

(3) Includes brokered deposits of \$23.0 million, \$65.3 million and \$133.9 million at December 31, 2015, 2014 and 2013, respectively.

The following table presents by remaining maturity categories the amount of certificate of deposit accounts with balances of \$100,000 or more at December 31, 2015 and their annualized weighted average interest rates.

Maturity Period:	Amount	Weighted Average Rate
Three months or less	\$75,685	0.87 %
Over three through six months	28,953	0.96
Over six through 12 months	50,493	1.23
Over 12 months	329,570	1.78
Total	\$484,701	1.53 %

The above table does not include brokered deposits issued in \$1,000.00 amounts under a master certificate of deposit totaling \$580.2 million with a weighted average rate of 1.34%.

The following table presents the deposit activity, including mortgagors' escrow deposits, for the periods indicated.

	For the year ended December 31,		
	2015	2014	2013
	(In thousands)		
Net deposits	\$352,602	\$244,830	\$184,470
Amortization of premiums, net	1,012	944	1,080
Interest on deposits	30,336	30,044	32,037
Net increase in deposits	\$383,950	\$275,818	\$217,587

The following table sets forth the distribution of our average deposit accounts for the years indicated, the percentage of total deposit portfolio, and the average interest cost of each deposit category presented. Average balances for all years shown are derived from daily balances.

	At December 31, 2015			2014			2013		
	Average Balance (Dollars in thousands)	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost
Savings accounts	\$264,891	7.10 %	0.43 %	\$258,243	7.70 %	0.23 %	\$274,791	8.73 %	0.1
NOW accounts	1,432,609	38.38	0.46	1,390,899	41.47	0.45	1,291,861	41.04	0.5
Demand accounts	250,488	6.71	-	211,389	6.30	-	169,190	5.37	-
Mortgagors' escrow deposits	52,364	1.40	0.19	47,876	1.43	0.28	46,217	1.47	0.0
Total	2,000,352	53.59	0.39	1,908,407	56.90	0.37	1,782,059	56.61	0.4
Money market accounts	380,595	10.20	0.41	245,752	7.33	0.27	180,211	5.72	0.1
Certificate of deposit accounts	1,351,619	36.21	1.55	1,199,849	35.77	1.87	1,185,696	37.67	2.0
Total deposits	\$3,732,566	100.00 %	0.81 %	\$3,354,008	100.00 %	0.90 %	\$3,147,966	100.00 %	1.0

*Borrowings.* Although deposits are our primary source of funds, we also use borrowings as an alternative and cost effective source of funds for lending, investing and other general purposes. The Bank is a member of, and is eligible to obtain advances from, the FHLB-NY. Such advances generally are secured by a blanket lien against the Bank's mortgage portfolio and the Bank's investment in the stock of the FHLB-NY. In addition, the Bank may pledge mortgage-backed securities to obtain advances from the FHLB-NY. See "— Regulation — Federal Home Loan Bank System." The maximum amount that the FHLB-NY will advance for purposes other than for meeting withdrawals fluctuates from time to time in accordance with the policies of the FHLB-NY. The Bank may also enter into repurchase agreements with broker-dealers and the FHLB-NY. These agreements are recorded as financing transactions and the obligations to repurchase are reflected as a liability in our consolidated financial statements. In addition, we issued junior subordinated debentures with a total par of \$61.9 million in June and July 2007. These junior subordinated debentures are carried at fair value in the Consolidated Statement of Financial Condition. The average cost of borrowings was 1.76%, 2.49% and 2.39% for the years ended December 31, 2015, 2014 and 2013, respectively. The average balances of borrowings were \$1,104.4 million, \$993.8 million and \$953.2 million for the same years, respectively.

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The following table sets forth certain information regarding our borrowings at or for the periods ended on the dates indicated.

	At or for the years ended December 31,					
	2015		2014		2013	
	(Dollars in thousands)					
<b>Securities Sold with the Agreement to Repurchase</b>						
Average balance outstanding	\$ 116,000		\$ 137,824		\$ 172,944	
Maximum amount outstanding at any month end during the period	116,000		155,300		185,300	
Balance outstanding at the end of period	116,000		116,000		155,300	
Weighted average interest rate during the period	3.22	%	5.37	%	3.42	%
Weighted average interest rate at end of period	3.18		3.18		3.41	
<b>FHLB-NY Advances</b>						
Average balance outstanding	\$ 947,370		\$ 826,132		\$ 754,305	
Maximum amount outstanding at any month end during the period	1,106,658		936,813		864,864	
Balance outstanding at the end of period	1,106,658		911,721		827,252	
Weighted average interest rate during the period	1.48	%	2.03	%	2.03	%
Weighted average interest rate at end of period	1.40		1.44		1.48	
<b>Other Borrowings</b>						
Average balance outstanding	\$ 40,998		\$ 29,834		\$ 25,939	
Maximum amount outstanding at any month end during the period	89,479		30,352		29,570	
Balance outstanding at the end of period	49,018		28,771		29,570	
Weighted average interest rate during the period	4.02	%	5.30	%	6.17	%
Weighted average interest rate at end of period	2.56		5.96		5.67	
<b>Total Borrowings</b>						
Average balance outstanding	\$ 1,104,368		\$ 993,790		\$ 953,188	
Maximum amount outstanding at any month end during the period	1,312,137		1,112,201		1,067,170	
Balance outstanding at the end of period	1,271,676		1,056,492		1,012,122	
Weighted average interest rate during the period	1.76	%	2.49	%	2.39	%
Weighted average interest rate at end of period	1.61		1.75		1.90	

### Subsidiary Activities

At December 31, 2015, Flushing Financial Corporation had four wholly owned subsidiaries: the Bank and the Trusts. In addition, the Bank had three wholly owned subsidiaries: FSB Properties Inc. (“Properties”), Flushing Preferred Funding Corporation (“FPFC”), and Flushing Service Corporation.

(a) Properties, which is incorporated in the State of New York, was formed in 1976 under the Savings Bank's New York State leeway investment authority. The original purpose of Properties was to engage in joint venture real estate equity investments. The Savings Bank discontinued these activities in 1986. The last joint venture in which Properties was a partner was dissolved in 1989. The last remaining property acquired by the dissolution of these joint ventures was disposed of in 1998. Properties is currently used to hold title to real estate owned that is obtained via foreclosure.

(b) FPFC, which is incorporated in the State of Delaware, was formed in 1997 as a real estate investment trust for the purpose of acquiring, holding and managing real estate mortgage assets. FPFC also provides an additional vehicle for access by the Company to the capital markets for future opportunities.

(c) Flushing Service Corporation, which is incorporated in the State of New York, was formed in 1998 to market insurance products and mutual funds.

## Personnel

At December 31, 2015, we had 427 full-time employees and 15 part-time employees. None of our employees are represented by a collective bargaining unit, and we consider our relationship with our employees to be good. At the present time, Flushing Financial Corporation only employs certain officers of the Bank. These employees do not receive any extra compensation as officers of Flushing Financial Corporation.

## Omnibus Incentive Plan

The 2014 Omnibus Incentive Plan (“2014 Omnibus Plan”) became effective on May 20, 2014 after adoption by the Board of Directors and approval by the stockholders. The 2014 Omnibus Plan authorizes the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”) to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can, but need not, be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). The 2014 Omnibus Plan authorizes the issuance of 1,100,000 shares. To the extent that an award under the 2014 Omnibus Plan is cancelled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a participant in payment of the exercise price or taxes relating to an award, the shares retained by or returned to the Company will be available for future issuance under the 2014 Omnibus Plan. No further awards may be granted under the Company’s 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan. At December 31, 2015, there were 787,180 shares available for delivery in connection with awards under the 2014 Omnibus Plan.

For additional information concerning this plan, see “Note 11 of Notes to Consolidated Financial Statements” in Item 8 of this Annual Report.

## FEDERAL, STATE AND LOCAL TAXATION

The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Company.

### Federal Taxation

*General.* We report our income using a calendar year and the accrual method of accounting. We are subject to the federal tax laws and regulations which apply to corporations generally, and, since the enactment of the Small Business

Job Protection Act of 1996 (the “Act”), those laws and regulations governing the Bank’s deductions for bad debts, described below.

*Bad Debt Reserves.* Prior to the enactment of the Act, which was signed into law on August 20, 1996, savings institutions which met certain definitional tests primarily relating to their assets and the nature of their business (“qualifying thrifts”), such as the Savings Bank, were allowed deductions for bad debts under methods more favorable than those granted to other taxpayers. Qualifying thrifts could compute deductions for bad debts using either the specific charge off method of Section 166 of the Internal Revenue Code (the “Code”) or the reserve method of Section 593 of the Code. Section 1616(a) of the Act repealed the Section 593 reserve method of accounting for bad debts by qualifying thrifts, effective for taxable years beginning after 1995. Qualifying thrifts that are treated as large banks, such as the Savings Bank, are required to use the specific charge off method, pursuant to which the amount of any debt may be deducted only as it actually becomes wholly or partially worthless.

*Distributions.* To the extent that the Bank makes “non-dividend distributions” to stockholders that are considered to result in distributions from its pre-1988 reserves or the supplemental reserve for losses on loans (“excess distributions”), then an amount based on the amount distributed will be included in the Bank’s taxable income. Non-dividend distributions include distributions in excess of the Bank’s current and post-1951 accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock and distributions in partial or complete liquidation. The amount of additional taxable income resulting from an excess distribution is an amount that when reduced by the tax attributable to the income is equal to the amount of the excess distribution. Thus, slightly more than one and one-half times the amount of the excess distribution made would be includable in gross income for federal income tax purposes, assuming a 35% federal corporate income tax rate. See “Regulation  $\frac{3}{4}$  Restrictions on Dividends and Capital Distributions” for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends or make non-dividend distributions described above that would result in a recapture of any portion of its pre-1988 bad debt reserves.

*Corporate Alternative Minimum Tax.* The Code imposes an alternative minimum tax on corporations equal to the excess, if any, of 20% of alternative minimum taxable income (“AMTI”) over a corporation’s regular federal income tax liability. AMTI is equal to taxable income with certain adjustments. Generally, only 90% of AMTI can be offset by net operating loss carrybacks and carryforwards.



## State and Local Taxation

*New York State and New York City Taxation.* We are subject to the New York State Franchise Tax on Banking Corporations in an annual amount equal to the greater of (1) 7.1% of “entire net income” allocable to New York State during the taxable year or (2) the applicable alternative minimum tax. The alternative minimum tax is generally the greater of (a) 0.01% of the value of assets allocable to New York State with certain modifications, (b) 3% of “alternative entire net income” allocable to New York State or (c) \$250. Entire net income is similar to federal taxable income, subject to certain modifications, including that net operating losses arising during any taxable year prior to January 1, 2001 cannot be carried back or carried forward, and net operating losses arising during any taxable year beginning on or after January 1, 2001 cannot be carried back. Alternative entire net income is equal to entire net income without certain deductions that are allowable in the calculation of entire net income. We are also subject to a similarly calculated New York City tax of 9% on income allocated to New York City. For New York City tax purposes, entire net income is similar to federal taxable income, subject to certain modifications, including that net operating losses arising during any taxable year prior to January 1, 2009 cannot be carried back or carried forward, and net operating losses arising during any taxable year beginning on or after January 1, 2009 cannot be carried back and similar alternative taxes. In addition, we are subject to a tax surcharge at a rate of 17% of the New York State Franchise Tax that is attributable to business activity carried on within the Metropolitan Commuter Transportation District (“MTA surcharge”).

Notwithstanding the repeal of the federal income tax provisions permitting bad debt deductions under the reserve method, New York State had enacted legislation maintaining the preferential treatment of additional loss reserves for qualifying real property and non-qualifying loans of qualifying thrifts for both New York State and New York City tax purposes. Calculation of the amount of additions to reserves for qualifying real property loans was limited to the larger of the amount derived by the percentage of taxable income method or the experience method. For these purposes, the applicable percentage to calculate the bad debt deduction under the percentage of taxable income method was 32% of taxable income, reduced by additions to reserves for non-qualifying loans, except that the amount of the addition to the reserve could not exceed the amount necessary to increase the balance of the reserve for losses on qualifying real property loans at the close of the taxable year to 6% of the balance of the qualifying real property loans outstanding at the end of the taxable year. Under the experience method, the maximum addition to a loan reserve generally equaled the amount necessary to increase the balance of the bad debt reserve at the close of the taxable year to the greater of (1) the amount that bears the same ratio to loans outstanding at the close of the taxable year as the total net bad debts sustained during the current and five preceding taxable years bears to the sum of the loans outstanding at the close of those six years, or (2) the balance of the bad debt reserve at the close of the “base year,” or, if the amount of loans outstanding has declined since the base year, the amount which bears the same ratio to the amount of loans outstanding at the close of the taxable year as the balance of the reserve at the close of the base year. For these purposes, the “base year” was the last taxable year beginning before 1988. The amount of additions to reserves for non-qualifying loans was computed under the experience method. In no event could the additions to reserves for qualifying real property loans be greater than the larger of the amount determined under the experience method or the amount which, when added to the additions to reserves for non-qualifying loans, equal the amount by which 12% of the total deposits or withdrawable accounts of depositors of the Savings Bank at the close of the taxable year exceeded the sum of the Savings Bank’s surplus, undivided profits and reserves at the beginning of such year.

In March 2014, the New York State legislature changed New York State tax law, eliminating the separate bank tax section of the tax code, which results in all corporations being taxed in the same manner. The changes to the tax law are effective for tax years beginning on or after January 1, 2015. The most significant changes in the new tax law include:

The existing corporate franchise tax rate of 7.1% is reduced to 6.5% effective January 1, 2016.

All corporations will calculate tax on the following three bases: business income base, capital base, and fixed dollar minimum base; the highest tax is paid.

The MTA surcharge is increased to 25.6% effective for years beginning on or after January 1, 2015 and before January 1, 2016 with adjustments in rates at the discretion of the Commissioner of Taxation.

The capital base tax will be completely phased out by 2021.

Apportionment of income to New York State will be based on a single receipts factor.

Repeals the existing combined reporting standard, and requires unitary combined reporting.

In 2015, New York City changed its tax law to allow a deduction of interest received, net of interest paid, for certain mortgage loans meeting the collateral requirements. The result of this change is a reduction in the amount of interest income subject to tax in New York City.

*New Jersey State Taxation.* The Bank is required to pay New Jersey State income tax based on the percentage of receipts from activity in New Jersey.

*Delaware State Taxation.* As a Delaware holding company not earning income in Delaware, we are exempt from Delaware corporate income tax but are required to file an annual report with and pay an annual franchise tax to the State of Delaware.

## REGULATION

### General

The Bank is a New York State-chartered commercial bank and its deposit accounts are insured under the Deposit Insurance Fund (the “DIF”) of the Federal Deposit Insurance Corporation (the “FDIC”) up to applicable legal limits. The Bank is subject to extensive regulation and supervision by the New York State Department of Financial Services (“NYDFS”), as its chartering agency, by the FDIC, as its insurer of deposits, and by the Consumer Financial Protection Bureau (the “CFPB”), which was created under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) in 2011 to implement and enforce consumer protection laws applying to banks. The Bank must file reports with the NYDFS, the FDIC, and the CFPB concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other depository institutions. Furthermore, the Bank is periodically examined by the NYDFS and the FDIC to assess compliance with various regulatory requirements, including safety and soundness considerations. This regulation and supervision establishes a comprehensive framework of activities in which a commercial bank can engage, and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with its supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss allowances for regulatory purposes. Any change in such regulation, whether by the NYDFS, the FDIC, or through legislation, could have a material adverse impact on the Company, the Bank and its operations, and the Company’s shareholders.

The Company is required to file certain reports under, and otherwise comply with, the rules and regulations of the Federal Reserve Board of Governors (the “FRB”), the FDIC, the NYDFS, and the Securities and Exchange Commission (the “SEC”) under federal securities laws. In addition, the FRB periodically examines the Company. Certain of the regulatory requirements applicable to the Bank and the Company are referred to below or elsewhere herein. However, such discussion is not meant to be a complete explanation of all laws and regulations and is qualified in its entirety by reference to the actual laws and regulations.

## **The Dodd-Frank Act**

The Dodd-Frank Act has significantly changed the current bank regulatory structure and will continue to affect, into the immediate future, the lending and investment activities and general operations of depository institutions and their holding companies. In addition to creating the CFPB, the Dodd-Frank Act requires the FRB to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depository institutions; the components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. In addition, the proceeds of trust preferred securities will be excluded from Tier 1 capital unless (i) such securities are issued by bank holding companies with assets of less than \$500 million, or (ii) such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with assets of less than \$15 billion. The Dodd-Frank Act created a new supervisory structure for oversight of the U.S. financial system, including the establishment of a new council of regulators, the Financial Stability Oversight Council, to monitor and address systemic risks to the financial system. Non-bank financial companies that are deemed to be significant to the stability of the U.S. financial system and all bank holding companies with \$50 billion or more in total consolidated assets will be subject to heightened supervision and regulation. The FRB will implement prudential requirements and prompt corrective action procedures for such companies.

The Dodd-Frank Act made many additional changes in banking regulation, including: authorizing depository institutions, for the first time, to pay interest on business checking accounts; requiring originators of securitized loans to retain a percentage of the risk for transferred loans; establishing regulatory rate-setting for certain debit card interchange fees; and establishing a number of reforms for mortgage lending and consumer protection.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that it is based not on deposits, but on the average consolidated total assets less the tangible equity capital of an insured institution. That rule took effect April 1, 2011. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and provided non-interest-bearing transaction accounts with unlimited deposit insurance through December 31, 2012.

Many of the provisions of the Dodd-Frank Act are not yet in effect. The Dodd-Frank Act requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although it is therefore difficult to predict at this time what impact the Dodd-Frank Act and the implementing regulations will have on the Company and the Bank, they may have a material impact on operations through, among other things, heightened regulatory supervision and increased compliance costs.

### **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 included numerous revisions to the existing capital regulations, including, but not limited to, the following:

- Revised the definition of regulatory capital components and related calculations.
- Added a new common equity tier 1 capital ratio.
- Increased the minimum tier 1 capital ratio requirement from four percent to six percent.
- Incorporated the revised regulatory capital requirements into the Prompt Corrective Action framework.
- Implemented 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.
- Provided 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.
- Increased capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments.
- Removed references to credit ratings consistent with Section 939A of the Dodd-Frank Act.
- Established due diligence requirements for securitization exposures.

The capital regulations became effective January 1, 2015 for bank holding companies and banks with less than \$15 billion in total assets, such as our Company and Bank. We continue to be considered well-capitalized under Basel III.

### **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 December 31, 2015, the Company did not hold any TruPS CDOs.

### **New York State Law**

The Bank derives its lending, investment, and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the NYDFS, as limited by FDIC regulations. Under these laws and regulations, banks, including the Bank, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities (including certain corporate debt securities, and obligations of federal, state, and local governments and agencies), certain types of corporate equity securities, and certain other assets. The lending powers of New York State-chartered commercial banks are not subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers.

The exercise by an FDIC-insured commercial bank of the lending and investment powers under New York State Banking Law is limited by FDIC regulations and other federal laws and regulations. In particular, the applicable provisions of New York State Banking Law and regulations governing the investment authority and activities of an FDIC-insured state-chartered savings bank and commercial bank have been effectively limited by the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) and the FDIC regulations issued pursuant thereto.

With certain limited exceptions, a New York State-chartered commercial bank may not make loans or extend credit for commercial, corporate, or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of the bank’s net worth or up to 25% for loans secured by collateral having an ascertainable market value at least equal to the excess of such loans over the bank’s net worth. The Bank currently complies with all applicable loans-to-one-borrower limitations. At December 31, 2015, the Bank’s largest aggregate amount of loans to one borrower was \$65.5 million, all of which were performing according to their terms. See “— General — Lending Activities.”

Under New York State Banking Law, New York State-chartered stock-form commercial banks may declare and pay dividends out of its net profits, unless there is an impairment of capital, but approval of the NYDFS Superintendent (the “Superintendent”) is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

New York State Banking Law gives the Superintendent authority to issue an order to a New York State-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices, and to keep prescribed books and accounts. Upon a finding by the NYDFS that any director, trustee, or officer of any

banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and an opportunity to be heard. The Superintendent also has authority to appoint a conservator or a receiver for a savings or commercial bank under certain circumstances.

## **FDIC Regulations**

*Capital Requirements.* The FDIC has adopted risk-based capital guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations. The Bank is required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of such regulatory capital to regulatory risk-weighted assets is referred to as a “risk-based capital ratio.” Risk-based capital ratios are determined by allocating assets and specified off-balance-sheet items to risk-weighted categories ranging from 0% to 1,250%, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide an institution’s capital into two tiers. The first tier (“Tier 1”) includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues), and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary (“Tier 2”) capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt, and the allowance for loan losses, subject to certain limitations, and up to 45% of pre-tax net unrealized gains on equity securities with readily determinable fair market values, less required deductions. Commercial banks are required to maintain a total risk-based capital ratio of at least 8%, of which at least 4% must be Tier 1 capital.



In addition, the FDIC has established regulations prescribing a minimum Tier 1 leverage capital ratio (the ratio of Tier 1 capital to adjusted average assets as specified in the regulations). These regulations provide for a minimum Tier 1 leverage capital ratio of at least 4%. The FDIC may, however, set higher leverage and risk-based capital requirements on individual institutions when particular circumstances warrant. Institutions experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

As of December 31, 2015, the Bank was deemed to be well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain a minimum Tier 1 leverage capital ratio of 5%, a minimum common equity Tier 1 capital ratio of 6.5%, a minimum Tier 1 risk-based capital ratio of 8%, and a minimum total risk-based capital ratio of 10%. For a summary of the regulatory capital ratios of the Bank at December 31, 2015, see “Note 14 of Notes to Consolidated Financial Statements” in Item 8 of this Annual Report.

The regulatory capital regulations of the FDIC and other federal banking agencies provide that the agencies will take into account the exposure of an institution’s capital and economic value to changes in interest rate risk in assessing capital adequacy. According to such agencies, applicable considerations include the quality of the institution’s interest rate risk management process, overall financial condition, and the level of other risks at the institution for which capital is needed. Institutions with significant interest rate risk may be required to hold additional capital. The agencies have issued a joint policy statement providing guidance on interest rate risk management, including a discussion of the critical factors affecting the agencies’ evaluation of interest rate risk in connection with capital adequacy. Institutions that engage in specified amounts of trading activity may be subject to adjustments in the calculation of the risk-based capital requirement to assure sufficient additional capital to support market risk.

*Standards for Safety and Soundness.* Federal law requires each federal banking agency to prescribe, for the depository institutions under its jurisdiction, standards that relate to, among other things, internal controls; information and audit systems; loan documentation; credit underwriting; the monitoring of interest rate risk; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the “Guidelines”) to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to provide it with an acceptable plan to achieve compliance with the standard, as required by the Federal Deposit Insurance Act, as amended, (the “FDI Act”). The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

*Real Estate Lending Standards.* The FDIC and the other federal banking agencies have adopted regulations that prescribe standards for extensions of credit that are (i) secured by real estate, or (ii) made for the purpose of financing construction or improvements on real estate. The FDIC regulations require each institution to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices, and appropriate to the size of the institution and the nature and scope of its real estate lending activities. The standards also must be consistent with accompanying FDIC guidelines, which include loan-to-value limitations for the different types of real

estate loans. Institutions are also permitted to make a limited amount of loans that do not conform to the proposed loan-to-value limitations so long as such exceptions are reviewed and justified appropriately. The FDIC guidelines also list a number of lending situations in which exceptions to the loan-to-value standard are justified.

*Dividend Limitations.* The FDIC has authority to use its enforcement powers to prohibit a commercial bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law prohibits the payment of dividends that will result in the institution failing to meet applicable capital requirements on a pro forma basis. The Bank is also subject to dividend declaration restrictions imposed by New York State law as previously discussed under “New York State Law.”

*Investment Activities.* Since the enactment of FDICIA, all state-chartered financial institutions, including commercial banks and their subsidiaries, have generally been limited to such activities as principal and equity investments of the type, and in the amount, authorized for national banks. State law, FDICIA, and FDIC regulations permit certain exceptions to these limitations. In addition, the FDIC is authorized to permit institutions to engage in state-authorized activities or investments not permitted for national banks (other than non-subsiary equity investments) for institutions that meet all applicable capital requirements if it is determined that such activities or investments do not pose a significant risk to the insurance fund. The Gramm-Leach-Bliley Act of 1999 and FDIC regulations impose certain quantitative and qualitative restrictions on such activities and on a bank’s dealings with a subsidiary that engages in specified activities.

*Prompt Corrective Regulatory Action.* Federal law requires, among other things, that federal bank regulatory authorities take “prompt corrective action” with respect to institutions that do not meet minimum capital requirements. For such purposes, the law establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The FDIC has adopted regulations to implement prompt corrective action. Among other things, the regulations define the relevant capital measures for the five capital categories. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a common equity Tier 1 risk-based capital ratio of 6.5% and a leverage capital ratio of 5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. An institution is deemed to be “adequately capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a common equity Tier 1 risk-based capital ratio of 4.5% or greater and a leverage capital ratio of 4% or greater. An institution is deemed to be “undercapitalized” if it has a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 6%, a common equity Tier 1 risk-based capital ratio of less than 4.5% or a leverage capital ratio of less than 4%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 4% a common equity Tier 1 risk-based capital ratio of less than 3.0%, or a leverage capital ratio of less than 3%. An institution is deemed to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%.

“*Undercapitalized*” institutions are subject to growth, capital distribution (including dividend), and other limitations, and are required to submit a capital restoration plan. An institution’s compliance with such plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the bank’s total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an undercapitalized institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” Significantly undercapitalized institutions are subject to one or more additional restrictions including, but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized; requirements to reduce total assets, cease receipt of deposits from correspondent banks, or dismiss directors or officers; and restrictions on interest rates paid on deposits, compensation of executive officers, and capital distributions by the parent holding company.

Beginning 60 days after becoming “critically undercapitalized,” critically undercapitalized institutions also may not make any payment of principal or interest on certain subordinated debt, or extend credit for a highly leveraged transaction, or enter into any material transaction outside the ordinary course of business. In addition, subject to a narrow exception, the appointment of a receiver is required for a critically undercapitalized institution within 270 days after it obtains such status.

*Insurance of Deposit Accounts.* The deposits of the Bank are insured up to applicable limits by the DIF. Under the FDIC’s risk-based assessment system, insured institutions are assigned to one of four risk categories based upon supervisory evaluations, regulatory capital level, and certain other factors, with less risky institutions paying lower assessments. An institution’s assessment rate depends upon the category to which it is assigned and certain other factors. Historically, assessment rates ranged from seven to 77.5 basis points of each institution’s deposit assessment

base. On February 7, 2011, as required by the Dodd-Frank Act, the FDIC published a final rule to revise the deposit insurance assessment system. The rule, which took effect April 1, 2011, changed the assessment base used for calculating deposit insurance assessments from deposits to total assets less tangible (Tier 1) capital. Since the new base is larger than the previous base, the FDIC also lowered assessment rates so that the rule would not significantly alter the total amount of revenue collected from the industry. On September 30, 2009, the FDIC collected, from all insured institutions, a special emergency assessment of five basis points of total assets minus Tier 1 capital (capped at ten basis points of an institution's deposit assessment base as of June 30, 2009), in order to cover losses to the DIF. The FDIC considered the need for similar special assessments during the final two quarters of 2009. However, in lieu of further special assessments, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The Bank prepaid a total of \$16.9 million in risk-based assessments.

Due to the decline in economic conditions, the deposit insurance provided by the FDIC per account owner was raised to \$250,000 for all types of accounts. That change, initially intended to be temporary, was made permanent by the Dodd-Frank Act. In addition, the FDIC adopted an optional Temporary Liquidity Guarantee Program ("TLGP") under which, for a fee, non-interest-bearing transaction accounts would receive unlimited insurance coverage until December 31, 2009 (later extended to December 31, 2010), and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and June 30, 2009 (later extended to October 31, 2009) would be guaranteed by the FDIC through June 30, 2012 or, in certain cases, until December 31, 2012. The Dodd-Frank Act provided for continued unlimited coverage for certain non-interest-bearing transaction accounts until December 31, 2012.

The Dodd-Frank Act increased the minimum target DIF ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, leaving it, instead, to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a long range fund ratio of 2%, which could result in our paying higher deposit insurance premiums in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC. Management does not know of any practice, condition, or violation that would lead to termination of the deposit insurance of the Bank.

On September 30, 1996, as part of an omnibus appropriations bill, the Deposit Insurance Funds Act of 1996 (the “Funds Act”) was enacted. The Funds Act required Bank Insurance Fund (“BIF”) institutions, including the Savings Bank, beginning January 1, 1997, to pay a portion of the interest due on the Finance Corporation (“FICO”) bonds issued in connection with the savings and loan association crisis in the late 1980s, and required BIF institutions to pay their full pro rata share of the FICO payments starting the earlier of January 1, 2000 or the date at which no savings institution continues to exist. We were required, as of January 1, 2000, to pay our full pro rata share of the FICO payments. The FICO assessment rate is subject to change. The Bank paid \$278,000, \$267,000 and \$269,000 for their share of the interest due on FICO bonds in 2015, 2014 and 2013, respectively, which is included in FDIC insurance expense.

*Brokered Deposits.* The FDIC has promulgated regulations implementing the FDICIA limitations on brokered deposits. Under the regulations, well-capitalized institutions are not subject to brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to restrictions on the interest rate that can be paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits and may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution’s normal market area or in the market area in which such deposits are being solicited. Pursuant to the regulation, the Bank, as a well-capitalized institution, may accept brokered deposits. At December 31, 2015, the Bank had \$982.8 million in brokered deposit accounts.

### **Transactions with Affiliates**

Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and the FRB’s Regulation W promulgated thereunder. An affiliate of a commercial bank is any company or entity that controls, is controlled by, or is under common control with, the institution, other than a subsidiary. Generally, an institution’s subsidiaries are not treated as affiliates unless they are engaged in activities as principal that are not permissible for national banks. In a holding company context, at a minimum, the parent holding company of an institution, and any companies that are controlled by such parent holding company, are affiliates of the institution. Generally, Section 23A limits the extent to which the institution or its

subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of the institution’s capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. The term “covered transaction” includes the making of loans or other extensions of credit to an affiliate; the purchase of assets from an affiliate; the purchase of, or an investment in, the securities of an affiliate; the acceptance of securities of an affiliate as collateral for a loan or extension of credit to any person; or issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees or acceptances on letters of credit issued on behalf of, an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same as, or at least as favorable to, the institution or its subsidiary as similar transactions with non-affiliates.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption for loans by an institution to its executive officers and directors in compliance with federal banking laws. Section 22(h) of the Federal Reserve Act, and FRB Regulation O adopted thereunder, governs loans by a savings bank or commercial bank to directors, executive officers, and principal shareholders. Under Section 22(h), loans to directors, executive officers, and shareholders who control, directly or indirectly, 10% or more of voting securities of an institution, and certain related interests of any of the foregoing, may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution’s total capital and surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and shareholders who control 10% or more of the voting securities of an institution, and its respective related interests, unless such loan is approved in advance by a majority of the board of the institution’s directors. Any “interested” director may not participate in the voting. The loan amount (which includes all other outstanding loans to such person) as to which such prior board of director approval is required, is the greater of \$25,000 or 5% of capital and surplus or any loans aggregating over \$500,000. Further, pursuant to Section 22(h), loans to directors, executive officers, and principal shareholders must be made on terms substantially the same as those offered in comparable transactions to other persons. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to executive officers over other employees. Section 22(g) of the Federal Reserve Act places additional limitations on loans to executive officers.

## **Community Reinvestment Act**

*Federal Regulation.* Under the Community Reinvestment Act (“CRA”), as implemented by FDIC regulations, an institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations, to assess the institution’s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires public disclosure of an institution’s CRA rating and further requires the FDIC to provide a written evaluation of an institution’s CRA performance utilizing a four-tiered descriptive rating system. The Bank received a CRA rating of “Satisfactory” in its most recent completed CRA examination, which was completed as of April 16, 2015. Institutions that receive less than a satisfactory rating may face difficulties in securing approval for new activities or acquisitions. The CRA requires all institutions to make public disclosures of their CRA ratings. As a special purpose commercial bank, the Commercial Bank was not required to comply with the CRA prior to the Merger. Since the Merger, the Bank is required to comply with CRA.

*New York State Regulation.* The Bank is also subject to provisions of the New York State Banking Law that impose continuing and affirmative obligations upon a banking institution organized in New York State to serve the credit needs of its local community (the “NYCRA”). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the NYDFS to make a periodic written assessment of an institution’s compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases, and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application.

## **Federal Reserve System**

Under FRB regulations, the Bank is required to maintain reserves against its transaction accounts. The FRB regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$103.6 million or less (subject to adjustment by the FRB), the reserve requirement is 3%; for amounts greater than \$103.6 million, the reserve requirement is 10% (subject to adjustment by the FRB between 8% and 14%). The first \$14.5 million of otherwise reservable balances (subject to adjustments by the FRB) are exempted from the reserve requirements. The Bank is in compliance with the foregoing requirements.

## **Federal Home Loan Bank System**

The Bank is a member of the FHLB-NY, one of 11 regional FHLBs comprising the FHLB system. Each regional FHLB manages its customer relationships, while the 11 FHLBs use its combined size and strength to obtain its necessary funding at the lowest possible cost. As a member of the FHLB-NY, the Bank is required to acquire and hold shares of FHLB-NY capital stock. Pursuant to this requirement, at December 31, 2015, the Bank was required to maintain \$56.1 million of FHLB-NY stock.



## **Holding Company Regulation**

Subsequent to the Merger, the Company is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended (the “BHCA”), as administered by the FRB. The Company is required to obtain the prior approval of the FRB to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior FRB approval would be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company. In addition before any bank acquisition can be completed, prior approval thereof may also be required to be obtained from other agencies having supervisory jurisdiction over the bank to be acquired, including the NYDFS.

FRB regulations generally prohibit a bank holding company from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the FRB to be so closely related to banking or managing or controlling Bank as to be a proper incident thereto. Some of the principal activities that the FRB has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment, or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association.

The FRB has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis). At December 31, 2015, the Company’s consolidated Total and Tier 1 capital exceeded these requirements. The Dodd-Frank Act required the FRB to issue consolidated regulatory capital requirements for bank holding companies that are at least as stringent as those applicable to insured depository institutions. Such regulations eliminated the use of certain instruments, such as cumulative preferred stock and trust preferred securities, as Tier 1 holding company capital.

Bank holding companies are generally required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of the Company’s consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice, or would violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. The FRB has adopted an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The FRB has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the FRB’s policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization’s capital needs, asset quality, and overall financial condition. The FRB’s policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity, and by maintaining the financial flexibility and

capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codifies the source of financial strength policy and requires regulations to facilitate its application. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

Under the FDI Act, a depository institution may be liable to the FDIC for losses caused the DIF if a commonly controlled depository institution were to fail. The Bank is commonly controlled within the meaning of that law.

The status of the Company as a registered bank holding company under the BHCA does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

The Company, the Bank, and their respective affiliates will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is difficult for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of the Company or the Bank.

### **Acquisition of the Holding Company**

Under the Federal Change in Bank Control Act (“CIBCA”), a notice must be submitted to the FRB if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company’s shares of outstanding common stock, unless the FRB has found that the acquisition will not result in a change in control of the Company. Under the CIBCA, the FRB generally has 60 days within which to act on such notices, taking into consideration certain factors, including the financial and managerial resources of the acquirer; the convenience and needs of the communities served by the Company and the Bank; and the anti-trust effects of the acquisition. Under the BHCA, any company would be required to obtain approval from the FRB before it may obtain “control” of the Company within the meaning of the BHCA. Control generally is defined to mean the ownership or power to vote 25% or more of any class of voting securities of the Company or the ability to control in any manner the election of a majority of the Company’s directors. An existing bank holding company would, under the BHCA, be required to obtain the FRB’s approval before acquiring more than 5% of the Company’s voting stock. In addition to the CIBCA and the BHCA, New York State Banking Law generally requires prior approval of the New York State Banking Board before any action is taken that causes any company to acquire direct or indirect control of a banking institution that is organized in New York.

### **Federal Securities Law**

The Company’s common stock and (associated preferred stock purchase rights) listed on the cover page of this report are registered with the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company is subject to the information and reporting requirements, regulations governing proxy solicitations, insider trading restrictions, and other requirements under the Exchange Act.

### **Consumer Financial Protection Bureau**

Created under the Dodd-Frank Act, and given extensive implementation and enforcement powers, the CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit “unfair, deceptive, or abusive” acts and practices. Abusive acts or practices are defined as those that (1) materially interfere with a consumer’s ability to understand a term or condition of a consumer financial product or service, or (2) take unreasonable advantage of a consumer’s (a) lack of financial savvy, (b) inability to protect himself in the selection or use of consumer financial products or services, or (c) reasonable reliance on a covered entity to act in the consumer’s interests. The CFPB has the authority to investigate possible violations of federal consumer financial law, hold hearings and commence civil litigation. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or an injunction.

## **Mortgage Banking and Related Consumer Protection Regulations**

The retail activities of the Bank, including lending and the acceptance of deposits, are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws applicable to credit transactions, such as:

- The federal Truth-In-Lending Act and Regulation Z issued by the FRB, governing disclosures of credit terms to consumer borrowers;
- The Home Mortgage Disclosure Act and Regulation C issued by the FRB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act and Regulation B issued by the FRB, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- The Fair Credit Reporting Act and Regulation V issued by the FRB, governing the use and provision of information to consumer reporting agencies;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- The guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit operations also are subject to:

- The Truth in Savings Act and Regulation DD issued by the FRB, which requires disclosure of deposit terms to consumers;
- Regulation CC issued by the FRB, which relates to the availability of deposit funds to consumers;
- The Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- The Electronic Funds Transfer Act and Regulation E issued by the FRB, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

In addition, the Bank and its subsidiaries may also be subject to certain state laws and regulations designed to protect consumers.

Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations. In addition, oversight responsibilities of these and other consumer protection laws and regulations will, in large measure, transfer from the Bank's primary regulators to the CFPB. We cannot predict the effect that being regulated by a new, additional regulatory authority focused on consumer financial protection, or any new implementing regulations or revisions to existing regulations that may result from the establishment of this new authority, will have on our businesses.

#### Available Information

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the SEC. We make available free of charge on or through our web site at [www.flushingbank.com](http://www.flushingbank.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC filings are also available to the public free of charge over the Internet at the SEC's web site at <http://www.sec.gov>.

You may also read and copy any document we file at the SEC's public reference room located at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information about the operation of the public reference room by calling the SEC at 1-800-SEC-0330. You may request copies of these documents by writing to the SEC and paying a fee for the copying cost.

#### **Item 1A. Risk Factors.**

In addition to the other information contained in this Annual Report, the following factors and other considerations should be considered carefully in evaluating us and our business.

#### Changes in Interest Rates, Including the Potential for Negative Interest Rates, May Significantly Impact Our Financial Condition and Results of Operations

Like most financial institutions, our results of operations depend to a large degree on our net interest income. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets, a significant increase in market interest rates could adversely affect net interest income. Conversely, a significant decrease in market interest rates could result in increased net interest income. As a general matter, we seek to manage our business to limit our overall exposure to interest rate fluctuations. However, fluctuations in market interest rates are neither predictable nor controllable and may have a material adverse impact on our operations and financial condition. Additionally, in a rising interest rate environment, a borrower's ability to repay adjustable rate mortgages can be negatively affected as payments increase at repricing dates.

Prevailing interest rates also affect the extent to which borrowers repay and refinance loans. In a declining interest rate environment, the number of loan prepayments and loan refinancing may increase, as well as prepayments of mortgage-backed securities. Call provisions associated with our investment in U.S. government agency and corporate securities may also adversely affect yield in a declining interest rate environment. Such prepayments and calls may adversely affect the yield of our loan portfolio and mortgage-backed and other securities as we reinvest the prepaid funds in a lower interest rate environment. However, we typically receive additional loan fees when existing loans are refinanced, which partially offset the reduced yield on our loan portfolio resulting from prepayments. In periods of low interest rates, our level of core deposits also may decline if depositors seek higher-yielding instruments or other investments not offered by us, which in turn may increase our cost of funds and decrease our net interest margin to the extent alternative funding sources are utilized. An increasing interest rate environment would tend to extend the average lives of lower yielding fixed rate mortgages and mortgage-backed securities, which could adversely affect net interest income. In addition, depositors tend to open longer term, higher costing certificate of deposit accounts which could adversely affect our net interest income if rates were to subsequently decline. Additionally, adjustable rate mortgage loans and mortgage-backed securities generally contain interim and lifetime caps that limit the amount the interest rate can increase or decrease at repricing dates. Significant increases in prevailing interest rates may significantly affect demand for loans and the value of bank collateral. The chair of the Federal Reserve Bank has not eliminated the possibility of the Federal Reserve going to negative interest rates. Since the United States has never experienced such a market place, the full impact on the Company and the Bank are not quantifiable. However, we believe that depositors would move their funds to entities where there would be no charge for holding deposits which may increase the amount of wholesale funding the Company needs. We believe there would be no immediate effect if the interest rates become negative on the assets on the books, the challenge would be in reinvesting the funds given the economic conditions resulting in downward pressure on the margin. Furthermore, information technology systems may need to be re-programmed to allow for negative deposit interest rates. See “— Local Economic Conditions.”

## Our Lending Activities Involve Risks that May Be Exacerbated Depending on the Mix of Loan Types

At December 31, 2015, our gross loan portfolio was \$4,372.6 million, of which 87.7% was mortgage loans secured by real estate. The majority of these real estate loans were secured by multi-family residential property (\$2,055.2 million), commercial real estate (\$1,001.2 million) and one-to-four family mixed-use property (\$573.0 million), which combined represent 83.0% of our loan portfolio. Our loan portfolio is concentrated in the New York City metropolitan area. Multi-family residential, one-to-four family mixed-use property, commercial real estate mortgage loans, and construction loans, are generally viewed as exposing the lender to a greater risk of loss than fully underwritten one-to-four family residential mortgage loans and typically involve higher principal amounts per loan. Multi-family residential, one-to-four family mixed-use property and commercial real estate mortgage loans are typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. We attempt to mitigate this risk by generally requiring a loan-to-value ratio of no more than 75% at a time the loan is originated, except for one-to-four family residential mortgage loans, where we require a loan-to value ratio of no more than 80%. Repayment of construction loans is contingent upon the successful completion and operation of the project. The repayment of commercial business loans (the increased origination of which is part of management's strategy), is contingent on the successful operation of the related business. Changes in local economic conditions and government regulations, which are outside the control of the borrower or lender, also could affect the value of the security for the loan or the future cash flow of the affected properties. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio.

In addition, prior to 2010, we have originated one-to-four family residential mortgage loans without verifying the borrower's level of income. These loans involve a higher degree of risk as compared to our other fully underwritten one-to-four family residential mortgage loans. These risks are mitigated by our policy to generally limit the amount of one-to-four family residential mortgage loans to 80% of the appraised value or sale price, whichever is less, as well as charging a higher interest rate than when the borrower's income is verified. At December 31, 2015, we had \$9.9 million outstanding of one-to-four family residential properties originated to individuals based on stated income and verifiable assets, and \$41.4 million advanced on home equity lines of credit for which we did not verify the borrowers income. The total loans for which we did not verify the borrower's income at December 31, 2015 was \$51.3 million, or 1.2% of gross loans. These types of loans are generally referred to as "Alt A" loans since the borrower's income was not verified. These loans are not as readily saleable in the secondary market as our other fully underwritten loans, either as whole loans or when pooled or securitized. We no longer originate one-to-four family residential mortgage loans or home equity lines of credit to individuals without verifying their income. We have not originated, nor do we hold in portfolio, any subprime loans.

Even in stable economic times, higher default rates may be expected for Alt A and similar loans. Although we attempted to incorporate the higher default rates associated with these loans into our pricing models, there can be no assurance that the premiums earned and the associated investment income will prove adequate to compensate for future losses from these loans. Worsening economic conditions, rising unemployment rates and/or other regional real estate price declines could even more significantly increase the default risks associated with these loans. In addition, these same negative economic and market conditions could also significantly increase the default risk on loans for which we did not assume higher default and claim rates.

In assessing our future earnings prospects, investors should consider, among other things, our level of origination of one-to-four family residential, multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans, and commercial business and construction loans, and the greater risks associated with such loans. See “Business — Lending Activities” in Item 1 of this Annual Report.



## **Failure to Effectively Manage Our Liquidity Could Significantly Impact Our Financial Condition and Results of Operations**

Our liquidity is critical to our ability to operate our business. Our primary sources of liquidity are deposits, both retail deposits from our branch network including our internet branch and brokered deposits, and borrowed funds, primarily wholesale borrowing from the FHLB-NY and repurchase agreements from both the FHLB-NY and commercial banks. Funds are also provided by the repayment and sale of securities and loans. Our ability to obtain funds are influenced by many external factors, including but not limited to, local and national economic conditions, the direction of interest rates and competition for deposits in the markets we serve. Additionally, changes in the FHLB-NY underwriting guidelines may limit or restrict our ability to borrow. A decline in available funding caused by any of the above factors or could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill our obligations such as repaying our borrowings or meeting deposit withdrawal demands.

### **Our Ability to Obtain Brokered Deposits as an Additional Funding Source Could be Limited**

We utilize brokered deposits as an additional funding source and to assist in the management of our interest rate risk. The Bank had \$982.8 million, or 25.2% of total deposits, and \$763.9 million, or 21.8% of total deposits, in brokered deposit accounts at December 31, 2015 and 2014, respectively. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered certificates of deposit provide a large deposit for us at a lower operating cost as compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. Unlike non-brokered certificates of deposit where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death or court declared mental incompetence of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. We also utilize brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is the same or below the rate we pay on non-brokered money market accounts, and the rate is agreed to in a contract between the Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor. Additionally, we place a portion of our government deposits in an ICS brokered money market product which does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. The Bank had \$339.8 million and \$180.2 million in brokered money market accounts at December 31, 2015 and 2014, respectively. The Bank also had \$17.8 million in brokered checking accounts at December 31, 2015.

The FDIC has promulgated regulations implementing limitations on brokered deposits. Under the regulations, well-capitalized institutions, such as the Bank, are not subject to brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to restrictions on the interest rate that can be paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. Pursuant to the regulation, the Bank, as a well-capitalized institution, may

accept brokered deposits. Should our capital ratios decline, this could limit our ability to replace brokered deposits when they mature.

The maturity of brokered certificates of deposit could result in a significant funding source maturing at one time. Should this occur, it might be difficult to replace the maturing certificates with new brokered certificates of deposit. We have used brokers to obtain these deposits which results in depositors with whom we have no other relationships since these depositors are outside of our market, and there may not be a sufficient source of new brokered certificates of deposit at the time of maturity. In addition, upon maturity, brokers could require us to offer some of the highest interest rates in the country to retain these deposits, which would negatively impact our earnings. The Bank mitigates this risk by obtaining brokered certificates of deposit with various maturities ranging up to six years, and attempts to avoid having a significant amount maturing in any one year.

### **The Markets in Which We Operate Are Highly Competitive**

We face intense and increasing competition both in making loans and in attracting deposits. Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence than us, and all of which are our competitors to varying degrees. Particularly intense competition exists for deposits and in all of the lending activities we emphasize. Our competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage banking companies, insurance companies, finance companies and credit unions. Management anticipates that competition for mortgage loans will continue to increase in the future. Our most direct competition for deposits historically has come from savings banks, commercial banks, savings and loan associations and credit unions. In addition, we face competition for deposits from products offered by brokerage firms, insurance companies and other financial intermediaries, such as money market and other mutual funds and annuities. Consolidation in the banking industry and the lifting of interstate banking and branching restrictions have made it more difficult for smaller, community-oriented banks, such as us, to compete effectively with large, national, regional and super-regional banking institutions. We launched an internet branch, “iGObanking.com®” a division of the Bank, to provide us with access to consumers in markets outside our geographic locations. The internet banking arena also has many larger financial institutions which have greater financial resources, name recognition and market presence than we do.

Notwithstanding the intense competition, we have been successful in increasing our loan portfolios and deposit base. However, no assurances can be given that we will be able to continue to increase our loan portfolios and deposit base, as contemplated by management's current business strategy.

### **Our Results of Operations May Be Adversely Affected by Changes in National and/or Local Economic Conditions**

Our operating results are affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. The national and our local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This resulted in increased unemployment and declining property values, although the property value declines in the New York City metropolitan area have not been as great as many other areas of the country. While the national and local economies showed signs of improvement since the middle of 2010, improvements in unemployment have lagged until recently when the unemployment rate decreased to 5.0% at December 2015 from 6.2% at December 2014, for the New York City region, according to the New York State Department of Labor. The housing market in the United States continued to see a significant slowdown during 2009, and foreclosures of single family homes rose to levels not seen in the prior five years. The downturn in the housing market has slowed. These economic conditions can result in borrowers defaulting on their loans, or withdrawing their funds on deposit at the Bank to meet their financial obligations. While we have seen an increase in deposits, we have also seen a significant increase in delinquent loans, resulting in an increase in our provision for loan losses, although we have seen improvements in 2014 and 2015. This increase in delinquent loans primarily consists of mortgage loans collateralized by residential income producing properties that are located in the New York City metropolitan market. Given New York City's low vacancy rates, the properties have retained their value and have provided us with low loss content in our non-performing loans. We cannot predict the effect of these economic conditions on our financial condition or operating results.

A decline in the local or national economy or the New York City metropolitan area real estate market could adversely affect our financial condition and results of operations, including through decreased demand for loans or increased competition for good loans, increased non-performing loans and loan losses and resulting additional provisions for loan losses and for losses on real estate owned. Although management believes that the current allowance for loan losses is adequate in light of current economic conditions, many factors could require additions to the allowance for loan losses in future periods above those currently maintained. These factors include: (1) adverse changes in economic conditions and changes in interest rates that may affect the ability of borrowers to make payments on loans, (2) changes in the financial capacity of individual borrowers, (3) changes in the local real estate market and the value of our loan collateral, and (4) future review and evaluation of our loan portfolio, internally or by regulators. The amount of the allowance for loan losses at any time represents good faith estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions, prevailing interest rates and other factors. See "Business — General — Allowance for Loan Losses" in Item 1 of this Annual Report.

These same factors have caused delinquencies to increase for the mortgages which are the collateral for the mortgage-backed securities we hold in our investment portfolio. Combining the increased delinquencies with liquidity problems in the market has resulted in a decline in the market value of our investments in privately issued

mortgage-backed securities. There can be no assurance that the decline in the market value of these investments will not result in an other-than-temporary impairment charge being recorded in our financial statements.”

#### Changes in Laws and Regulations Could Adversely Affect Our Business

From time to time, legislation, such as the Dodd-Frank Act, is enacted or regulations are promulgated that have the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks and other financial institutions are frequently made in Congress, in the New York legislature and before various bank regulatory agencies. No prediction can be made as to the likelihood of any major changes (in addition to the Dodd-Frank Act) or the impact such changes might have on us. For a discussion of regulations affecting us, see “Business —Regulation” and “Business—Federal, State and Local Taxation” in Item 1 of this Annual Report.

There can be no assurance as to the actual impact that any laws, regulations or governmental programs that may be introduced or implemented in the future will have on the financial markets and the economy. A continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, and access to credit or the trading price of our securities.

#### Current Conditions in, and Regulation of, the Banking Industry May Have a Material Adverse Effect on Our Results of Operations

Financial institutions have been the subject of significant legislative and regulatory changes and may be the subject of further significant legislation or regulation in the future, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations, including those with respect to federal and state taxation, may cause our results of operations to differ materially. In addition, the cost and burden of compliance, over time, have significantly increased and could adversely affect our ability to operate profitably.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. There are many provisions of the Dodd-Frank Act which will be implemented through regulations to be adopted within specified time frames following the effective date of the Dodd-Frank Act, which creates a risk of uncertainty as to the effect that such provisions will ultimately have. The full impact of the changes in regulation will depend on new regulations that have yet to be written. The new regulations could have a material adverse effect on our business, financial condition or results of operations. Although it is not possible for us to determine at this time whether the Dodd-Frank Act will have a material adverse effect on our business, financial condition or results of operations, we believe the following provisions of the Dodd-Frank Act will have an impact on us:

*New Primary Regulatory.* On July 21, 2011, the OTS, our then primary federal regulator, was eliminated and the OCC took over the regulation of all federal savings banks, such as the Savings Bank. The Federal Reserve acquired the OTS's authority over all savings and loan holding companies, such as the Bank's holding company, and became the supervisor of all subsidiaries of savings and loan holding companies other than depository institutions. As a result, we became subject to regulation, supervision and examination by two federal banking agencies, the OCC and the Federal Reserve, rather than just by the OTS, as was previously the case. The OCC was replaced by the FDIC as the Bank's federal regulator as a result of the Merger and the Savings Bank's conversion from thrift to a bank. The Dodd-Frank Act also provided for the creation of the Consumer Financial Protection Bureau (the "CFPB"). The CFPB has the authority to implement and enforce a variety of existing consumer protection statutes and to issue new regulations. As a new independent bureau within the FRB, it is possible that the CFPB will focus more attention on consumers and may impose requirements more severe than the previous bank regulatory agencies.

*Consolidated Holding Company Capital Requirements.* The Dodd-Frank Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and systemically important nonbank financial companies. These requirements must be no less than those to which insured depository institutions are currently subject, and the new requirements will effectively eliminate the use of newly-issued trust preferred securities as a component of Tier 1 Capital for depository

institution holding companies of our size. As a result, no later than the fifth anniversary of the effective date of the Dodd-Frank Act, we will become subject to consolidated capital requirements to which we have not previously been subject. Effective February 28, 2013, as a result of the Merger, Flushing Financial Corporation became a bank holding company and it became subject to consolidated capital requirements.

*Roll Back of Federal Preemption.* The Dodd-Frank Act significantly rolls back the federal preemption of state consumer protection laws that federal savings associations and national banks currently enjoy by (1) permitting federal preemption of a state consumer financial law only if such law prevents or significantly interferes with the exercise of a federal savings association's or national bank's powers or such state law is preempted by another federal law, (2) mandating that any preemption decision be made on a case by case basis rather than a blanket rule, and (3) ending the applicability of preemption to subsidiaries and affiliates of national banks and federal savings associations. As a result, we may now be subject to state laws in each state where we do business, and those laws may be interpreted and enforced differently in different states.

The Dodd-Frank Act also includes provisions, subject to further rulemaking by the federal bank regulatory agencies, that may affect our future operations, including provisions that create minimum standards for the origination of mortgages, restrict proprietary trading by banking entities, restrict the sponsorship of and investment in hedge funds and private equity funds by banking entities that remove certain obstacles to the conversion of savings associations to national banks. We will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

#### Certain Anti-Takeover Provisions May Increase the Costs to or Discourage an Acquirer

On September 5, 2006, the Board of Directors renewed our Stockholder Rights Plan (the “Rights Plan”). The Rights Plan was designed to preserve long-term values and protect stockholders against inadequate offers and other unfair tactics to acquire control of us. Under the Rights Plan, each stockholder of record at the close of business on September 30, 2006 received a dividend distribution of one right to purchase from the Company one one-hundredth of a share of Series A junior participating preferred stock at a price of \$65. The rights will become exercisable only if a person or group acquires 15% or more of our common stock or commences a tender or exchange offer which, if consummated, would result in that person or group owning at least 15% of the Common Stock (the “acquiring person or group”). In such case, all stockholders other than the acquiring person or group will be entitled to purchase, by paying the \$65 exercise price, Common Stock (or a common stock equivalent) with a value of twice the exercise price. In addition, at any time after such event, and prior to the acquisition by any person or group of 50% or more of the Common Stock, the Board of Directors may, at its option, require each outstanding right (other than rights held by the acquiring person or group) to be exchanged for one share of Common Stock (or one common stock equivalent). If a person or group becomes an acquiring person and we are acquired in a merger or other business combination or sell more than 50% of our assets or earning power, each right will entitle all other holders to purchase, by payment of \$65 exercise price, common stock of the acquiring company with a value of twice the exercise price. The Rights Plan expires on September 30, 2016.

The Rights Plan, as well as certain provisions of our certificate of incorporation and bylaws, the Bank’s charter and bylaws, certain federal regulations and provisions of Delaware corporation law, and certain provisions of remuneration plans and agreements applicable to employees and officers of the Bank may have anti-takeover effects by discouraging potential proxy contests and other takeover attempts, particularly those which have not been negotiated with the Board of Directors. The Rights Plan and those other provisions, as well as applicable regulatory restrictions, may also prevent or inhibit the acquisition of a controlling position in the Common Stock and may prevent or inhibit takeover attempts that certain stockholders may deem to be in their or other stockholders’ interest or in our interest, or in which stockholders may receive a substantial premium for their shares over then current market prices. The Rights Plan and those other provisions may also increase the cost of, and thus discourage, any such future acquisition or attempted acquisition, and would render the removal of the current Board of Directors or management of the Company more difficult.

The FDIC’s Adopted Restoration Plan and the Related Increased Assessment Rate Schedule May Have a Material Effect on Our Results of Operations

On October 19, 2010, the FDIC Board adopted a new restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act, rather than 1.15% by the end of 2016 (as required under the prior restoration plan). Among other things, the new restoration plan provides that the FDIC will forego the uniform three basis point increases in initial assessment rates that was previously scheduled to take effect on January 1, 2011 and maintains the current assessment rate schedule. The FDIC intends to pursue further rulemaking regarding the requirement under the Dodd-Frank Act that the FDIC offset the effect on institutions with less than \$10 billion in assets (such as us) of the requirement that the reserve ratio reach 1.35% by September 30, 2020, so that more of the cost of raising the reserve ratio to 1.35% will be borne by institutions with more than \$10 billion in assets. In this connection, the FDIC Board approved a rule that implemented a provision in the Dodd-Frank Act that changes the assessment base from one based on domestic deposits (as it has been since 1935) to one based on total average assets less Tier 1 Capital (as defined for regulatory purposes). The FDIC also lowered assessment rates. Effective April 1, 2011, the new assessment base is based on assets rather than domestic deposits which is a much larger assessment base than in the past. The range of the base assessment rates is 2.5 to 45 basis points, whereas the prior range was 7 to 77.5 basis points. In addition, the FDIC Board approved setting the designated DIF reserve ratio at 2% as a long-term, minimum goal, adopt a lower assessment rate schedule when the reserve ratio reaches 1.15% and, in lieu of FDIC dividends, adopt progressively lower assessment rate schedules when the reserve ratio reaches 2% and 2.5%. Another rule approved by the FDIC Board, which replaces a proposed rule approved by the FDIC on April 13, 2010, would revise the deposit insurance assessment system for insured depository institutions with over \$10 billion in assets. This rule is not directly applicable to us.



There is no guarantee that the rules described above be sufficient for the DIF to meet its funding requirements, which may necessitate further rulemaking, special assessments or increases in deposit insurance premiums. Any such future rulemaking, assessments or increases could have a further material impact on our results of operations.

**A Failure in or Breach of Our Operational or Security Systems or Infrastructure, or Those of Our Third Party Vendors and Other Service Providers, Including as a Result of Cyber Attacks, Could Disrupt Our Business, Result in the Disclosure or Misuse of Confidential or Proprietary Information, Damage Our Reputation, Increase Our Costs and Cause Losses.**

We depend upon our ability to process, record and monitor our client transactions on a continuous basis. As client, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities, may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber-attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and clients.

Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our business relies on our digital technologies, computer and email systems, software and networks to conduct its operations. In addition, to access our products and services, our clients may use personal smartphones, tablet PC's, personal computers and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks and our clients' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations.

Third parties with whom we do business or that facilitate our business activities, including financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these

matters remains heightened because of the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or cyber-attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs and/or additional compliance costs, any of which could materially and adversely affect our financial condition or results of operations.

### **We May Experience Increased Delays in Foreclosure Proceedings**

Foreclosure proceedings face increasing delays. While we cannot predict the ultimate impact of any delay in foreclosure sales, we may be subject to additional borrower and non-borrower litigation and governmental and regulatory scrutiny related to our past and current foreclosure activities. Delays in foreclosure sales, including any delays beyond those currently anticipated could increase the costs associated with our mortgage operations and make it more difficult for us to prevent losses in our loan portfolio.

### **We May Need to Recognize Other-Than-Temporary Impairment Charges in the Future**

We conduct a periodic review and evaluation of the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which we consider in our analysis include, but are not limited to, the severity and duration of the decline in fair value of the security, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, our intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value and the likelihood of any near-term fair value recovery. We generally view changes in fair value caused by changes in interest rates as temporary. However, we have recorded other-than-temporary impairment charges on some securities in our portfolio. If we deem such decline to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income.

We continue to monitor the fair value of our securities portfolio as part of our ongoing other-than-temporary impairment evaluation process. There can be no assurance that we will not need to recognize other-than-temporary impairment charges related to securities in the future.

### **The Current Economic Environment Poses Significant Challenges for us and Could Adversely Affect our Financial Condition and Results of Operations**

We are operating in a challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. While the national and local economies showed signs of improvement since the middle of 2010, unemployment has remained at elevated levels. The housing market in the United States continued to see a significant slowdown during 2009, and foreclosures of single family homes rose to levels not seen in the prior five years. The housing market has shown improvement since 2013, but has not returned to pre-recession levels. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we are taking steps to decrease and limit our exposure to residential mortgage loans, home equity loans and lines of credit, and construction and land loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events. Further declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment,

including job losses, could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. The overall deterioration in economic conditions has subjected us to increased regulatory scrutiny. In addition, further deterioration in national or local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: loan delinquencies, problem assets and foreclosures may increase; demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans. These same factors have caused delinquencies to increase for the mortgages which are the collateral for the mortgage-backed securities that we hold in our investment portfolio. Combining the increased delinquencies with liquidity problems in the market has resulted in a decline in the market value of our investments in mortgage-backed securities. There can be no assurance that the decline in the market value of these investments will not cause us to record an other-than-temporary impairment charge in our financial statements.

### **Our Inability to Hire or Retain Key Personnel Could Adversely Affect Our Business**

Our success depends, in large part, on our ability to retain and attract key personnel. We face intense competition from commercial banks, savings banks, savings and loan associations, mortgage banking companies, insurance companies, finance companies and credit unions. As a result, it could prove difficult to retain and attract key personnel. The inability to hire or retain key personnel may result in the loss of customer relationships and may adversely affect our financial condition or results of operations.

### **We Are Not Required to Pay Dividends on Our Common Stock**

Holders of shares of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

### **Goodwill Recorded as a Result of Acquisitions Could Become Impaired, Negatively Impacting Our Earnings and Capital**

Goodwill is presumed to have an indefinite life and is tested annually, or when certain conditions are met, for impairment. If the fair value of the reporting unit is greater than the goodwill amount, no further evaluation is required and no impairment is recorded. If the fair value of the reporting unit is less than the goodwill amount, further evaluation would be required to compare the fair value of the reporting unit to the goodwill amount and determine if a write down is required. Management views the Company as operating as a single unit - a community bank. At December 31, 2015, we had goodwill with a carrying amount of \$16.1 million. Declines in the fair value of the reporting unit may result in a future impairment charge. Any such impairment charge could have a material effect on our earnings and capital.

### **We May Not Fully Realize the Expected Benefit of Our Deferred Tax Assets**

At December 31, 2015, we had a deferred tax asset of \$32.5 million. This represents the anticipated federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. In order to use the future benefit of these deferred tax assets, we will need to report taxable income for federal, state and local tax purposes. Although we have reported taxable income for federal, state, and local tax purposes in each of the past three years, there can be no assurance that this will continue in the future.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

At December 31, 2015, the Bank conducted its business through 19 full-service offices and its internet branch, “iGObanking.com®”.

Flushing Financial Corporation neither owns nor leases any property but instead uses the premises and equipment of the Bank.

**Item 3. Legal Proceedings.**

We are involved in various legal actions arising in the ordinary course of our business which, in the aggregate, involve amounts which are believed by management to be immaterial to our financial condition, results of operations and cash flows.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Flushing Financial Corporation Common Stock is traded on the NASDAQ Global Select Market® under the symbol "FFIC." As of December 31, 2015, we had approximately 721 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. Our stock closed at \$21.64 on December 31, 2015. The following table shows the high and low sales price of the Common Stock and the dividends declared on the Common Stock during the periods indicated. Such prices do not necessarily reflect retail markups, markdowns, or commissions. (See Note 13 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report for dividend restrictions.)

	2015			2014		
	High	Low	Dividend	High	Low	Dividend
First Quarter	\$20.75	\$17.99	\$ 0.16	\$21.91	\$19.09	\$ 0.15
Second Quarter	22.00	18.77	0.16	21.75	18.83	0.15
Third Quarter	22.00	19.08	0.16	21.37	18.18	0.15
Fourth Quarter	23.07	19.01	0.16	20.84	17.70	0.15

The following table sets forth information regarding the shares of common stock repurchased by us during the quarter ended December 31, 2015:

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
October 1 to October 31, 2015	-	\$ -	-	899,600
November 1 to November 30, 2015	-	-	-	899,600
December 1 to December 31, 2015	-	-	-	899,600
Total	-	\$ -	-	

During the year ended December 31, 2015, the Company completed the common stock repurchase program that was approved by the Company's Board of Directors on August 19, 2014. On June 16, 2015, 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 years ended December 31, 2015 and 2014, the Company repurchased 735,599 shares and 914,671 shares, respectively, of the Company's common stock at an average cost of \$19.51 per share and \$19.29 per share, respectively. At December 31, 2015, 899,600 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.



The following table sets forth securities authorized for issuance under all equity compensation plans of the Company at December 31, 2015:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	109,130	\$ 16.14	787,180
Equity compensation plans not approved by security holders	-	-	-
	109,130	\$ 16.14	787,180

## Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder return on the Company's common stock since December 31, 2010 with the cumulative total returns of a broad equity market index as well as comparative published industry indices. The broad equity market index chosen was the Nasdaq Composite. The comparative published industry indices chosen were the SNL Bank \$5 Billion to \$10 Billion in Assets Index and the SNL Mid-Atlantic Bank Index. The SNL Mid-Atlantic Bank Index was chosen for inclusion in the Company's Stock Performance Graph because the Company believes it provides valuable comparative information reflecting the Company's geographic peer group. The SNL Bank \$5 Billion to \$10 Billion in Assets Index was chosen for inclusion in the Company's Stock Performance Graph because it uses a broader group of banks and therefore more closely reflects the Company's size. As a result of the Company's total assets exceeding \$5 billion, we replaced the SNL Bank \$1 Billion to \$5 Billion in Assets index with the SNL Bank \$5 Billion to \$10 Billion in Assets Index. The Company believes that both geographic area and size are important factors in analyzing the Company's performance against its peers. The graph below reflects historical performance only, which is not indicative of possible future performance of the common stock.

The total return assumes \$100 invested on December 31, 2010 and all dividends reinvested through the end of the Company's fiscal year ended December 31, 2015. The performance graph above is based upon closing prices on the trading date specified.

Index	Period Ending					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Flushing Financial Corporation	100.00	94.08	118.61	164.90	166.41	183.39
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Bank \$1 Billion to \$5 Billion	100.00	91.20	112.45	163.52	170.98	191.39
SNL Bank \$5 Billion to \$10 Billion	100.00	99.24	116.73	180.10	185.52	211.33
SNL Mid-Atlantic Bank	100.00	75.13	100.64	135.65	147.79	153.33

**Item 6. Selected Financial Data.**

At or for the years ended December 31,	2015	2014	2013	2012	2011	
	(Dollars in thousands, except per share data)					
<b>Selected Financial Condition Data</b>						
Total assets	\$5,704,634	\$5,077,013	\$4,721,501	\$4,451,416	\$4,287,949	
Loans, net	4,366,444	3,785,277	3,402,402	3,203,017	3,198,537	
Securities held to maturity	6,180	-	-	-	-	
Securities available for sale	993,397	973,310	1,017,790	949,566	812,530	
Deposits	3,892,547	3,508,598	3,232,780	3,015,193	3,146,245	
Borrowed funds	1,271,676	1,056,492	1,012,122	948,405	685,139	
Total stockholders' equity	473,067	456,247	432,532	442,365	416,911	
Book value per common share (1)	\$ 16.41	\$ 15.52	\$ 14.36	\$ 14.39	\$ 13.49	
<b>Selected Operating Data</b>						
Interest and dividend income	\$204,146	\$ 197,128	\$200,526	\$213,714	\$224,498	
Interest expense	49,726	54,741	54,863	63,275	76,723	
Net interest income	154,420	142,387	145,663	150,439	147,775	
Provision (benefit) for loan losses	(956 )	(6,021 )	13,935	21,000	21,500	
Net interest income after provision for loan losses	155,376	148,408	131,728	129,439	126,275	
Non-interest income:						
Net gains on sales of securities and loans	589	2,942	3,197	69	511	
Net gains on sales of building	6,537	-	-	-	-	
Other-than-temporary credit impairment charge on securities	-	-	(1,419 )	(776 )	(1,578 )	
Net (loss) gain from fair value adjustments	(1,841 )	(2,568 )	(2,521 )	55	1,960	
Other income	10,434	9,869	10,299	9,717	9,388	
Total non-interest income	15,719	10,243	9,556	9,065	10,281	
Non-interest expense	97,719	85,839	80,576	82,326	77,739	
Income before income tax provision	73,376	72,812	60,708	56,178	58,817	
Income tax provision	27,167	28,573	22,956	21,847	23,469	
Net income	\$46,209	\$44,239	\$37,752	\$34,331	\$35,348	
<b>Basic earnings per common share (2)</b>						
Basic earnings per common share (2)	\$ 1.59	\$ 1.49	\$ 1.26	\$ 1.13	\$ 1.15	
<b>Diluted earnings per common share (2)</b>						
Diluted earnings per common share (2)	\$ 1.59	\$ 1.48	\$ 1.26	\$ 1.13	\$ 1.15	
<b>Dividends declared per common share (2)</b>						
Dividends declared per common share (2)	\$0.64	\$0.60	\$0.52	\$0.52	\$0.52	
<b>Dividend payout ratio</b>						
Dividend payout ratio	40.3	% 40.3	% 41.3	% 46.0	% 45.2	%

(Footnotes on the following page)

At or for the years ended December 31,	2015	2014	2013	2012	2011
<b>Selected Financial Ratios and Other Data</b>					
<b>Performance ratios:</b>					
Return on average assets	0.86 %	0.91 %	0.82 %	0.79 %	0.82 %
Return on average equity	9.93	9.82	8.73	7.99	8.76
Average equity to average assets	8.68	9.31	9.45	9.83	9.36
Equity to total assets	8.29	8.99	9.16	9.94	9.72
Interest rate spread	2.94	2.98	3.25	3.50	3.46
Net interest margin	3.04	3.11	3.37	3.65	3.61
Non-interest expense to average assets	1.82	1.77	1.76	1.88	1.80
Efficiency ratio	58.57	54.40	50.64	50.73	49.18
Average interest-earning assets to average interest-bearing liabilities	1.11 x	1.11 x	1.10 x	1.09 x	1.08 x
<b>Regulatory capital ratios: (3)</b>					
Core capital (well capitalized = 5%)	8.89 %	9.63 %	9.48 %	9.62 %	9.63 %
Common equity tier 1 risk-based capital (well capitalized = 6.5%)	12.62	n/a	n/a	n/a	n/a
Tier 1 risk-based capital (well capitalized =8%)	12.62	13.87	14.59	14.38	14.26
Total risk-based capital (well capitalized =10%)	13.17	14.60	15.63	15.43	15.32
<b>Asset quality ratios:</b>					
Non-performing loans to gross loans (4)	0.60 %	0.90 %	1.43 %	2.79 %	3.65 %
Non-performing assets to total assets (5)	0.54	0.80	1.14	2.21	2.87
Net charge-offs to average loans	0.06	0.02	0.41	0.64	0.59
Allowance for loan losses to gross loans	0.49	0.66	0.93	0.97	0.94
Allowance for loan losses to total non-performing assets (5)	69.45	61.94	59.04	31.59	24.63
Allowance for loan losses to total non-performing loans (4)	82.58	73.40	64.89	34.62	25.84
Full-service customer facilities	19	17	17	17	16

(1) Calculated by dividing stockholders' equity of \$473.1 million and \$456.2 million at December 31, 2015 and 2014, respectively, by 28,830,558 and 29,403,823 shares outstanding at December 31, 2015 and 2014, respectively.

(2) The shares held in the Company's Employee Benefit Trust are not included in shares outstanding for purposes of calculating earnings per share.

(3) Represents the Bank's capital ratios, which exceeded all minimum regulatory capital requirements during the periods presented. Common equity tier 1 risk-based capital was not a required ratio prior to 2015.

(4) Non-performing loans consist of non-accrual loans and loans delinquent 90 days or more that are still accruing.

(5) Non-performing assets consist of non-performing loans, real estate owned and non-performing investment securities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*As used in this discussion and analysis, 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.*

General

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. 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"). The Bank's deposits are insured to the maximum allowable amount by the FDIC. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.

Flushing Financial Corporation 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 formed during 2007 to issue a total of \$60.0 million of capital securities, and \$1.9 million of common securities (which are the only voting securities). Flushing Financial Corporation owns 100% of the common securities of the Trusts. The Trusts used the proceeds from the issuance of these securities to purchase junior subordinated debentures from Flushing Financial Corporation. The Trusts are not included in our consolidated financial statements as we would not absorb the losses of the Trusts if losses were to occur.

The following discussion of financial condition and results of operations includes the collective results of the Flushing Financial Corporation and its subsidiaries (collectively, the "Company"), but reflects principally the Bank's activities. Management views the Company as operating as a single unit - a community bank. Therefore, segment information is not provided.

The Bank has a business banking unit. Our business strategy includes a transition from a traditional thrift to a more "commercial-like" banking institution by focusing on the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2015, the business banking unit had \$525.3 million in gross loans outstanding and \$146.3 million of customer deposits.

The Bank has an internet branch, iGObanking.com®, which provides access to consumers in markets outside our geographic locations. Accounts can be opened online at www.iGObanking.com or by mail. The internet branch does not currently accept loan applications. As of December 31, 2015, the internet branch had \$323.7 million of customer deposits.

The Bank has a governmental banking unit, which provides banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts and the various courts throughout the New York City metropolitan area. At December 31, 2015, the government banking unit had \$975.9 million in customer deposits.

## Overview

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, commercial business loans, commercial real estate mortgage loans 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); (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.

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

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

continue to transition the balance sheet 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  
§ personal accounts,  
§ municipal deposits through government banking, and  
§ new customer relationships via iGObanking.com@;

cross sell to lending and deposit customers;

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

manage interest rate risk and capital; and

manage enterprise-wide risk.

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

Multi-Family Residential, Commercial Business and Commercial Real Estate Lending. We have emphasized the origination of higher-yielding multi-family residential mortgage loan, commercial business loans with a full banking relationship and commercial mortgage lending. We continued to deemphasize one-to-four family – mixed-use property and construction lending. We expect to continue this emphasis on higher-yielding multi-family residential mortgage loans, business loans with a full banking relationship and commercial mortgage lending, while we continue to

deemphasize one-to-four family mixed-use property and construction lending.



The following table shows loan originations and purchases during 2015, and loan balances as of December 31, 2015.

	Loan Originations and Purchases (Dollars in thousands)	Loan Balances December 31, 2015	Percent of Gross Loans	
Multi-family residential	\$373,843	\$ 2,055,228	46.98	%
Commercial real estate	452,089	1,001,236	22.90	
One-to-four family mixed-use property	68,295	573,043	13.11	
One-to-four family residential	40,831	187,838	4.30	
Co-operative apartment	1,625	8,285	0.19	
Construction	4,999	7,284	0.17	
Small Business Administration	11,261	12,194	0.28	
Taxi Medallion	-	20,881	0.48	
Commercial Business and Other	280,518	506,622	11.59	
Total	\$1,233,461	\$ 4,372,611	100.00	%

At December 31, 2015, multi-family residential, commercial business and other loans and commercial real estate loans, totaled 81.5% of our gross loans. Our concentration in these types of loans has increased the overall level of credit risk inherent in our loan portfolio. The greater risk associated with multi-family, commercial business and other loans and commercial real estate loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained.

Continue to Transition the Balance Sheet to a More ‘Commercial-like’ Banking Institution. We have an established business banking unit staffed with a team of experienced commercial bankers. We have developed a complement of deposit, loan and cash management products to support this initiative, and expanded these product offerings. The business banking unit is responsible for building business relationships in order to obtain lower-costing deposits, generate fee income, and originate commercial business loans. Building these business relationships could provide us with a lower-costing source of funds and higher-yielding adjustable-rate loans, which would help us manage our interest-rate risk. On February 28, 2013, the Bank converted to a full-service New York State commercial bank charter.

Increase Our Commitment to the Multi-Cultural Marketplace, with a Particular Focus on the Asian Community in Queens. Our branches are all located in the New York City metropolitan area with particular concentration in the borough of Queens. Queens in particular exhibits a high level of ethnic diversity. An important element of our strategy is to service the multi-ethnic consumer and business. We have a particular concentration in the Asian communities- among them Chinese and Korean populations. Both groups are noted for high levels of savings, education and entrepreneurship. In order to service these and other important ethnic groups in our market, our staff speaks more than 30 languages. We have an Asian advisory board to help broaden our link to the community by providing guidance and fostering awareness of our active role in the local community. Our focus on the Asian community in Queens, where we have four branches, has resulted in us obtaining approximately \$500 million in deposits in these branches. We also have over \$450 million of loans and lines of credit outstanding to borrowers in the Asian community.

Maintain Asset Quality. By adherence to our conservative underwriting standards, we have been able to minimize net losses from impaired loans with net charge-offs of \$2.6 million and \$0.7 million for the years ended December 31, 2015 and 2014, respectively. We seek to maintain our loans in performing status through, among other things, disciplined collection efforts, and consistently monitoring non-performing assets in an effort to return them to performing status. To this end, we review the quality of our loans and report to the Loan Committee of the Board of Directors of the Bank on a monthly basis. We sold 23 delinquent loans totaling \$9.0 million, 34 delinquent loans totaling \$15.9 million, and 72 delinquent loans totaling \$33.4 million during the years ended December 31, 2015, 2014 and 2013, respectively. We recorded net recoveries on delinquent loans that were sold during 2015 of \$0.1 million, compared to net recoveries of \$0.4 million during 2014 and net charge-offs of \$4.7 million during 2013. We realized gross gains of \$71,000, \$67,000 and \$134,000 on the sale of delinquent loans for the years ended December 31, 2015, 2014 and 2013, respectively. We realized gross losses of \$2,000 and \$81,000 on the sale of delinquent loans for the years ended December 31, 2015 and 2013, respectively. We did not record any gross losses during the year ended December 31, 2014. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration. Non-performing assets amounted to \$31.0 million and \$40.5 million at December 31, 2015 and 2014, respectively. Non-performing assets as a percentage of total assets were 0.54% and 0.80% at December 31, 2015 and 2014, respectively.

Manage Deposit Growth and Maintain Low Cost of Funds. We have a relatively stable retail deposit base drawn from our market area through our full-service offices. Although we seek to retain existing deposits and maintain depositor relationships by offering quality service and competitive interest rates to our customers, we also seek to keep deposit growth within reasonable limits and our strategic plan. In order to implement our strategic plan, we have a business banking operation that we designed specifically to develop full business relationships thereby bringing in lower-costing checking and money market deposits. At December 31, 2015, deposits balances in the business sector are \$146.3 million. We also have an internet branch, “iGObanking.com®”, as a division of the Bank, to compete for deposits from sources outside the geographic footprint of our full-service offices. In creating iGObanking.com®, our strategy is to reduce our reliance on wholesale borrowings and reduce our funding costs. Deposit balances in iGObanking.com® were \$323.7 million at December 31, 2015, at rates lower than our borrowings. We have a government banking division as an additional source of deposits. At December 31, 2015, deposits in our government banking division totaled \$975.9 million at rates below our average cost of funds. We also obtain deposits through brokers and the CDARS® and ICS network. Management intends to balance its goal to maintain competitive interest rates on deposits while seeking to manage its overall cost of funds to finance its strategies. We generally rely on our deposit base as our principal source of funding. In addition, the Bank is a member of the FHLB-NY, which provides us with a source of borrowing. We also utilize reverse purchase agreements, established with other financial institutions. During 2015, we realized an increase in Due to depositors of \$382.8 million, as core deposits increased \$285.3 million while certificates of deposit increased \$97.5 million. At the same time our borrowed funds increased by \$215.2 million as we looked to extend the maturities of our funding.

Cross Sell to Lending and Deposit Customers. A significant portion of our lending and deposit customers do not have both their loans and deposits with us. We intend to continue to focus on obtaining additional deposits from our lending customers and originating additional loans to our deposit customers. Product offerings were expanded and are expected to be further expanded to accommodate perceived customer demands. In addition, specific employees are assigned responsibilities of generating these additional deposits and loans by coordinating efforts between lending and deposit gathering departments.

Take Advantage of Market Disruptions to Attract Talent and Customers From Competitors. The New York City market place has been dominated by large institutions, many of which recently have run into difficult situations due to the recessionary environment. During this time period we have been able to attract talent from such large commercial banks. That talent has brought with it significant business relationships. We have been able to see a larger number of strong companies that have been caught in a retrenchment by their existing large institution. We anticipate this environment remaining for some period of time.

We have in the past increased growth through acquisitions of financial institutions and branches of other financial institutions, and will continue to pursue growth through acquisitions that are, or are expected to be within a reasonable time frame, accretive to earnings, as well as evaluating the feasibility of opening additional branches. We have in the past opened new branches. We plan to continue to seek and review potential acquisition opportunities that complement our current business, are consistent with our strategy to build a bank that is focused on the unique personal and small business banking needs of the multi-ethnic communities we serve.

Manage Interest Rate Risk and Capital. We seek to manage our interest rate risk by actively reviewing the repricing and maturities of our interest rate sensitive assets and liabilities. The mix of loans we originate (fixed or ARM) is determined in large part by borrowers' preferences and prevailing market conditions. We seek to manage the interest rate risk of our loan portfolio by actively managing our security portfolio and borrowings. By adjusting the mix of fixed and adjustable rate securities, as well as the maturities of the securities, we have the ability to manage the combined interest rate sensitivity of our assets. Additionally, we seek to balance the interest rate sensitivity of our assets by managing the maturities of our liabilities.

The Bank faces several minimum capital requirements imposed by federal regulation. These requirements limit the dividends the Bank is allowed to pay, including the payment of dividends to Flushing Financial Corporation, and can limit the annual growth of the Bank.

Manage Enterprise-Wide Risk. We identify measure and attempt to mitigate risks that affect, or have the potential to affect, our business. Due to the economic crisis and resulting increase in government regulation, there is greater demand for us to devote significant resources to risk management. We have a seasoned risk officer to provide executive risk leadership, and an enterprise-wide risk management program. Several enterprise risk management analytical products are in use which include key risk indicators. Our management of enterprise-wide risk enables us to recognize and monitor risks and establish procedures to disseminate the risk information across our organization and to our Board of Directors. The objective is to have a robust and focused risk management process capable of identifying and mitigating emerging threats to the Bank's safety and soundness.

*Trends and Contingencies.* Our operating results are significantly affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. As short-term interest rates declined from 2008 through 2014, we remained strategically focused on the origination of multi-family residential mortgages and to a lesser extent, commercial real estate and one-to-four family mixed-use property mortgage loans. In late 2014 and throughout 2015 we have increased our emphasis on the origination and purchase of business loans with full banking relationships and commercial real estate loans. As a result of this strategy, we were able to continue to achieve a higher yield on our mortgage portfolio than we would have otherwise experienced.

The New York City metropolitan area, our primary market for lending, was generally considered to be in a recession from December 2007 through the middle of 2009. In the New York City metropolitan area, building permits for one-to-four family residential properties, multi-family residential properties, and commercial properties all declined over this time period to historically low levels. Building permits issued in the New York metropolitan area have increased over the past several years. The home price index for the New York City metropolitan area declined from the beginning of 2007 to the end of 2012 by approximately 23.7%, but has increased 10.2% from 2012 through 2015. The value of multi-family and commercial properties showed similar price movements.

Building permits for one-to-four family residential properties, multi-family residential properties, and commercial properties all declined over this time period to historically low levels. This resulted in increased unemployment and declining property values. The majority of our impaired loans are income producing residential properties located in the New York City metropolitan market. Due to the low vacancy rates for these types of properties, they have retained more of their value, thereby reducing their loss content. While the national and local economies have improved since the middle of 2010, improvements in unemployment have lagged until recently when the unemployment rate decreased to 5.0% at December 2015 from 6.2% at December 2014, for the New York City region, according to the New York State Department of Labor. This slow improvement in the unemployment rate has resulted in the balance of our non-performing loans remaining at an elevated level, although non-performing loans declined in 2015, 2014 and 2013. Non-performing loans totaled \$26.1 million, \$34.2 million and \$49.0 million at December 31, 2015, 2014 and 2013, respectively. While non-performing loans have remained elevated, we have not experienced a significant increase in foreclosed properties despite an extended foreclosure process in our market. The extended foreclosure

process in our market is due to the high number of foreclosure actions filed in the court system in the counties for which we are seeking foreclosure on delinquent mortgage loans. We have not encountered significant issues with documentation relating to mortgages for which we are seeking foreclosure as we maintain custody of all loan documents and review them prior to providing them to our legal counsel to initiate the foreclosure action. The deterioration in the economy also resulted in an increase in net charge-offs from impaired loans, although improvement was seen in 2015 and 2014. Net charge-offs totaled \$2.6 million, \$0.7 million and \$13.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. This improvement in net charge-offs allowed us to reduce the provision for loan losses to a benefit of \$1.0 million and \$6.0 million for the years ended December 31, 2015 and 2014, respectively, compared to a provision expense of \$13.9 million for the year ended December 31, 2013. We cannot predict the effect of these economic conditions on the Company's future financial condition or operating results.

In addition, in response to the economic conditions in our market combined with the increase in non-performing loans, we tightened our underwriting standards since the Great Recession to reduce risk.

Since 2008, we have reduced our focus on commercial real estate, construction and one-to-four family mixed-use residential property mortgage loans, which represented \$331.3 million, or 55%, of our loan originations and purchases in 2008 compared to \$525.4 million, or 43%, in 2015. In addition to reducing our focus on commercial real estate lending, during that period we further reduced our origination of smaller commercial real estate properties. We reduced our focus on these types of loans due to changes in market conditions, increasing delinquencies and losses incurred on delinquent loans associated with these types of loans. However as conditions have improved, starting in 2014 and continuing through 2015, we have refocused on larger commercial real estate properties.

We also shifted our focus in multi-family lending to larger properties. Our review of delinquent multi-family mortgage loans revealed that the majority of our delinquent multi-family mortgage loans were on smaller properties with fewer rental units. We concluded that the more units a property had to rent, the less likely vacancies would cause a disruption in the property's cash flow.

While we primarily rely on originating our own loans, we purchased \$278.9 million of loans in 2015 compared to \$169.9 million in 2014 and \$10.2 million in 2013. We purchase loans when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated.

The economic conditions we have experienced since the end of 2007 reduced loan demand from 2008 through 2012 in our market. In addition, the tightening of our underwriting standards and the shift in our lending focus also contributed to total loan originations and purchases remaining below pre-recession levels. Loan originations and purchases returned back to pre-recession levels in 2013, and in 2015 were a record \$1,233.5 million, an increase of \$275.3 million, or 28.7%, from \$958.2 million in 2014.

During the three year period ended December 31, 2015, the allocation of our loan portfolio has remained fairly consistent. The majority of our loans are collateralized by real estate, which comprised 87.7% of our portfolio at December 31, 2015 compared to 87.4% at December 31, 2014 and 88.5% at December 31, 2013. Multi-family residential mortgage loans comprised 47.0%, 50.6% and 50.0% of our loan portfolio at December 31, 2015, 2014 and 2013, respectively. Commercial real estate mortgage loans comprised 22.9%, 16.4% and 15.0% of our loan portfolio at December 31, 2015, 2014 and 2013, respectively. One-to-four family mixed-use property mortgage loans comprised 13.1%, 15.1% and 17.4% of loan portfolio at December 31, 2015, 2014 and 2013, respectively. One-to-four family residential mortgage loans comprised 4.3%, 4.9% and 5.7% of loan portfolio at December 31, 2015, 2014 and 2013, respectively.

Due to depositors increased \$382.8 million, \$272.9 million and \$217.3 million in 2015, 2014 and 2013, respectively. Lower-costing core deposits increased \$285.3 million, \$88.1 million and \$349.6 million in 2015, 2014 and 2013, respectively. Higher-costing certificates of deposit increased \$97.5 million during 2015 and \$184.9 million during 2014, compared to a decrease of \$132.3 million during 2013. Brokered deposits represented 25.2%, 21.8% and 16.0% of total deposits at December 31, 2015, 2014 and 2013, respectively.

Prevailing interest rates affect the extent to which borrowers repay and refinance loans. In a declining interest rate environment, the number of loan prepayments and loan refinancing tends to increase, as do prepayments of mortgage-backed securities. Call provisions associated with our investments in U.S. government agency and corporate securities may also adversely affect yield in a declining interest rate environment. Such prepayments and calls may adversely affect the yield of our loan portfolio and mortgage-backed and other securities as we reinvest the prepaid funds in a lower interest rate environment. However, we typically receive additional loan fees when existing loans are refinanced, which partially offsets the reduced yield on our loan portfolio resulting from prepayments. In periods of low interest rates, our level of core deposits also may decline if depositors seek higher-yielding instruments or other investments not offered by us, which in turn may increase our cost of funds and decrease our net interest margin to the

extent alternative funding sources, are utilized. By contrast, an increasing interest rate environment would tend to extend the average lives of lower yielding fixed rate mortgages and mortgage-backed securities, which could adversely affect net interest income. In addition, depositors tend to open longer term, higher costing certificate of deposit accounts which could adversely affect our net interest income if rates were to subsequently decline. Additionally, adjustable rate residential mortgage loans and mortgage-backed securities generally contain interim and lifetime caps that limit the amount the interest rate can increase at re-pricing dates.

During the year ended December 31, 2015, we extended the term of seven business loans totaling \$1.6 million and 35 mortgage loans totaling \$55.9 million, which we did not consider as non-performing loans nor troubled debt restructured. Each of these loans was extended in accordance with our lending policies, which required the loans to be fully underwritten, and that each of the borrowers is current as to payments. None of these borrowers was experiencing financial difficulties, and none received a below market interest rate or other favorable terms at the time the loans were extended. Therefore, we did not consider these loans to be troubled debt restructured.



We attempt to pursue the guarantor on all loans for which a loss has been incurred and for which a guarantee was obtained, when, after considering the benefits and costs, we have concluded we will be successful in recovering at least a portion of the loss we incurred. The success of this pursuit is based on the assets the guarantor holds when we obtain a judgment.

During 2015, we sought performance under guarantees on two business loans, seeking judgment of approximately \$2.5 million. As of December 31, 2015, we had not received any recoveries on these business loans. However, during the year ended December 31, 2015, we realized recoveries of approximately \$0.3 million on business loans and \$0.1 million on real estate mortgage loans for which we sought judgments prior to 2015. During 2014, we sought performance under guarantees on one business loan, seeking judgment of approximately \$45,000. During 2014, we had not received any recoveries on this business loan. However, during the year ended December 31, 2014, we realized recoveries of approximately \$180,000 on business loans and \$50,000 on real estate mortgage loans for which we sought judgments prior to 2014.

During 2015 our net interest income increased \$12.0 million, or 8.45%, to \$154.4 million for the twelve months ended December 31, 2015 from \$142.4 million for the comparable prior year period, as a seven basis point decrease in the net interest margin to 3.04% for the twelve month ended December 31, 2015 was more than offset by balance sheet growth. The decrease in the net interest margin for 2015 was primarily due to a decline in the yield of our interest-earning assets, partially offset by a reduction in our funding costs. The decline in the yield of our interest earning assets was primarily due to rates earned on new loans originated and securities purchased during 2015 being lower than the yield of the existing portfolio. During 2015, the average balance of total loans increased \$511.6 million to \$4,033.5 million. During 2015, the average balance of borrowed funds increased by \$110.6 million to \$1,104.4 million compared to \$993.8 million for 2014, while the cost of borrowed funds decreased 73 basis points to 1.76% for the year ended December 31, 2014 from 2.49% in the comparable period in 2014. The decrease in the cost of borrowed funds was primarily due to the year ended December 31, 2014 including a \$5.2 million prepayment penalty from prepaying \$66.9 million in long-term FHLB-NY advances at an average cost of 2.98% and \$30.0 million in repurchase agreements at an average cost of 4.98%. The cost of certificates of deposit accounts decreased 32 basis points for the twelve months ended December 31, 2015 from the prior year, while the cost of money market accounts and savings accounts increased 14 basis points and 20 basis points, respectively, for the twelve months ended December 31, 2015 from the prior year. The cost of money market accounts increased primarily due to our shifting of Government NOW deposits to an Insured Cash Sweep service (“ICS”) brokered money market product, which does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. The cost of savings accounts increased as we increased the rate we pay on savings accounts to attract additional deposits. This resulted in a decrease in the cost of due to depositors of nine basis points to 0.88% for the twelve months ended December 31, 2015 from 0.97% for the twelve months ended December 31, 2014. As a result of these changes to our funding mix, and a favorable interest rate environment, we were able to reduce our cost of interest-bearing liabilities 24 basis points to 1.08% for the year ended December 31, 2015 from 1.32% for the year ended December 31, 2014.

We are unable to predict the direction of future interest rate changes. Approximately 34% of our certificates of deposit accounts and borrowings reprice or mature during the next year, which could result in a decrease in the cost of our interest-bearing liabilities. Also, in a decreasing interest rate environment, mortgage loans and mortgage-backed securities with higher rates tend to prepay, which could result in a reduction in the yield on our interest-earning assets.

## Interest Rate Sensitivity Analysis

A financial institution's exposure to the risks of changing interest rates may be analyzed, in part, by examining the extent to which its assets and liabilities are "interest rate sensitive" and by monitoring the institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest-earning assets maturing or repricing exceeds the amount of interest-bearing liabilities maturing or repricing within the same period. A gap is considered negative when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within the same period. Accordingly, a positive gap may enhance net interest income in a rising rate environment and reduce net interest income in a falling rate environment. Conversely, a negative gap may enhance net interest income in a falling rate environment and reduce net interest income in a rising rate environment.

The table below sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2015 which are anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period was determined in accordance with the earlier of the term to repricing or the contractual terms of the asset or liability. Prepayment assumptions for mortgage loans and mortgage-backed securities are based on our experience and industry averages, which generally range from 5% to 35%, depending on the contractual rate of interest and the underlying collateral. Money market accounts and savings accounts were assumed to have a withdrawal or “run-off” rate of 15% and 31%, respectively, based on our experience. While management bases these assumptions on actual prepayments and withdrawals experienced by us, there is no guarantee that these trends will continue in the future.

	Interest Rate Sensitivity Gap Analysis at December 31, 2015					
	Three Months And Less	More Than Three Months To One Year	More Than One Year To Three Years	More Than Three Years To Five Years	More Than Five Years To Ten Years	More Than Ten Years
(Dollars in thousands)						
<b>Interest-Earning Assets</b>						
Mortgage loans	\$305,707	\$622,799	\$1,406,888	\$1,056,388	\$418,694	\$22,438
Other loans	110,154	113,053	137,015	82,978	85,780	10,717
Short-term securities (1)	32,825	-	-	-	-	-
Securities held-to-maturity:	2,000	4,140	40	-	-	-
Other	-	-	-	-	-	-
Securities available for sale:						
Mortgage-backed securities	23,773	72,485	137,994	107,700	175,055	151,733
Other	69,750	8,664	86,286	22,175	137,782	-
Total interest-earning assets	544,209	821,141	1,768,223	1,269,241	817,311	184,888
<b>Interest-Bearing Liabilities</b>						
Savings accounts	20,285	60,855	162,280	18,328	-	-
NOW accounts	-	-	-	-	-	1,448,695
Money market accounts	17,718	53,154	141,744	141,744	118,129	-
Certificate of deposit accounts	167,775	280,454	725,710	203,087	26,276	-
Mortgagors' escrow deposits	-	-	-	-	-	36,844
Borrowings	190,745	282,425	553,796	244,710	-	-
Total interest-bearing liabilities (2)	\$396,523	\$676,888	\$1,583,530	\$607,869	\$144,405	\$1,485,539
Interest rate sensitivity gap	\$147,686	\$144,253	\$184,693	\$661,372	\$672,906	\$(1,300,651)
Cumulative interest-rate sensitivity gap	\$147,686	\$291,939	\$476,632	\$1,138,004	\$1,810,910	\$510,259
Cumulative interest-rate sensitivity gap as a percentage of total assets	2.59 %	5.12 %	8.36 %	19.95 %	31.74 %	8.94 %
Cumulative net interest-earning assets as a percentage of interest-bearing liabilities	137.25 %	127.20 %	117.94 %	134.86 %	153.12 %	110.42 %

(1) Consists of interest-earning deposits.

(2) Does not include non-interest bearing demand accounts totaling \$269.5 million at December 31, 2015.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar estimated maturities or periods to repricing, they may react in differing degrees to changes in market interest rates and may bear rates that differ in varying degrees from the rates that would apply upon maturity and reinvestment or upon repricing. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a significant change in the level of interest rates, prepayments on loans and mortgage-backed securities, and deposit withdrawal or “run-off” levels, would likely deviate materially from those assumed in calculating the above table. In the event of an interest rate increase, some borrowers may be unable to meet the increased payments on their adjustable-rate debt. The interest rate sensitivity analysis assumes that the nature of the Company’s assets and liabilities remains static. Interest rates may have an effect on customer preferences for deposits and loan products. Finally, the maturity and repricing characteristics of many assets and liabilities as set forth in the above table are not governed by contract but rather by management’s best judgment based on current market conditions and anticipated business strategies.

## Interest Rate Risk

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires 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 our interest-earning assets which could adversely affect our results of operations if such assets were sold, or, in the case of securities classified as available for sale, decreases in our stockholders' equity if such securities were retained.

We manage the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust our 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. 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 December 31, 2015. Various estimates regarding prepayment assumptions are made at each level of rate shock. Actual results could differ significantly from these estimates. At December 31, 2015, we were within the guidelines established by the Board of Directors for each interest rate level.

Change in Interest Rate	Projected Percentage Change In				Net Portfolio	
	Net Interest Income		Net Portfolio Value		Value Ratio	
	2015	2014	2015	2014	2015	2014
-200 basis points	-1.87 %	-3.80 %	9.37 %	7.51 %	12.05 %	13.01 %
-100 basis points	0.83	-0.05	6.93	5.87	12.03	13.02
Base interest rate					11.57	12.61
+100 basis points	-4.96	-5.20	-11.34	-11.98	10.57	11.45
+200 basis points	-10.45	-10.93	-26.30	-26.54	9.10	9.90

## Analysis of Net Interest Income

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 our Consolidated Statements of Financial Condition and Consolidated Statements of Income for the years ended December 31, 2015, 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 that are considered adjustments to yields.

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	For the year ended December 31,								
	2015			2014			2013		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Mortgage loans, net <sup>(1)(2)</sup>	\$3,524,331	\$161,115	4.57%	\$3,075,055	\$154,316	5.02%	\$2,928,694	\$158,420	5.41%
Other loans, net <sup>(1)(2)</sup>	509,147	17,605	3.46	446,852	16,011	3.58	329,968	12,889	3.91
Total loans, net	4,033,478	178,720	4.43	3,521,907	170,327	4.84	3,258,662	171,309	5.26
Taxable securities:									
Mortgage-backed securities	693,893	17,309	2.49	740,190	19,872	2.68	764,290	22,844	2.99
Other securities	163,604	4,398	2.69	147,883	3,437	2.32	155,908	3,984	2.56
Total taxable securities	857,497	21,707	2.53	888,073	23,309	2.62	920,198	26,828	2.92
Tax-exempt securities: <sup>(3)</sup>									
Other securities	134,807	3,593	2.67	131,921	3,413	2.59	95,472	2,310	2.42
Total tax-exempt securities	134,807	3,593	2.67	131,921	3,413	2.59	95,472	2,310	2.42
Interest-earning deposits and federal funds sold									
Total interest-earning assets	5,084,179	204,146	4.02	4,583,671	197,128	4.30	4,316,786	200,526	4.65
Other assets	276,965			254,741			259,338		
Total assets	\$5,361,144			\$4,838,412			\$4,576,124		
Interest-bearing liabilities:									
Deposits:									
Savings accounts	\$264,891	1,151	0.43	\$258,243	597	0.23	\$274,791	515	0.19
NOW accounts	1,432,609	6,593	0.46	1,390,899	6,227	0.45	1,291,861	6,777	0.52
Money market accounts	380,595	1,551	0.41	245,752	667	0.27	180,211	294	0.16
Certificate of deposit accounts									
	1,351,619	20,943	1.55	1,199,849	22,420	1.87	1,185,696	24,414	2.06
	3,429,714	30,238	0.88	3,094,743	29,911	0.97	2,932,559	32,000	1.09

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Total due to depositors									
Mortgagors' escrow									
accounts	52,364	98	0.19	47,876	133	0.28	46,217	37	0.08
Total									
interest-bearing									
deposits	3,482,078	30,336	0.87	3,142,619	30,044	0.96	2,978,776	32,037	1.08
Borrowings	1,104,368	19,390	1.76	993,790	24,697	2.49	953,188	22,826	2.39
Total									
interest-bearing									
liabilities	4,586,446	49,726	1.08	4,136,409	54,741	1.32	3,931,964	54,863	1.40
Non									
interest-bearing									
demand deposits	250,488			211,389			169,190		
Other liabilities	59,016			40,217			42,560		
Total liabilities	4,895,950			4,388,015			4,143,714		
Equity	465,194			450,397			432,410		
Total liabilities and equity	\$5,361,144			\$4,838,412			\$4,576,124		
Net interest income / net interest rate spread <sup>(4)</sup>		\$154,420	2.94%		\$142,387	2.98%		\$145,663	3.25%
Net interest-earning assets / net interest margin <sup>(5)</sup>	\$497,733		3.04%	\$447,262		3.11%	\$384,822		3.37%
Ratio of interest-earning assets to interest-bearing liabilities			1.11X			1.11X			1.10X

(1) Average balances include non-accrual loans.

(2) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$4.2 million, \$5.0 million and \$3.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

(4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net interest margin represents net interest income before the provision for loan losses divided by average interest-earning assets.





## Rate/Volume Analysis

The following table presents the impact of changes in interest rates and in the volume of interest-earning assets and interest-bearing liabilities on the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (1) changes attributable to changes in volume (changes in volume multiplied by the prior rate), (2) changes attributable to changes in rate (changes in rate multiplied by the prior volume) and (3) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Increase (Decrease) in Net Interest Income					
	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Compared to Year Ended December 31, 2014			Compared to Year Ended December 31, 2013		
	Due to			Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
<b>Interest-Earning Assets:</b>						
Mortgage loans, net	\$21,366	\$(14,567)	\$6,799	\$7,672	\$(11,776)	\$(4,104)
Other loans, net	2,149	(555 )	1,594	4,280	(1,158 )	3,122
Mortgage-backed securities	(1,202 )	(1,361 )	(2,563 )	(693 )	(2,279 )	(2,972)
Other securities	473	668	1,141	686	(130 )	556
Interest-earning deposits and federal funds sold	33	14	47	-	-	-
Total interest-earning assets	22,819	(15,801)	7,018	11,945	(15,343)	(3,398)
<b>Interest-Bearing Liabilities:</b>						
<b>Deposits:</b>						
Savings accounts	16	538	554	(30 )	112	82
NOW accounts	210	156	366	457	(1,007 )	(550 )
Money market accounts	454	430	884	129	244	373
Certificate of deposit accounts	2,636	(4,113 )	(1,477 )	288	(2,282 )	(1,994)
Mortgagors' escrow accounts	12	(47 )	(35 )	1	95	96
Borrowings	2,532	(7,839 )	(5,307 )	944	927	1,871
Total interest-bearing liabilities	5,860	(10,875)	(5,015 )	1,789	(1,911 )	(122 )
Net change in net interest income	\$16,959	\$(4,926 )	\$12,033	\$10,156	\$(13,432)	\$(3,276)

## Comparison of Operating Results for the Years Ended December 31, 2015 and 2014

*General.* Net income for the twelve months ended December 31, 2015 was \$46.2 million, an increase of \$2.0 million, or 4.45%, compared to \$44.2 million for the twelve months ended December 31, 2014. Diluted earnings per common

share were \$1.59 for the twelve months ended December 31, 2015, an increase of \$0.11, or 7.43%, from \$1.48 for the twelve months ended December 31, 2014.

Return on average equity increased to 9.93% for the twelve months ended December 31, 2015, from 9.82% for the prior year. Return on average assets decreased to 0.86% for the twelve months ended December 31, 2015, from 0.91% for the prior year.

*Interest Income.* Interest income increased \$7.0 million, or 3.56%, to \$204.1 million for the year ended December 31, 2015 from \$197.1 million for the year ended December 31, 2014. The increase in interest income was primarily due to an increase of \$500.5 million in the average balance of interest-earning assets to \$5,084.2 million for the year ended December 31, 2015 from \$4,583.7 million for the year ended December 31, 2014, which was partially offset by a 28 basis point reduction in the yield of interest-earning assets to 4.02% for the year ended December 31, 2015 from 4.30% for the year ended December 31, 2014. The 28 basis point decline in the yield of interest-earning assets was primarily due to a 41 basis point reduction in the yield on the loan portfolio to 4.43% for the twelve months ended December 31, 2015 from 4.84% for the twelve months ended December 31, 2014, combined with a seven basis point decline in the yield on total securities to 2.55% for the twelve months ended December 31, 2015 from 2.62% for the prior year. The 41 basis point decrease in the yield on the loan portfolio was primarily due to a decline in the rates earned on new loan originations and existing loans modified to lower rates. The seven basis point decrease in the yield on the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio. The yield on the loan portfolio, excluding prepayment penalty income on loans, decreased 40 basis points to 4.27% for the twelve months ended December 31, 2015 from 4.67 % for the twelve months ended December 31, 2014.

*Interest Expense.* Interest expense decreased \$5.0 million, or 9.16%, to \$49.7 million for the year ended December 31, 2015 from \$54.7 million for the year ended December 31, 2014. The decrease in the cost of interest-bearing liabilities was primarily attributable to a \$5.2 million prepayment penalty recorded on borrowings as a result of the Bank prepaying \$66.9 million in long-term FHLB-NY advances and \$30.0 million in repurchase agreements during the year ended December 31, 2014. Excluding this prepayment penalty, interest expense increased \$0.2 million for the year ended December 31, 2015. This increase in interest expense was primarily due to an increase of \$450.0 million in the average balance of interest-bearing liabilities to \$4,586.4 million for the year ended December 31, 2015 from \$4,136.4 million for the year ended December 31, 2014, which was partially offset by a decrease of 12 basis points in the cost of interest-bearing liabilities to 1.08% for the year ended December 31, 2015 from 1.20% for the year ended December 31, 2014. The 12 basis point decrease in the cost of interest-bearing liabilities was primarily attributable to decreases of 32 basis points and 20 basis points in the cost of certificates of deposit and borrowed funds, respectively. The decrease in the cost of certificates of deposit and borrowed funds was primarily due to maturing issuances being replaced at lower rates. These decreases were partially offset by increases of 20 basis points and 14 basis points in the cost of savings and money market accounts, respectively, for the twelve months ended December 31, 2015 from the comparable prior year period. The cost of savings accounts increased as we increased the rate we pay on some of our savings products to attract additional deposits. The cost of money market accounts increased primarily due to our shifting of Government NOW deposits to a money market product which does not require us to provide collateral, allowing us to invest these funds in higher yielding assets. Additionally, the cost of interest-bearing liabilities was negatively affected by increases of \$151.8 million and \$110.6 million in the average balance of higher costing certificates of deposit and borrowed funds, respectively, during the twelve months ended December 31, 2015, which was partially offset by an increase of \$183.2 million in the average balance of lower-costing core deposits during the twelve months ended December 31, 2015 to \$2,078.1 million from \$1,894.9 million for the comparable prior year period.

*Net Interest Income.* Net interest income for the year ended December 31, 2015 totaled \$154.4 million, an increase of \$12.0 million, or 8.45%, from \$142.4 million for 2014. The increase in net interest income was due to the growth of net interest-earning assets, an increase in prepayment penalty income and the absence of a \$5.2 million prepayment penalty recorded on borrowings in the comparable prior year period. These improvements to net interest income were partially offset by a decrease in the net interest spread of four basis points to 2.94% for the twelve months ended December 31, 2015 from 2.98% for the prior year. The yield on interest-earning assets decreased 28 basis points to 4.02% for the year ended December 31, 2015 from 4.30% for the year ended December 31, 2014, while the cost of interest-bearing liabilities decreased 24 basis points to 1.08% for the year ended December 31, 2015 from 1.32% for the prior year period. The net interest margin decreased seven basis points to 3.04% for the year ended December 31, 2015 from 3.11% for the year ended December 31, 2014. Excluding prepayment penalty income, the net interest margin would have been 2.91% and 2.98% for the years ended December 31, 2015 and 2014, respectively.

*Provision for Loan Losses.* The benefit for loan losses for the twelve months ended December 31, 2015 was \$1.0 million, a decrease of \$5.1 million, or 84.12%, from a benefit of \$6.0 million during the comparable prior year period. The benefit recorded during the twelve months ended December 31, 2015 was primarily due to the continued improvement in both credit conditions and, the qualitative factors used in the calculation of the allowance for loan losses. During the twelve months ended December 31, 2015, non-accrual loans decreased \$9.1 million to \$22.8 million from \$31.9 million at December 31, 2014. During the twelve months ended December 31, 2015, net charge-offs totaled \$2.6 million, or six basis points of average loans, primarily as a result of two business loans which the Bank deemed unrecoverable. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 41.4% at December 31, 2015. 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 \$1.0 million for the twelve months ended December 31, 2015.

*Non-Interest Income.* Non-interest income for the twelve months ended December 31, 2015 was \$15.7 million, an increase of \$5.5 million, or 53.46%, from \$10.2 million for the twelve months ended December 31, 2014. The increase in non-interest income was primarily due to an increase of \$6.5 million in net gains on the sale of buildings, as we sold and leased back our Brooklyn branch buildings, and increases of \$0.4 million in net gains on the sale of loans and \$0.3 million in other income. Additionally, non-interest income increased due to a decrease of \$0.7 million in net losses from fair value adjustments. These improvements to non-interest income were partially offset by a decrease of \$2.7 million in net gains on the sale of securities, primarily due to the comparable prior year period including a net gain on the sale of securities totaling \$2.9 million which was comprised of net gains on the sale of securities, as part of a balance sheet deleveraging and net losses on the sale of securities from the sale of substandard trust preferred securities.

*Non-Interest Expense.* Non-interest expense was \$97.9 million for the twelve months ended December 31, 2015, an increase of \$11.9 million, or 13.84%, from \$85.8 million for the twelve months ended December 31, 2014. The increase in non-interest expense was primarily due to increases of \$4.1 million in salaries and benefits, \$3.3 million in other operating expense and \$2.2 million in occupancy and equipment expense. The increase in salaries and benefits was primarily due to annual salary increases, increases in staffing in the technology, risk/compliance and retail departments, as well as an increase in restricted stock expense. The increase in other operating expense was primarily due to \$1.0 million in expenses related to the move of our corporate headquarters, \$0.9 million in expenses related to the growth of the Company, \$0.7 million in net losses on the sale of OREO and \$0.5 million in additional temporary staffing and hiring fees. Other operating expense also included \$0.3 million in ATM fraud losses recorded in 2015. The growth in occupancy and equipment expense was primarily due to increases in rent expense of \$1.4 million for our new corporate headquarters and new branch at the same location and \$0.6 million from additional space in Manhattan for Business Bankers and a new branch location, which opened in September 2015. Occupancy and equipment expense also included \$0.2 million recorded in 2015 for temporary staff for additional security to guard against further ATM fraud losses. Additionally, during the twelve months ended December 31, 2015, the Company also experienced increases of \$1.1 million in professional services, primarily due to increased legal and compliance costs and \$0.8 million, \$0.5 million and \$0.3 million in depreciation and amortization expense, FDIC insurance expense and data processing expense, respectively, primarily due to the growth of the Bank. OREO/foreclosure expenses decreased \$0.4 million during the twelve months ended December 31, 2015 due to such period including recoveries of legal fees and a reduction in the level of non-performing loans. The efficiency ratio increased to 58.6% for the twelve months ended December 31, 2015 from 54.4% for the twelve months ended December 31, 2014, primarily due to the increased expenses discussed above.

*Income Tax Provisions.* Income tax expense for the year ended December 31, 2015 decreased \$1.4 million, or 4.92%, to \$27.2 million, compared to \$28.6 million for the year ended December 31, 2014. The decrease was primarily due to a reduction in the effective tax rate to 37.0% for the twelve months ended December 31, 2015 from 39.2% in the comparable prior year period, partially offset by an increase of \$0.6 million in income before income taxes. The decrease in the effective tax rate reflects the impact of a change in New York City tax law enacted in 2015, which based on the Company's lending mix and certain other factors, reduced our New York City tax liability. Additionally, the decrease in the effective tax rate reflects the greater impact that preferential tax items had on the Company's tax liability during the twelve months ended December 31, 2015 compared to the twelve months ended December 31, 2014.

### **Comparison of Operating Results for the Years Ended December 31, 2014 and 2013**

*General.* Net income for the twelve months ended December 31, 2014 was \$44.2 million, an increase of \$6.5 million, or 17.2%, compared to \$37.8 million for the twelve months ended December 31, 2013. Diluted earnings per common share were \$1.48 for the twelve months ended December 31, 2014, an increase of \$0.22, or 17.5%, from \$1.26 for the twelve months ended December 31, 2013.

Return on average equity increased to 9.82% for the twelve months ended December 31, 2014, from 8.73% for the prior year. Return on average assets increased to 0.91% for the twelve months ended December 31, 2014, from 0.79% for the prior year.

*Interest Income.* Interest income decreased \$3.4 million, or 1.69%, to \$197.1 million for the year ended December 31, 2014 from \$200.5 million for the year ended December 31, 2013. The decrease in interest income was primarily due to a 35 basis point reduction in the yield of interest-earning assets to 4.30% for the year ended December 31, 2014 from 4.65% for the year ended December 31, 2013, partially offset by a \$266.9 million increase in the average balance of interest-earning assets to \$4,583.7 million for the year ended December 31, 2014 from \$4,316.8 million for the year ended December 31, 2013. The 35 basis point decline in the yield of interest-earning assets was primarily due to a 42 basis point reduction in the yield on the loan portfolio to 4.84% for the twelve months ended December 31, 2014 from 5.26% for the twelve months ended December 31, 2013, combined with a 25 basis point decline in the yield on total securities to 2.62% for the twelve months ended December 31, 2014 from 2.87% for the prior year. The 42 basis point decrease in the yield on the loan portfolio was primarily due to a decline in the rates earned on new loan originations and existing loans modified to lower rates. The 25 basis point decrease in the yield on the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio. The yield on the mortgage loan portfolio decreased 39 basis points to 5.02% for the twelve months ended December 31, 2014 from 5.41% for the twelve months ended December 31, 2013. The yield on the mortgage loan portfolio, excluding prepayment penalty income on loans, decreased 40 basis points to 4.84% for the twelve months ended December 31, 2014 from 5.24% for the twelve months ended December 31, 2013.

*Interest Expense.* Interest expense decreased \$0.1 million, or 0.22%, to \$54.7 million for the year ended December 31, 2014 from \$54.9 million for the year ended December 31, 2013. The decrease in the cost of interest-bearing liabilities is primarily attributable to an eight basis point reduction in the cost of interest-bearing liabilities to 1.32% for the year ended December 31, 2014 from 1.40% for the year ended December 31, 2013, partially offset by a \$204.4 million increase in the average balance of interest-bearing liabilities to \$4,136.4 million for the year ended December 31, 2014 from \$3,932.0 million for the year ended December 31, 2013. The eight basis point decrease in the cost of interest-bearing liabilities was primarily attributable to the Bank reducing the rates it pays on its deposit products. The cost of certificates of deposit and NOW accounts decreased 19 basis points and seven basis points, respectively, partially offset by increases in the cost of money market accounts and savings accounts of 11 and four basis points, respectively, for the twelve months ended December 31, 2014 from the prior year. The cost of due to depositors decreased 12 basis points to 0.97% for the twelve months ended December 31, 2014 from 1.09% for the twelve months ended December 31, 2013. The decrease in the cost of due to depositors was partially offset by a \$5.2 million prepayment penalty recorded on borrowings as a result of the Bank prepaying \$66.9 million in long-term FHLB-NY advances and \$30.0 million in repurchase agreements during the year ended December 31, 2014. The prior year includes a \$2.6 million prepayment penalty recorded on borrowings as a result of the Bank prepaying \$69.9 million of FHLB-NY advances. Including these prepayment penalties, the cost of borrowed funds increased 10 basis points to 2.49% for the year ended December 31, 2014 from 2.39% in the prior year. Excluding these prepayment penalties, the cost of borrowed funds decreased 16 basis points to 1.96% for the year ended December 31, 2014 from 2.12% in the prior year. The 16 basis point decrease in the cost of borrowed funds was primarily due to maturing and new borrowings being replaced and obtained at lower rates.

*Net Interest Income.* Net interest income for the year ended December 31, 2014 totaled \$142.4 million, a decrease of \$3.3 million, or 2.25%, from \$145.7 million for 2013. The decrease in net interest income is attributed to a decrease in the net interest spread of 27 basis points to 2.98% for the twelve months ended December 31, 2014 from 3.25% for the prior year, partially offset by an increase in the average balance of interest-earning assets of \$266.9 million, to \$4,583.7 million for the year ended December 31, 2014. The yield on interest-earning assets decreased 35 basis points to 4.30% for the year ended December 31, 2014 from 4.65% for the year ended December 31, 2013, while the cost of interest-bearing liabilities decreased eight basis points to 1.32% for the year ended December 31, 2014 from 1.40% for the prior year period. The net interest margin decreased 26 basis points to 3.11% for the year ended December 31, 2014 from 3.37% for the year ended December 31, 2013. Excluding prepayment penalty income, the net interest margin would have been 2.98% and 3.26% for the years ended December 31, 2014 and 2013, respectively.

*Provision for Loan Losses.* The provision for loan losses decreased \$20.0 million during the twelve months ended December 31, 2014 to a benefit of \$6.0 million from a provision of \$13.9 million during the prior year. During the twelve months ended December 31, 2014, non-performing loans decreased \$14.8 million to \$34.2 million from \$49.0 million at December 31, 2013. Net charge-offs for the twelve months ended December 31, 2014 totaled \$0.7 million, or two basis points of average loans. The current loan-to-value ratio for our non-performing loans collateralized by real estate was 47.0% at December 31, 2014. When we have obtained properties through foreclosure, we have been able to quickly sell the properties at amounts that approximate book value. We anticipate that we will continue to see low loss content in our loan portfolio. The Bank continues to maintain conservative underwriting standards. As a result of the analysis of the allowance for loans losses, a reduction in the allowance was warranted, and as such, the Company recorded a benefit of \$6.0 million for the twelve months ended December 31, 2014.



*Non-Interest Income.* Non-interest income for the twelve months ended December 31, 2014 was \$10.2 million, an increase of \$0.7 million, or 7.2%, from \$9.6 million for the twelve months ended December 31, 2013. The increase in non-interest income was primarily due to an improvement in Other-than-temporary impairment (“OTTI”) charges as there were no OTTI charges recorded during the twelve months ended December 31, 2014, but the prior year included an OTTI charge of \$1.4 million on private issue CMOs. This improvement was partially offset by decreases of \$0.3 million in each of other fee income and bank owned life insurance, respectively. Additionally, net gains on sale of securities decreased \$0.1 million to \$2.9 million for the twelve months ended December 31, 2014, from \$3.0 million for the twelve months ended December 31, 2013.

*Non-Interest Expense.* Non-interest expense was \$85.8 million for the twelve months ended December 31, 2014, an increase of \$5.3 million, or 6.5%, from \$80.6 million for the twelve months ended December 31, 2013. The increase was primarily due to increases of \$4.6 million in salaries and benefits expense primarily due to an increase of \$0.4 million in split dollar BOLI expense due to a decrease in the discount rate used to calculate the liability, increased salaries expense of \$3.1 million due to annual increases and increased staffing to support the growth of the Bank and an increase of \$0.9 million in the cost of grants of annual restricted stock unit awards. Additionally, the increase in non-interest expense was from increases of \$0.8 million in professional services from increased legal fees as the prior year period included a decrease in legal fees and \$1.1 million in other operating expense. These increases were partially offset by decreases of \$1.0 million in other real estate owned/foreclosure expense from a reduction in non-accrual loans and \$0.5 million in FDIC insurance expense primarily due to a reduction in the assessment rate. The efficiency ratio was 54.4% for the twelve months ended December 31, 2014 compared to 50.6% for the twelve months ended December 31, 2013.

*Income Tax Provisions.* Income tax expense for the year ended December 31, 2014 increased \$5.6 million to \$28.6 million, compared to \$23.0 million for the year ended December 31, 2013. The increase was primarily attributed to an increase of \$12.1 million in income before income taxes, combined with an increase in the effective tax rate. The effective tax rate was 39.2% and 37.8% for the years ended December 31, 2014 and 2013, respectively.

#### Liquidity, Regulatory Capital and Capital Resources

Our primary sources of funds are deposits, borrowings, principal and interest payments on loans, mortgage-backed and other securities, and proceeds from sales of securities and loans. Deposit flows and mortgage prepayments, however, are greatly influenced by general interest rates, economic conditions and competition. At December 31, 2015, the Bank was able to borrow up to \$2,478.8 million from the FHLB-NY in Federal Home Loan Bank advances and letters of credit. As of December 31, 2015, the Bank had \$1,601.1 million outstanding in combined balances of FHLB-NY advances and letters of credit. At December 31, 2015, the Bank also has unsecured lines of credit with other commercial banks totaling \$60.0 million. In addition, Flushing Financial Corporation has junior subordinated debentures with a face amount of \$61.9 million and a carrying amount of \$29.0 million (which are included in Borrowed Funds) and the Bank had \$116.0 million in repurchase agreements to fund lending and investment opportunities. (See Note 9 of Notes to the Consolidated Financial Statements in Item 8 of this Annual Report.) Management believes its available sources of funds are sufficient to fund current operations.

Our most liquid assets are cash and cash equivalents, which include cash and due from banks, overnight interest-earning deposits and federal funds sold with original maturities of 90 days or less. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2015, cash and cash equivalents totaled \$42.4 million, an increase of \$8.1 million from December 31, 2014. We also held marketable securities available for sale with a market value of \$993.4 million at December 31, 2015.

At December 31, 2015, we had commitments to extend credit (principally real estate mortgage loans) of \$96.2 million and open lines of credit for borrowers (principally business lines of credit and home equity loan lines of credit) of \$232.5 million. Since generally all of the loan commitments are expected to be drawn upon, the total loan commitments approximate future cash requirements, whereas the amounts of lines of credit may not be indicative of our future cash requirements. The loan commitments generally expire in 90 days, while construction loan lines of credit mature within 18 months and home equity loan lines of credit mature within 10 years. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

Our total interest expense and operating expense in 2015 were \$49.7 million and \$97.7 million, respectively.

We maintain three postretirement defined benefit plans for our employees: a noncontributory defined benefit pension plan which was frozen as of September 30, 2006, a contributory medical plan, and a noncontributory life insurance plan. The life insurance plan was amended to discontinue providing life insurance benefits to future retirees after

January 1, 2010 and the medical plan was frozen as of January 1, 2011. We also maintain a noncontributory defined benefit plan for certain of our non-employee directors, which was frozen as of January 1, 2004. The employee pension plan is the only plan that we have funded. During 2015, we incurred cash expenditures of \$0.1 million for the medical and life insurance plans and \$0.1 million for the non-employee director plan; we did not make a contribution to the employee pension plan in 2015. We expect to pay similar amounts for these plans in 2015. (See Note 12 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report.)

The amounts reported in our financial statements are obtained from reports prepared by independent actuaries, and are based on significant assumptions. The most significant assumption is the discount rate used to determine the accumulated postretirement benefit obligation (“APBO”) for these plans. The APBO is the present value of projected benefits that employees and retirees have earned to date. The discount rate is a single rate at which the liabilities of the plans are discounted into today’s dollars and could be effectively settled or eliminated. The discount rate used is based on the Citigroup Pension Liability Index, and reflects a rate that could be earned on bonds over a similar period that we anticipate the plans’ liabilities will be paid. An increase in the discount rate would reduce the APBO, while a reduction in the discount rate would increase the APBO. During the past several years, when interest rates have been at historically low levels, the discount rate used for our plans has declined from 7.25% for 2001 to 4.06% for 2015. This decline in the discount rate has resulted in an increase in our APBO.

The Company's actuaries use several other assumptions that could have a significant impact on our APBO and periodic expense for these plans. These assumptions include, but are not limited to, expected rate of return on plan assets, future increases in medical and life insurance premiums, turnover rates of employees, and life expectancy. The accounting standards for postretirement plans involve mechanisms that serve to limit the volatility of earnings by allowing changes in the value of plan assets and benefit obligations to be amortized over time when actual results differ from the assumptions used, there are changes in the assumptions used, or there are plan amendments. At December 31, 2015, our employee pension plan and medical and life insurance plan have unrecognized losses of \$8.6 million and \$1.3 million, respectively. The non-employee director plan has a \$0.5 million unrecognized gain, due to experience different from what had been estimated and changes in actuarial assumptions. The employee pension plan's unrecognized loss is primarily attributed to the reduction in the discount rate and change in the Plan's mortality table. The medical and life insurance plans' unrecognized loss is attributed to the reduction in the discount rate over the past several years. In addition, the non-employee director pension plan has an unrecognized past service liability of \$0.1 million due to plan amendments in prior years and the medical and life insurance plan have a \$0.5 million past service credit due to plan amendments. The net after tax effect of the unrecognized gains and losses associated with these plans has been recorded in accumulated other comprehensive income in stockholders' equity, resulting in a reduction of stockholders' equity of \$5.0 million as of December 31, 2015.

The change in the discount rate, the Pension Plan's mortality table and the reduction in medical premiums are the only significant changes made to the assumptions used for these plans for each of three years ended December 31, 2015. During the year ended December 31, 2013, the actual return on the employee pension plan assets was approximately 2.5 times the assumed return used to determine the periodic pension expense for that year. During the year ended December 31, 2014, the actual return on the employee pension plan assets was approximately 75% of the assumed return used to determine the periodic pension expense for that year. During the year ended December 31, 2014, the actual return on the employee pension plan assets was approximately 31% of the assumed return used to determine the periodic pension expense for that year.

The market value of the assets of our employee pension plan is \$19.9 million at December 31, 2015, which is \$2.8 million less than the projected benefit obligation. We do not anticipate a change in the market value of these assets which would have a significant effect on liquidity, capital resources, or results of operations.

During 2015, funds provided by the Company's operating activities amounted to \$44.7 million. These funds combined with \$563.9 million provided from financing activities were utilized to fund net investing activities of \$600.5 million. The Company's primary business objective is the origination and purchase of multi-family residential loans, commercial business loans and commercial real estate mortgage loans and to a lesser extent one-to-four family (including mixed-use properties) and SBA loans. During the year ended December 31, 2015, the net total of loan originations and purchases less loan repayments and sales was \$564.4 million. During the year ended December 31, 2015, the Company also purchased \$318.9 million in securities. During 2015, funds were provided by net increases of \$382.9 million and \$30.0 million in total deposits and short-term borrowed funds, respectively, and \$310.0 million in long-term borrowings. Additionally, funds were provided by \$280.7 million in proceeds from maturities, sales, calls and prepayments of securities and \$20.2 million in proceeds from the sale of buildings. The Company also used funds of \$125.6 million, \$18.6 million and \$15.6 million for the repayment of long-term borrowed funds, dividend payments and purchases of treasury stock, respectively, during the year ended December 31, 2015.

At the time of the Bank's conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank, the Bank was required by its primary regulator to establish a liquidation account which is reduced as and to the extent that eligible account holders reduce their qualifying deposits. Upon completion of the Merger, the liquidation account was assumed by the Bank. The balance of the liquidation account at December 31, 2015 was \$0.8 million. In the unlikely event of a complete liquidation of the Bank, each eligible account holder will be entitled to receive a distribution from the liquidation account. The Bank is not permitted to declare or pay a dividend or to repurchase any of its capital stock if the effect would be to cause the Bank's regulatory capital to be reduced below the amount required for the liquidation account but approval of the NYDFS Superintendent is required if the total of all dividends declared by the Bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid. On July 21, 2011, as a result of the Dodd-Frank Act, the Bank's primary regulator became the OCC and Flushing Financial Corporation's primary regulator became the Federal Reserve Board of Governors ("Federal Reserve"). Prior to July 21, 2011, unlike the Savings Bank, Flushing Financial Corporation was not subject to regulatory restrictions on the declaration or payment of dividends to its stockholders, although the source of such dividends could depend upon dividend payments from the Savings Bank. However, Flushing Financial Corporation was subject, to the requirements of Delaware law, which generally limit dividends to an amount equal to the excess of its net assets (the amount by which total assets exceed total liabilities) over its stated capital or, if there is no such excess, to its net profits for the current and/or immediately preceding fiscal year. With the Federal Reserve becoming Flushing Financial Corporation's primary regulator, Flushing Financial Corporation became subject to the same regulatory restrictions on the declaration of dividends as the Savings Bank.

*Regulatory Capital Position.* Under applicable regulatory capital regulations, the Bank and the Company are required to comply with each of four separate capital adequacy standards: leverage capital, common equity Tier I risk-based capital, Tier I risk-based capital and total risk-based capital. Such classifications are used by the FDIC and other bank regulatory agencies to determine matters ranging from each institution's quarterly FDIC deposit insurance premium assessments, to approvals of applications authorizing institutions to grow their asset size or otherwise expand business activities. At December 31, 2015 and 2014, the Bank and the Company each exceeded their four regulatory capital requirements. (See Note 14 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report.)

### Critical Accounting Policies

The Company's accounting policies are integral to understanding the results of operations and statement of financial condition. These policies are described in the Notes to Consolidated Financial Statements. Several of these policies require management's judgment to determine the value of the Company's assets and liabilities. The Company has established detailed written policies and control procedures to ensure consistent application of these policies. The Company has identified four accounting policies that require significant management valuation judgment: the allowance for loan losses, fair value of financial instruments, including other-than-temporary impairment assessment, goodwill impairment and income taxes.

*Allowance for Loan Losses.* An allowance for loan losses is provided to absorb probable estimated losses inherent in the loan portfolio. Management reviews the adequacy of the allowance for loan losses by reviewing all impaired loans on an individual basis. The remaining portfolio is evaluated based on the Company's historical loss experience, recent trends in losses, collection policies and collection experience, trends in the volume of non-performing loans, changes in the composition and volume of the gross loan portfolio, and local and national economic conditions. Judgment is required to determine how many years of historical loss experience are to be included when reviewing historical loss experience. A full credit cycle must be used, or loss estimates may be inaccurate. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

Notwithstanding the judgment required in assessing the components of the allowance for loan losses, the Company believes that the allowance for loan losses is adequate to cover losses inherent in the loan portfolio. The policy has been applied on a consistent basis for all periods presented in the Consolidated Financial Statements.

*Fair Value of Financial Instruments.* The Company carries certain financial assets and financial liabilities at fair value under the fair value option. Fair value is considered 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. Management selected the fair value option for certain investment securities, primarily mortgage-backed securities, and certain borrowings. Changes in the fair value of financial instruments for which the fair value election is made are recorded in the Consolidated Statements of Income. At December 31, 2015, financial assets and financial liabilities with fair values of \$30.7 million and \$29.0 million, respectively, are carried at fair value under the fair value option.

The securities portfolio also consists of mortgage-backed and other securities for which the fair value election was not selected. These securities are classified as available for sale or held-to-maturity. Securities classified as available for sale are carried at fair value in the Consolidated Statements of Financial Condition, with changes in fair value recorded in Accumulated Other Comprehensive Income. Securities held-to-maturity are carried at their amortized cost in the Consolidated Statements of Financial Condition. If any decline in fair value for securities classified available for sale or held-to-maturity is deemed other-than-temporary, the security is written down to a new cost basis with the resulting loss recorded in the Consolidated Statements of Income. During 2015 and 2014, no other-than-temporary impairment charges were recorded.

Financial assets and financial liabilities reported at fair value are required to be measured based on the following alternatives: (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). Judgment is required in selecting the appropriate level to be used to determine fair value. The majority of financial assets and financial liabilities for which the fair value election was made, and the majority of investments classified as available for sale and held-to-maturity, were measured using Level 2 inputs, which require judgment to determine the fair value. The trust preferred securities held in the investment portfolio, and the Company's junior subordinated debentures, were measured using Level 3 inputs due to the inactive market for these securities.

*Goodwill Impairment.* Goodwill is presumed to have an indefinite life and is tested for impairment, rather than amortized, on at least an annual basis. For the purpose of goodwill impairment testing, management has concluded that the Company has one reporting unit. If the estimated fair value of the reporting unit exceeds its carrying amount, there is no impairment of goodwill. However, if the fair value of the reporting unit is less than its carrying amount, further evaluation is required to determine if a write down of goodwill is required.

Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measurement, when available. Other acceptable valuation methods include an asset approach, which determines a fair value based upon the value of assets net of liabilities, an income approach, which determines fair value using one or more methods that convert anticipated economic benefits into a present single amount, and a market approach, which determines a fair value based on the similar businesses that have been sold.

The Company conducts its annual impairment testing of goodwill as of December 31. The impairment testing as of December 31, 2015 and 2014 did not show an impairment of goodwill based on the fair value of the Company.

*Income Taxes.* The Company estimates its income taxes payable based on the amounts it expects to owe to the various taxing authorities (i.e. federal, state and local). In estimating income taxes, management assesses the relative merits and risks of the tax treatment of transactions, taking into account statutory, judicial and regulatory guidance in the context of the Company's tax position. Management also relies on tax opinions, recent audits, and historical experience.

The Company also recognizes deferred tax assets and liabilities for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is required for deferred tax assets that the Company estimates are more likely than not to be unrealizable, based on evidence available at the time the estimate is made. These estimates can be affected by changes to tax laws, statutory tax rates, and future income levels.

#### Contractual Obligations

	Payments Due By Period				More Than 5 Years
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	
	(In thousands)				
Borrowings	\$1,271,676	\$602,152	\$515,796	\$124,710	\$29,018
Deposits	3,892,547	2,937,474	725,710	203,086	26,277
Loan commitments	328,761	328,761	-	-	-
Operating lease obligations	49,538	4,516	8,831	10,689	25,502



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Purchase obligations	8,382	5,778	2,443	161	-
Pension and other postretirement benefits	13,397	477	1,044	1,119	10,757
Deferred compensation plans	14,309	815	1,629	1,629	10,236
Total	\$5,578,610	\$3,879,973	\$1,255,453	\$341,394	\$101,790

We have significant obligations that arise in the normal course of business. We finance our assets with deposits and borrowings. We also use borrowings to manage our interest-rate risk. Borrowings with call provisions are included in the period of the next call date. We have the means to refinance these borrowings as they mature or are called through financing arrangements with the FHLB-NY and our ability to arrange repurchase agreements with broker-dealers and the FHLB-NY. (See Notes 8 and 9 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report.)

We focus our balance sheet growth on the origination of mortgage loans. At December 31, 2015, we had commitments to extend credit and lines of credit of \$328.8 million for mortgage and other loans. These loans will be funded through principal and interest payments received on existing mortgage loans and mortgage-backed securities, growth in customer deposits, and, when necessary, additional borrowings. (See Note 15 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report.)

At December 31, 2015, the Bank had 19 branches, 16 of which are leased. The Bank leases its branch locations primarily when it is not the sole tenant. Whether the Bank will purchase its future branch locations will depend in part on the availability of suitable locations and the availability of properties. In addition, we lease our executive offices. We currently outsource our data processing, loan servicing and check processing functions. We believe that this is the most cost effective method for obtaining these services. These arrangements are usually volume dependent and have varying terms. The contracts for these services usually include annual increases based on the increase in the consumer price index. The amounts shown above for purchase obligations represent the current term and volume of activity of these contracts. We expect to renew these contracts as they expire.

The amounts shown for pension and other postretirement benefits reflect our directors' pension plan and the supplemental retirement benefits of our president, and amounts due under our plan for medical and life insurance benefits for retired employees. The amount shown in the "Less Than 1 Year" column represents our current estimate for these benefits, some of which are based on information supplied by actuaries. The amounts shown in columns reflecting periods over one year represent our current estimate based on the past year's actual disbursements and information supplied by actuaries. The amounts do not include an increase for possible future retirees or increases in health plan costs. The amount shown in the "More Than 5 Years" column represents the amount required to increase the total amount to the projected benefit obligation of the directors' plan and the medical and life insurance benefit plans, since these are unfunded plans and the underfunded portion of the employee pension plan. (See Note 12 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report.)

We currently provide a non-qualified deferred compensation plan for officers who have achieved the level of Senior Vice President II and above and completed one year of service. However, all Senior Vice Presidents level III and Vice Presidents who were participants on January 31, 2015 remain eligible to participate in the plan. In addition to the amounts deferred by the officers, we match 50% of their contributions, generally up to a maximum of 5% of the officer's salary. These plans generally require the deferred balance to be credited with earnings at a rate earned by certain mutual funds. Through December 31, 2011, employees could not receive a distribution from these plans until their employment is terminated. The amounts shown in the columns for less than five years represent the estimate of the amounts we will contribute to a rabbi trust with respect to matching contributions under these plans. The amount shown in the "More Than 5 Years" column represents the current accrued liability for these plans, adjusted for the activity in the columns for less than five years. This expense is provided in the Consolidated Statements of Income, and the liability has been provided in the Consolidated Statements of Financial Condition.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

This information is contained in the section captioned "Interest Rate Risk" on page 66 and in Notes 15 and 16 of the Notes to Consolidated Financial Statements in Item 8 of this Annual Report.

Item 8. Financial Statements and Supplementary Data.FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES**Consolidated Statements of Financial Condition**

	December 31, 2015	December 31, 2014
	(Dollars in thousands, except per share data)	
<b>Assets</b>		
Cash and due from banks	\$42,363	\$34,265
Securities held-to-maturity:		
Other securities (none pledged; fair value of \$6,180 at December 31, 2015)	6,180	-
Securities available for sale, at fair value:		
Mortgage-backed securities (including assets pledged of \$496,121 and \$464,626 at December 31, 2015 and 2014, respectively; \$2,527 and \$4,678 at fair value pursuant to the fair value option at December 31, 2015 and 2014, respectively)	668,740	704,933
Other securities (including assets pledged of none and \$57,562 at December 31, 2015 and 2014, respectively ; \$28,205 and \$27,915 at fair value pursuant to the fair value option at December 31, 2015 and 2014, respectively)	324,657	268,377
Loans, net of fees and costs	4,387,979	3,810,373
Less: Allowance for loan losses	(21,535 )	(25,096 )
Net loans	4,366,444	3,785,277
Interest and dividends receivable	18,937	17,251
Bank premises and equipment, net	25,622	21,868
Federal Home Loan Bank of New York stock, at cost	56,066	46,924
Bank owned life insurance	115,536	112,656
Goodwill	16,127	16,127
Other assets	63,962	69,335
<b>Total assets</b>	<b>\$5,704,634</b>	<b>\$5,077,013</b>
<b>Liabilities</b>		
Due to depositors:		
Non-interest bearing	\$269,469	\$255,834
Interest-bearing	3,586,234	3,217,085
Mortgagors' escrow deposits	36,844	35,679
Borrowed funds (\$29,018 and \$28,771 at fair value pursuant to the fair value option at December 31, 2015 and 2014, respectively)	1,155,676	940,492
Securities sold under agreements to repurchase	116,000	116,000
Other liabilities	67,344	55,676
<b>Total liabilities</b>	<b>5,231,567</b>	<b>4,620,766</b>

## Commitments and contingencies (Note 14)

## 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 December 31, 2015 and 2014; 28,830,558 shares and 29,403,823 shares outstanding at December 31, 2015 and 2014, respectively)	315	315
Additional paid-in capital	210,652	206,437
Treasury stock, at average cost (2,700,037 shares and 2,126,772 at December 31, 2015 and 2014, respectively)	(48,868 )	(37,221 )
Retained earnings	316,530	289,623
Accumulated other comprehensive loss, net of taxes	(5,562 )	(2,907 )
Total stockholders' equity	473,067	456,247
Total liabilities and stockholders' equity	\$5,704,634	\$5,077,013

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

## FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Income**

	For the years ended December 31,		
	2015	2014	2013
	(In thousands, except per share data)		
Interest and dividend income			
Interest and fees on loans	\$178,720	\$170,327	\$171,309
Interest and dividends on securities:			
Interest	24,827	25,969	28,310
Dividends	473	753	828
Other interest income	126	79	79
Total interest and dividend income	204,146	197,128	200,526
Interest expense			
Deposits	30,336	30,044	32,037
Other interest expense	19,390	24,697	22,826
Total interest expense	49,726	54,741	54,863
Net interest income	154,420	142,387	145,663
Provision (benefit) for loan losses	(956 )	(6,021 )	13,935
Net interest income after (benefit) provision for loan losses	155,376	148,408	131,728
Non-interest income			
Other-than-temporary impairment ("OTTI") charge	-	-	(1,419 )
Less: Non-credit portion of OTTI charge recorded in Other Comprehensive Income, before taxes	-	-	-
Net OTTI charge recognized in earnings	-	-	(1,419 )
Banking services fee income	3,805	3,394	3,687
Net loss on sale of loans held for sale	-	-	(108 )
Net gain on sale of loans	422	67	284
Net gain on sale of securities	167	2,875	3,021
Net gain on sale of buildings	6,537	-	-
Net loss from fair value adjustments	(1,841 )	(2,568 )	(2,521 )
Federal Home Loan Bank of New York stock dividends	1,969	1,898	1,663
Bank owned life insurance	2,880	3,050	3,363
Other income	1,780	1,527	1,586
Total non-interest income	15,719	10,243	9,556
Non-interest expense			
Salaries and employee benefits	53,093	48,998	44,397
Occupancy and equipment	10,206	7,998	7,646
Professional services	7,074	5,982	5,210
FDIC deposit insurance	3,236	2,707	3,206
Data processing	4,471	4,194	4,238
Depreciation and amortization of premises and equipment	3,579	2,813	2,953

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Other real estate owned / foreclosure expense	942	1,338	2,292
Other operating expenses	15,118	11,809	10,634
Total non-interest expense	97,719	85,839	80,576
Income before income taxes	73,376	72,812	60,708
Provision for income taxes			
Federal	21,843	20,912	17,344
State and local	5,324	7,661	5,612
Total provision for income taxes	27,167	28,573	22,956
Net income	\$46,209	\$44,239	\$37,752
Basic earnings per common share	\$1.59	\$1.49	\$1.26
Diluted earnings per common share	\$1.59	\$1.48	\$1.26

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

## FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Comprehensive Income**

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Net income	\$46,209	\$44,239	\$37,752
Other comprehensive income (loss), net of tax:			
Unrecognized actuarial gains (losses)	615	(3,790 )	3,261
Amortization of actuarial losses	669	370	696
Amortization of prior service credits	(26 )	(26 )	(26 )
OTTI charges included in income	-	-	798
Reclassification adjustment for net gains included in income	(95 )	(1,634 )	(1,700 )
Net unrealized (losses) gains on securities	(3,818 )	13,548	(26,541)
Total other comprehensive income (loss), net of tax	(2,655 )	8,468	(23,512)
Comprehensive income	\$43,554	\$52,707	\$14,240

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

## FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Changes in Stockholders' Equity**

	For the years ended December 31,		
	2015	2014	2013
	(Dollars in thousands, except per share data)		
<b>Common Stock</b>			
Balance, beginning of year	\$315	\$315	\$315
No activity	-	-	-
Balance, end of year	315	315	315
<b>Additional Paid-In Capital</b>			
Balance, beginning of year	206,437	201,902	198,314
Award of common shares released from Employee Benefit Trust (147,616, 136,559 and 143,941 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	2,092	2,075	1,652
Shares issued upon vesting of restricted stock unit awards (59,532, 7,300 and 120,114 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	160	30	161
Options exercised (21,325, 138,575 and 463,245 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	54	455	1,451
Stock-based compensation activity, net	1,335	1,129	(119 )
Stock-based income tax benefit	574	846	443
Balance, end of year	210,652	206,437	201,902
<b>Treasury Stock</b>			
Balance, beginning of year	(37,221 )	(22,053 )	(10,257 )
Purchases of common shares outstanding (735,599, 914,671 and 836,092 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	(14,351 )	(17,644 )	(13,152 )
Issuance upon exercise of stock options (45,785, 150,115 and 463,245 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	825	2,461	6,763
Repurchase of shares to satisfy tax obligations (65,666, 59,821 and 61,710 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	(1,254 )	(1,228 )	(999 )
Shares issued upon vesting of restricted stock unit awards (204,310, 202,466 and 180,997 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	3,580	3,205	2,406
Purchase of common shares to fund options exercised (22,095, 97,518 and 366,517 common shares for the years ended December 31, 2015 2014 and 2013, respectively)	(447 )	(1,962 )	(6,814 )
Balance, end of year	(48,868 )	(37,221 )	(22,053 )

Continued



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

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## FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Changes in Stockholders' Equity** (continued)

	For the years ended December 31,		
	2015	2014	2013
	(Dollars in thousands, except per share data)		
<b>Retained Earnings</b>			
Balance, beginning of year	289,623	263,743	241,856
Net income	46,209	44,239	37,752
Stock options exercised (24,460, 11,540, and 65,470 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	(182 )	(77 )	(128 )
Shares issued upon vesting of restricted stock unit awards (144,778, 195,166 and 60,883 common shares for the years ended December 31, 2015, 2014 and 2013, respectively)	(504 )	(430 )	(119 )
Cash dividends declared and paid on common shares (\$0.64, \$0.60 and \$0.52 per share for the years ended December 31, 2015, 2014 and 2013, respectively)	(18,616 )	(17,852 )	(15,618 )
Balance, end of year	316,530	289,623	263,743
<b>Accumulated Other Comprehensive Income (Loss), Net of Taxes</b>			
Balance, beginning of year	(2,907 )	(11,375 )	12,137
Amortization of prior service credits, net of taxes of \$20, \$19 and \$20 for the years ended December 31, 2015, 2014 and 2013, respectively	(26 )	(26 )	(26 )
Amortization of net actuarial losses, net of taxes of (\$509), (\$330) and (\$541) for the years ended December 31, 2015, 2014 and 2013, respectively	669	370	696
Unrecognized actuarial gains (losses), net of taxes of (\$465), \$2,880 and (\$2,527) for the years ended December 31, 2015, 2014 and 2013, respectively	615	(3,790 )	3,261
Change in net unrealized (losses) gains on securities available for sale, net of taxes of approximately \$2,911, (\$10,441) and \$20,609 for the years ended December 31, 2015, 2014 and 2013, respectively	(3,818 )	13,548	(26,541 )
Reclassification adjustment for net gains included in net income, net of taxes of approximately \$72, \$1,241 and \$700 for the years ended December 31, 2015, 2014 and 2013, respectively	(95 )	(1,634 )	(902 )
Balance, end of year	(5,562 )	(2,907 )	(11,375 )
Total Stockholders' Equity	\$473,067	\$456,247	\$432,532

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

## FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
<b>Operating Activities</b>			
Net income	\$46,209	\$44,239	\$37,752
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (benefit) for loan losses	(956 )	(6,021 )	13,935
Depreciation and amortization of premises and equipment	3,579	2,813	2,953
Net loss on sales of loans held for sale	-	-	108
Net gain on sales of loans (including delinquent loans)	(422 )	(67 )	(284 )
Net gain on sales of securities	(167 )	(2,875 )	(3,021 )
Net gain on sales of buildings	(6,537 )	-	-
Other-than-temporary impairment charge on securities	-	-	1,419
Amortization of premium, net of accretion of discount	8,986	7,292	7,588
Fair value adjustment for financial assets and financial liabilities	1,841	2,568	2,521
Income from bank owned life insurance	(2,880 )	(3,050 )	(3,363 )
Stock based compensation expense	4,845	4,263	3,412
Deferred compensation	(3,561 )	(2,514 )	(790 )
Amortization of core deposit intangibles	-	-	468
Excess tax benefits from stock-based payment arrangements	(574 )	(846 )	(443 )
Deferred income tax provision (benefit)	(5,210 )	4,154	(682 )
Net decrease in prepaid FDIC assessment	-	-	3,287
(Increase) decrease in other assets	(5,284 )	8,110	(1,410 )
Increase (decrease) in other liabilities	4,861	(690 )	10,985
Net cash provided by operating activities	44,730	57,376	74,435
<b>Investing Activities</b>			
Purchases of premises and equipment	(11,089 )	(4,325 )	(809 )
Net purchases of Federal Home Loan Bank-NY shares	(9,142 )	(899 )	(3,688 )
Purchases of securities held-to-maturity	(5,100 )	-	-
Proceeds from maturities of securities held-to-maturity	3,430	-	-
Purchases of securities available for sale	(313,822)	(162,830)	(458,596)
Proceeds from sales and calls of securities available for sale	163,158	115,294	194,009
Proceeds from maturities and prepayments of securities available for sale	114,097	112,137	149,387
Proceeds from sale of buildings	20,209	-	-
Net originations of loans	(301,766)	(248,073)	(236,582)
Purchases of loans	(278,928)	(169,860)	(10,189 )
Proceeds from sale of loans	16,252	15,857	35,681
Proceeds from sale of Other Real Estate Owned, net	2,185	3,123	4,763
Net cash used in investing activities	(600,516)	(339,576)	(326,024)

Continued

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

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## FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Cash Flows** (continued)

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
<b>Financing Activities</b>			
Net increase in non interest-bearing deposits	13,635	58,491	41,554
Net increase in interest bearing deposits	368,137	213,502	174,715
Net increase in mortgagors' escrow deposits	1,165	2,881	238
Net proceeds (repayments) from short-term borrowed funds	30,000	30,500	(102,500)
Proceeds from long-term borrowings	310,000	180,000	269,346
Repayment of long-term borrowings	(125,551)	(167,081)	(109,911)
Purchases of treasury stock	(15,605 )	(18,872 )	(14,151 )
Excess tax benefits from stock-based payment arrangements	574	846	443
Proceeds from issuance of common stock upon exercise of stock options	145	565	533
Cash dividends paid	(18,616 )	(17,852 )	(15,618 )
Net cash provided by financing activities	563,884	282,980	244,649
Net (decrease) increase in cash and cash equivalents	8,098	780	(6,940 )
Cash and cash equivalents, beginning of year	34,265	33,485	40,425
Cash and cash equivalents, end of year	\$42,363	\$34,265	\$33,485
<b>Supplemental Cash Flow Disclosure</b>			
Interest paid	\$48,467	\$53,965	\$53,602
Income taxes paid	32,574	24,943	21,389
Taxes paid if excess tax benefits on stock-based compensation were not tax deductible	33,148	25,789	21,832
<b>Non-cash activities:</b>			
Securities transferred from available for sale to held-to-maturity	4,510	-	-
Loans transferred to Other Real Estate Owned	1,667	7,112	5,369
Loans provided for the sale of Other Real Estate Owned	280	712	3,011
Loans held for investment transferred to loans held for sale	300	1,150	13,008
Loans held for sale transferred to loans held for investment	-	-	2,214

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

FLUSHING FINANCIAL CORPORATION AND SUBSIDIARIES

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2015, 2014 and 2013

**1. Nature of Operations**

Flushing Financial Corporation (the “Holding Company”), a Delaware business corporation, is the bank holding company of its wholly-owned subsidiary Flushing Bank (the “Bank”). 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., are collectively herein referred to as the “Company.”

The Company’s 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, commercial business loans, commercial real estate mortgage loans 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); (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. The Bank also originates certain other consumer loans including overdraft lines of credit. The Bank primarily conducts its business through nineteen full-service banking offices, nine of which are located in Queens County, three in Nassau County, five in Kings County (Brooklyn), and two in New York County (Manhattan), New York. The Bank also operates “iGObanking.com®”, an internet branch, offering checking, savings, money market and certificates of deposit accounts.

**2. Summary of Significant Accounting Policies**

The accounting and reporting policies of the Company follow generally accepted accounting principles in the United States of America (“GAAP”) and general practices within the banking industry. The policies which materially affect the determination of the Company’s financial position, results of operations and cash flows are summarized below.

**Principles of Consolidation:**

The accompanying consolidated financial statements include the accounts of the Holding Company and the following direct and indirect wholly-owned subsidiaries of the Holding Company: the Bank, Flushing Preferred Funding

Corporation (“FPFC”), Flushing Service Corporation (“FSC”), and FSB Properties Inc. (“Properties”). FPFC is a real estate investment trust formed to hold a portion of the Bank’s mortgage loans to facilitate access to capital markets. FSC was formed to market insurance products and mutual funds. Properties is currently used to hold title to real estate owned acquired via foreclosure. Amounts held in a rabbi trust for certain non-qualified deferred compensation plans are included in the consolidated financial statements. All intercompany transactions and accounts are eliminated in consolidation. The Holding Company currently has three unconsolidated subsidiaries in the form of wholly-owned statutory business trusts, which were formed to issue guaranteed capital debentures (“capital securities”). See Note 9, “Borrowed Funds and Securities Sold Under Agreements to Repurchase,” for additional information regarding these trusts.

**Use of Estimates:**

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

**Cash and Cash Equivalents:**

For the purpose of reporting cash flows, the Company defines cash and due from banks, overnight interest-earning deposits and federal funds sold with original maturities of 90 days or less as cash and cash equivalents. At December 31, 2015 and 2014, the Company’s cash and cash equivalents totaled \$42.4 million and \$34.3 million, respectively. Included in cash and cash equivalents at those dates were \$32.8 million and \$23.0 million in interest-earning deposits in other financial institutions, primarily due from the Federal Reserve Bank of New York and the Federal Home Loan Bank of New York (“FHLB-NY”). The Bank is required to maintain cash reserves equal to a percentage of certain deposits. The reserve requirement is included in cash and cash equivalents and totaled \$9.9 million and \$7.5 million at December 31, 2015 and 2014, respectively.

### **Debt and Equity Securities:**

Securities are classified as held-to-maturity when management intends to hold the securities until maturity. Securities are classified as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Premiums and discounts are amortized or accreted, respectively, using the level-yield method. Realized gains and losses on the sales of securities are determined using the specific identification method. Unrealized gains and losses (other than unrealized losses considered other-than-temporary which are recognized in the Consolidated Statements of Income) on securities available for sale are excluded from earnings and reported as part of accumulated other comprehensive income, net of taxes. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the current interest rate environment, (3) the financial condition and near-term prospects of the issuer, if applicable, and (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Other-than-temporary impairment losses for debt securities are measured using a discounted cash flow model. Other-than-temporary impairment losses for equity securities are measured using quoted market prices, when available, or, when market quotes are not available due to an illiquid market, we use an impairment model from a third party or quotes from investment brokers. See Note 6, "Debt and Equity Securities," for additional information regarding other-than-temporary impairment for debt and equity securities.

### **Goodwill:**

Goodwill is presumed to have an indefinite life and is tested annually, or when certain conditions are met, for impairment. If the fair value of the reporting unit is greater than the goodwill amount, no further evaluation is required. If the fair value of the reporting unit is less than the goodwill amount, further evaluation would be required to compare the fair value of the reporting unit to the goodwill amount and determine if impairment is required.

In performing the goodwill impairment testing, the Company has identified a single reporting unit. The Company performed the qualitative assessment in assessing the carrying value of goodwill as of December 31, 2015, and determined that there was no goodwill impairment. At December 31, 2015, the carrying amount of goodwill totaled \$16.1 million. The identification of additional reporting units, the use of other valuation techniques and/or changes to input assumptions used in the analysis could result in materially different evaluations of goodwill impairment.

### **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 are amortized into interest income over the contractual life of the loans using the level-yield method. Prepayment penalties received on loans which pay in full prior to their scheduled maturity are included in interest income in the period they are collected.

The Bank may purchase loans to supplement originations. Loan purchases are evaluated at the time of purchase to determine the appropriate accounting treatment. Performing loans purchased at a premium/discount are recorded at the purchase price with the premium/discount, amortized/accredited into interest income over the life of the loan. All loans purchased during the years ended December 31, 2015 and 2014 were performing loans at the time of purchase and therefore were not considered impaired when purchased.

**Allowance for Loan Losses:**

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 for loan losses is based on evaluation 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 for loan losses 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 the loans into two portfolios based on the loans 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 impaired. 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 for loan losses other than charge-offs and recoveries are included in the provision for loan losses. When a loan or a portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance for loan losses.

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, but before the loan becomes 90 days delinquent. The loan balances of collateral dependent impaired loans are compared to the property's updated fair value. The Company considers fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the most recent reported arm's length transaction. The balance which exceeds fair value is generally charged-off. Management reviews the allowance for loan losses on a quarterly basis, and records as a provision or benefit the amount deemed appropriate, after considering items such as, current year charge-offs, charge-off trends, new loan production, current balance by particular loan categories, and delinquent loans by particular loan categories.

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.

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 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 December 31, 2015, we utilized recent third party appraisals of the collateral to measure impairment for \$26.8 million, or 76.1%, of collateral dependent impaired loans, and used internal evaluations of the property's value for \$8.4 million, or 23.9%, of collateral dependent impaired loans.

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

These restructurings have not included a reduction of principal balance. The Company believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. 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 December 31, 2015, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

#### **Loans Held for Sale:**

Loans held for sale are carried at the lower of cost or estimated fair value. At December 31, 2015 and 2014, there were no loans classified as held for sale.

#### **Bank Owned Life Insurance:**

Bank owned life insurance ("BOLI") represents life insurance on the lives of certain employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. BOLI is carried in the Consolidated Statements of Financial Condition at its cash surrender value. Increases in the cash value of the policies, as well as proceeds received, are recorded in other non-interest income, and are not subject to income taxes.

#### **Other Real Estate Owned:**

Other real estate owned (“OREO”) consists of property acquired through foreclosure. These properties are carried at fair value. The fair value is based on appraised value through a current appraisal, or at times through an internal review, additionally adjusted by the estimated costs to sell the property. This determination is made on an individual asset basis. If the fair value of a property is less than the carrying amount, the difference is recognized as a valuation allowance. Further decreases to the estimated value will be charged directly to expense.

**Bank Premises and Equipment:**

Bank premises and equipment are stated at cost, less depreciation accumulated on a straight-line basis over the estimated useful lives of the related assets (3 to 40 years). Leasehold improvements are amortized on a straight-line basis over the term of the related leases or the lives of the assets, whichever is shorter. Maintenance, repairs and minor improvements are charged to non-interest expense in the period incurred.

**Federal Home Loan Bank Stock:**

The FHLB-NY has assigned to the Bank a mandated membership stock purchase, based on its asset size. In addition, for all borrowing activity, the Bank is required to purchase shares of FHLB-NY non-marketable capital stock at par. Such shares are redeemed by FHLB-NY at par with reductions in the Bank’s borrowing levels. The Bank carries its investment in FHLB-NY stock at historical cost. The Company periodically reviews its FHLB-NY stock to determine if impairment exists. At December 31, 2015, the Company considered among other things the earnings performance, credit rating and asset quality of the FHLB-NY. Based on this review, the Company did not consider the value of our investment in FHLB-NY stock to be impaired at December 31, 2015.

**Securities Sold Under Agreements to Repurchase:**

Securities sold under agreements to repurchase are accounted for as collateralized financing and are carried at amounts at which the securities will be subsequently reacquired as specified in the respective agreements. Interest incurred under these agreements is included in other interest expense.

**Income Taxes:**

Deferred income tax assets and liabilities are determined using the asset and liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between book and tax bases of the various balance sheet assets and liabilities. A deferred tax liability is recognized on all taxable temporary differences and a deferred tax asset is recognized on all deductible temporary differences and operating losses and tax credit carry-forwards. A valuation allowance is recognized to reduce the potential deferred tax asset if it is “more likely than not” that all or some portion of that potential deferred tax asset will not be realized. The Company must also take into account changes in tax laws or rates when valuing the deferred income tax amounts it carries on its Consolidated Statements of Financial Condition.

**Stock Compensation Plans:**

The Company accounts for its stock based compensation using a fair-value-based measurement method for share-based payment transactions with employees and directors. The Company measures the cost of employee and directors services received in exchange for an award of an equity instrument based on the grant date fair value of the award. That cost is recognized over the period during which the employee and directors are required to provide services in exchange for the award. The requisite service period is usually the vesting period.

**Benefit Plans:**

The Company sponsors a qualified pension, 401(k), and profit sharing plan for its employees. The Company also sponsors postretirement health care and life insurance benefits plans for its employees, a non-qualified deferred compensation plan for officers who have achieved the level of at least senior vice president, and a non-qualified pension plan for its outside directors.

The Company recognizes the funded status of a benefit plan – measured as the difference between plan assets at fair value and the benefit obligation – in the Consolidated Statements of Financial Condition, with the unrecognized credits and charges recognized, net of taxes, as a component of accumulated other comprehensive loss. These credits or charges arose as a result of gains or losses and prior service costs or credits that arose during prior periods but were not recognized as components of net periodic benefit cost.

**Treasury Stock:**

The Company records treasury stock at cost. Treasury stock is reissued at average cost.

**Derivatives:**

Derivatives are required to be recorded on the Consolidated Statements of Financial Condition at fair value. The Company records derivatives on a gross basis in “Other assets” and “Other liabilities” in the Consolidated Statements of

Financial Condition. The accounting for changes in value of a derivative depends on whether or not the transaction has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are reported and measured at fair value through earnings.

To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability or forecasted transaction and type of risk to be hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. The extent to which a derivative has been, and is expected to continue to be, effective at offsetting changes in the fair value of the hedged item must be assessed and documented at least quarterly. Any hedge ineffectiveness (i.e., the amount by which the gain or loss on the designated derivative instrument does not exactly offset the change in the hedged item attributable to the hedged risk) must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

### **Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes changes in unrealized gains and losses on securities available for sale arising during the period, adjustments to net periodic pension costs and reclassification adjustments for realized gains and losses on securities available for sale and OTTI charges included in net income.

### **Segment Reporting:**

Management views the Company as operating as a single unit, a community bank. Therefore, segment information is not provided.

**Advertising Expense:**

Costs associated with advertising are expensed as incurred. The Company recorded advertising expenses of \$2.1 million, \$1.8 million and \$1.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

**Earnings per Common 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 non-forfeitable 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.

Earnings per common share have been computed based on the following, for the years ended December 31:

	2015	2014	2013
	(In thousands, except per share data)		
Net income, as reported	\$46,209	\$44,239	\$37,752
Divided by:			
Weighted average common shares outstanding	29,106	29,788	30,047
Weighted average common stock equivalents	20	29	26
Total weighted average common shares outstanding and common stock equivalents	29,126	29,817	30,073
Basic earnings per common share	\$1.59	\$1.49	\$1.26
Diluted earnings per common share	\$1.59	\$1.48	\$1.26
Dividend Payout ratio	40.3 %	40.3 %	41.3 %

There were no options that were anti-dilutive for the years ended December 31, 2015 and 2014. Options to purchase 151,900 shares, at an average exercise price of \$18.55 are anti-dilutive and were not included in the computation of diluted earnings per common share for the year ended December 31, 2013.

**3. Loans and Allowance for Loan Losses**



The composition of loans is as follows at December 31:

	2015	2014
	(In thousands)	
Multi-family residential	\$2,055,228	\$1,923,460
Commercial real estate	1,001,236	621,569
One-to-four family mixed-use property	573,043	573,779
One-to-four family residential	187,838	187,572
Co-operative apartments	8,285	9,835
Construction	7,284	5,286
Small Business Administration	12,194	7,134
Taxi medallion	20,881	22,519
Commercial business and other	506,622	447,500
Gross loans	4,372,611	3,798,654
Net unamortized premiums and unearned loan fees	15,368	11,719
Total loans	\$4,387,979	\$3,810,373

The majority of our loan portfolio is invested in multi-family residential, commercial real estate and commercial business and other loans, which totaled 81.5% of our gross loans at December 31, 2015. Our concentration in these types of loans increases the overall level of credit risk inherent in our loan portfolio. The greater risk associated with these types of loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained.

Loans secured by multi-family residential property and commercial real estate generally involve a greater degree of risk than residential mortgage loans and generally carry larger loan balances. The increased credit risk is the result of several factors, including the concentration of principal in a smaller number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty in evaluating and monitoring these types of loans. Furthermore, the repayments of loans secured by these types of properties are typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan.

Loans secured by commercial business and other loans involve a greater degree of risk for the same reasons as for multi-family residential and commercial real estate loans with the added risk that many of the loans are not secured by improved properties.

To minimize the risks involved in the origination of multi-family residential, commercial real estate and commercial business and other loans, the Bank adheres to strict underwriting standards, which include reviewing the expected net operating income generated by the real estate collateral securing the loan, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. We typically require debt service coverage of at least 125% of the monthly loan payment. We generally originate these loans up to only 75% of the appraised value or the purchase price of the property, whichever is less. Any loan with a final loan-to-value ratio in excess of 75% must be approved by the Bank Board of Directors or the Loan Committee as an exception to policy. We generally rely on the income generated by the property as the primary means by which the loan is repaid. However, personal guarantees may be obtained for additional security from these borrowers. Additionally, for commercial business and other loans which are not secured by improved properties, the Bank will secure these loans with business assets, including accounts receivables, inventory and real estate and generally require personal guarantees.

The following table shows loans modified and classified as TDR during the year ended December 31, 2015:

	For the year ended December 31, 2015	
(Dollars in thousands)	Number	Balance Modification description
	1	\$ 41

Small Business Administration		Received a below market interest rate and the loan amortization was extended
Total	1	\$ 41

The recorded investment of the loan modified and classified to a TDR, presented in the table above, was unchanged as there was no principal forgiven in this modification. During the year ended December 31, 2015, one commercial existing TDR was re-modified by extending the term and advancing an additional \$28,000.

There were no loans modified and classified as TDR during the year ended December 31, 2014.

The following table shows loans modified and classified as TDR during the year ended December 31, 2013:

(Dollars in thousands)	For the year ended December 31, 2013		Modification description
	Number	Balance	
Multi-family residential	2	\$698	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
One-to-four family - mixed-use property	1	390	Received a below market interest rate and the loan amortization was extended
Commercial business and other	2	687	Received a below market interest rate and the loan amortization was extended
Total	6	\$2,048	

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

(Dollars in thousands)	December 31, 2015		December 31, 2014	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	9	\$ 2,626	10	\$ 3,034
Commercial real estate	3	2,371	3	2,373
One-to-four family - mixed-use property	6	2,052	7	2,381
One-to-four family - residential	1	343	1	354
Small business administration	1	34	-	-
Commercial business and other	4	2,083	4	2,249
Total performing troubled debt restructured	24	\$ 9,509	25	\$ 10,391

During the year ended December 31, 2015, one TDR loan totaling \$0.4 million was transferred to non-performing status, resulting in this loan being included in non-performing loans. During the year ended December 31, 2014, three TDR loans totaling \$2.7 million were transferred to non-performing status, resulting in these loans being included in non-performing loans. Subsequent to being transferred to non-performing loans, two of these loans were paid in full during the year ended December 31, 2014. During the year ended December 31, 2013, no TDR loans were transferred to non-performing status.

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

(Dollars in thousands)	December 31, 2015		December 31, 2014	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	1	\$ 391	-	\$ -
Commercial real estate	-	-	1	2,252
One-to-four family - mixed-use property	-	-	1	187
Total troubled debt restructurings that subsequently defaulted	1	\$ 391	2	\$ 2,439

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

(In thousands)	At December 31,	
	2015	2014
Loans ninety days or more past due and still accruing:		
Multi-family residential	\$233	\$676
Commercial real estate	1,183	820
One-to-four family mixed-use property	611	405
One-to-four family residential	13	14
Construction	1,000	-
Commercial business and other	220	386
Total	3,260	2,301
Non-accrual mortgage loans:		
Multi-family residential	3,561	6,878
Commercial real estate	2,398	5,689
One-to-four family mixed-use property	5,952	6,936
One-to-four family residential	10,120	11,244
Total	22,031	30,747
Non-accrual non-mortgage loans:		
Small business administration	218	-
Commercial business and other	568	1,143
Total	786	1,143
Total non-accrual loans	22,817	31,890
Total non-accrual loans and ninety days or more past due and still accruing	\$26,077	\$34,191



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The following is a summary of interest foregone on non-accrual loans and loans classified as TDR for the years ended December 31:

	2015	2014	2013
	(In thousands)		
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$2,387	\$2,919	\$4,656
Less: Interest income included in the results of operations	702	796	1,213
Total foregone interest	\$1,685	\$2,123	\$3,443

The following table shows an age analysis of our recorded investment in loans at December 31, 2015:

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

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

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	\$7,721	\$1,729	\$7,554	\$17,004	\$1,906,456	\$1,923,460
Commercial real estate	1,612	1,903	6,510	10,025	611,544	621,569
One-to-four family - mixed-use property	10,408	1,154	7,341	18,903	554,876	573,779
One-to-four family - residential	1,751	2,244	11,051	15,046	172,526	187,572
Co-operative apartments	-	-	-	-	9,835	9,835

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Construction loans	3,000	-	-	3,000	2,286	5,286
Small Business Administration	90	-	-	90	7,044	7,134
Taxi medallion	-	-	-	-	22,519	22,519
Commercial business and other	6	1,585	740	2,331	445,169	447,500
Total	\$24,588	\$8,615	\$33,196	\$66,399	\$3,732,255	\$3,798,654



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The following table shows the activity in the allowance for loan losses for the year ended December 31, 2015:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial and other
Allowance for credit losses:									
Beginning balance	\$8,827	\$4,202	\$5,840	\$1,690	\$-	\$42	\$279	\$11	\$4,205
Charge-off's	(474 )	(32 )	(592 )	(342 )	-	-	(34 )	-	(2,377 )
Recoveries	269	168	76	375	-	-	40	-	312
Provision (benefit)	(1,904)	(99 )	(1,097)	(496 )	-	8	(23 )	332	2,323
Ending balance	\$6,718	\$4,239	\$4,227	\$1,227	\$-	\$50	\$262	\$343	\$4,469
Ending balance: individually evaluated for impairment	\$252	\$180	\$502	\$51	\$-	\$-	\$-	\$333	\$112
Ending balance: collectively evaluated for impairment	\$6,466	\$4,059	\$3,725	\$1,176	\$-	\$50	\$262	\$10	\$4,357

The following table shows the activity in the allowance for loan losses for the year ended December 31, 2014:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial and other
Allowance for credit losses:									
Beginning balance	\$12,084	\$4,959	\$6,328	\$2,079	\$104	\$444	\$458	\$-	\$-
Charge-off's	(1,161 )	(325 )	(423 )	(103 )	-	-	(49 )	-	-
Recoveries	150	481	608	269	7	-	92	-	-
Provision (benefit)	(2,246)	(913 )	(673 )	(555 )	(111)	(402)	(222)	11	-
Ending balance	\$8,827	\$4,202	\$5,840	\$1,690	\$-	\$42	\$279	\$11	\$-
Ending balance: individually evaluated for impairment	\$286	\$21	\$579	\$54	\$-	\$-	\$-	\$-	\$-
Ending balance: collectively evaluated for impairment	\$8,541	\$4,181	\$5,261	\$1,636	\$-	\$42	\$279	\$11	\$-

The following table shows the activity in the allowance for loan losses for the year ended December 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	Tax mediated
Allowance for credit losses:								
Beginning balance	\$13,001	\$5,705	\$5,960	\$1,999	\$46	\$66	\$505	\$7
Charge-off's	(3,585)	(1,051)	(4,206)	(701)	(108)	(2,678)	(457)	-
Recoveries	541	324	266	272	4	-	87	-
Provision (benefit)	2,127	(19)	4,308	509	162	3,056	323	(7)
Ending balance	\$12,084	\$4,959	\$6,328	\$2,079	\$104	\$444	\$458	\$-
Ending balance: individually evaluated for impairment	\$312	\$164	\$875	\$58	\$-	\$17	\$-	\$-
Ending balance: collectively evaluated for impairment	\$11,772	\$4,795	\$5,453	\$2,021	\$104	\$427	\$458	\$-

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

At December 31, 2015

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family-residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Financing Receivables:										
Ending Balance	\$2,055,228	\$1,001,236	\$573,043	\$187,838	\$8,285	\$7,284	\$12,194	\$20,881	\$506,622	\$4,372,611
Ending balance: individually evaluated for impairment	\$8,047	\$6,183	\$12,828	\$12,598	\$-	\$1,000	\$310	\$2,118	\$4,716	\$47,800
Ending balance: collectively evaluated for impairment	\$2,047,181	\$995,053	\$560,215	\$175,240	\$8,285	\$6,284	\$11,884	\$18,763	\$501,906	\$4,324,811

At December 31, 2014

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family-residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Financing Receivables:										
Ending Balance	\$1,923,460	\$621,569	\$573,779	\$187,572	\$9,835	\$5,286	\$7,134	\$22,519	\$447,500	\$3,798,654
Ending balance: individually evaluated for impairment	\$13,260	\$9,473	\$15,120	\$13,170	\$-	\$-	\$-	\$-	\$5,492	\$56,515
Ending balance: collectively evaluated for impairment	\$1,910,200	\$612,096	\$558,659	\$174,402	\$9,835	\$5,286	\$7,134	\$22,519	\$442,008	\$3,742,139



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The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses for loans that were considered impaired at December 31, 2015 and 2014:

	December 31, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)						
With no related allowance recorded:						
Mortgage loans:						
Multi-family residential	\$5,742	\$6,410	\$ -	\$10,481	\$11,551	\$ -
Commercial real estate	3,812	3,869	-	7,100	7,221	-
One-to-four family mixed-use property	10,082	11,335	-	12,027	13,381	-
One-to-four family residential	12,255	14,345	-	12,816	15,709	-
Co-operative apartments	-	-	-	-	-	-
Construction	1,000	1,000	-	-	-	-
Non-mortgage loans:						
Small Business Administration	276	276	-	-	-	-
Taxi Medallion	-	-	-	-	-	-
Commercial Business and other	2,682	5,347	-	2,779	3,149	-
Total loans with no related allowance recorded	35,849	42,582	-	45,203	51,011	-
With an allowance recorded:						
Mortgage loans:						
Multi-family residential	2,305	2,305	252	2,779	2,779	286
Commercial real estate	2,371	2,371	180	2,373	2,373	21
One-to-four family mixed-use property	2,746	2,746	502	3,093	3,093	579
One-to-four family residential	343	343	51	354	354	54
Co-operative apartments	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Non-mortgage loans:						
Small Business Administration	34	34	-	-	-	-
Taxi Medallion	2,118	2,118	333	-	-	-
Commercial Business and other	2,034	2,034	112	2,713	2,713	154
Total loans with an allowance recorded	11,951	11,951	1,430	11,312	11,312	1,094
Total Impaired Loans:						
Total mortgage loans	\$40,656	\$44,724	\$ 985	\$51,023	\$56,461	\$ 940
Total non-mortgage loans	\$7,144	\$9,809	\$ 445	\$5,492	\$5,862	\$ 154

The following table shows our average recorded investment and interest income recognized for loans that were considered impaired for the three years ended December 31, 2015:

	December 31, 2015		December 31, 2014		December 31, 2013	
	Average	Interest	Average	Interest	Average	Interest
	Recorded	Recognized	Recorded	Recognized	Recorded	Recognized
	Investment	Income	Investment	Income	Investment	Income
(In thousands)						
With no related allowance recorded:						
Mortgage loans:						
Multi-family residential	\$8,285	\$ 92	\$14,168	\$ 194	\$22,091	\$ 402
Commercial real estate	4,926	7	11,329	51	19,846	266
One-to-four family mixed-use property	10,295	244	12,852	321	13,916	319
One-to-four family residential	12,985	138	13,015	103	14,529	125
Co-operative apartments	153	-	-	-	189	-
Construction	250	-	285	-	4,014	-
Non-mortgage loans:						
Small Business Administration	299	1	-	-	247	-
Taxi Medallion	-	-	-	-	-	-
Commercial Business and other	3,912	253	3,428	137	5,309	268
Total loans with no related allowance recorded	41,105	735	55,077	806	80,141	1,380
With an allowance recorded:						
Mortgage loans:						
Multi-family residential	2,343	117	2,936	149	2,892	170
Commercial real estate	997	167	3,242	167	6,388	194
One-to-four family mixed-use property	2,983	151	3,249	170	4,041	228
One-to-four family residential	347	14	358	14	368	15
Co-operative apartments	-	-	-	-	-	-
Construction	-	-	187	-	1,929	18
Non-mortgage loans:						
Small Business Administration	38	2	-	-	-	-
Taxi Medallion	1,062	66	-	-	-	-
Commercial Business and other	2,692	102	3,149	115	4,354	239
Total loans with an allowance recorded	10,462	619	13,121	615	19,972	864
Total Impaired Loans:						
Total mortgage loans	\$43,564	\$ 930	\$61,621	\$ 1,169	\$90,203	\$ 1,737
Total non-mortgage loans	\$8,003	\$ 424	\$6,577	\$ 252	\$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, Doubtful or Loss. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications, but does contain a potential weakness that deserves closer attention.

The following table sets forth the recorded investment in loans designated as Criticized or Classified at December 31, 2015:

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

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

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

Total loans	\$23,496	\$ 46,660	\$ -	\$ -	\$70,156
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**4. Loans held for sale**

The Company has implemented a strategy of selling certain delinquent and non-performing loans. Once the Company has decided to sell a loan, the sale usually will close 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 generally 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 tables show delinquent and non-performing loans sold during the period indicated:

	For the year ended December 31, 2015			
(Dollars in thousands)	Loans sold	Proceeds	Net recoveries	Net gain (loss)
Multi-family residential	9	\$ 3,540	\$ 134	\$ (1 )
Commercial real estate	4	2,615	-	13
One-to-four family - mixed-use property	10	2,831	-	57
Total	23	\$ 8,986	\$ 134	\$ 69

The above table does not include the sale of one performing commercial real estate loan for proceeds of \$3.1 million and the sale of five performing small business administration loans for proceeds totaling \$4.2 million during the year ended December 31, 2015. These loans were sold for a combined net gain on sale of \$0.3 million.

	For the year ended December 31, 2014			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain
Multi-family residential	12	\$ 5,759	\$ (80 )	\$ 9
Commercial real estate	6	4,635	295	8
One-to-four family - mixed-use property	14	5,399	122	50
Commercial business and other	2	64	20	-
Total	34	\$ 15,857	\$ 357	\$ 67

(Dollars in thousands)	For the year ended December 31, 2013			
	Loans sold	Proceeds	Net charge-offs	Net gain (loss)
Multi-family residential	21	\$ 11,420	\$ (1,024 )	\$ 99
Commercial real estate	9	5,488	(703 )	6
One-to-four family - mixed-use property	39	11,427	(2,791 )	(52)
Construction	2	5,066	(164 )	-
Commercial business and other	1	-	(21 )	-
Total	72	\$ 33,401	\$ (4,703 )	\$ 53

The above table does not include one performing commercial real estate loan for \$2.4 million which was sold for a net gain of \$0.2 million during the year ended December 31, 2013.

## 5. Other Real Estate Owned

The following table shows the activity in OREO during the periods indicated:

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Balance at beginning of year	\$6,326	\$2,985	\$5,278
Acquisitions	1,667	7,112	5,369
Reductions to carrying value	(896 )	(5 )	(243 )
Sales	(2,165)	(3,766)	(7,419)
Balance at end of year	\$4,932	\$6,326	\$2,985

OREO is included in “Other assets” within our Consolidated Statements of Financial Condition.

The following table shows the gross gains, gross losses and write-downs of OREO reported in the Consolidated Statements of Income in “Other operating expense” during the periods presented:

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Gross gains	\$306	\$178	\$443
Gross losses	(6 )	(109)	(89 )
Write-down of carrying value	(896)	(5 )	(243)
Total	\$(596)	\$64	\$111

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. During the year ended December 31, 2015, we did not foreclose on any consumer mortgages through in-substance repossession. At December 31, 2015, we held one foreclosed residential real estate totaling \$0.1 million. At December 31, 2014, we held foreclosed residential real estate totaling \$1.3 million. Included within net loans as of December 31, 2015 was a recorded investment of \$15.2 million of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

## **6. Debt and Equity Securities**

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

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

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

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

During the year ended December 31, 2015, the Company transferred municipal bonds with an amortized cost and fair value of \$4.5 million from available for sale to held-to-maturity. The transferred securities had a weighted average term to maturity of approximately seven months at the time of transfer.

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

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

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

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

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

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

The following table details the amortized cost and fair value of the Company's securities classified as held-to-maturity at December 31, 2015, by contractual maturity.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$6,140	\$6,140
Due after one year through five years	40	40
Total securities held-to-maturity	\$6,180	\$6,180

The amortized cost and fair value of the Company's securities, classified as available for sale at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	Amortized Cost (In thousands)	
Due in one year or less	\$5,976	\$6,011
Due after one year through five years	-	-
Due after five years through ten years	76,791	75,406
Due after ten years	221,344	221,950
Total other securities	304,111	303,367
Mutual funds	21,290	21,290
Mortgage-backed securities	668,910	668,740
Total securities available for sale	\$994,311	\$993,397

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

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

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

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 December 31, 2015 and 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.

**Corporate Securities:**

The unrealized losses in Corporate securities at December 31, 2015 and 2014, consist of losses on 12 and five Corporate securities, respectively. 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 December 31, 2015 and 2014.

**Collateralized Loan Obligation Securities:**

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

**Municipal Securities:**

The unrealized losses in Municipal securities at December 31, 2014, consist of losses on three 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 December 31, 2014.

**Other Securities:**

The unrealized losses in Other securities at December 31, 2015 and 2014, consist of a loss on one single issuer trust preferred security. The unrealized loss on this security was caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. This security is currently rated below investment grade. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company’s investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell this security before recovery of the security’s amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this investment to be other-than-temporarily impaired at December 31, 2015 and 2014.

During the year ended December 31, 2014, three pooled trust preferred securities for which OTTI charges were recorded in previous periods, were sold for proceeds totaling \$11.1 million, recording a net loss on sale of \$2.3 million.

**REMIC and CMO:**

The unrealized losses in Real Estate Mortgage Investment Conduit (“REMIC”) and Collateralized Mortgage Obligation (“CMO”) securities at December 31, 2015 and 2014 consist of six and seven issues, respectively, from the Federal Home Loan Mortgage Corporation (“FHLMC”), 12 and 14 issues, respectively, from the Federal National Mortgage Association (“FNMA”), and 15 and eight issues, respectively, from Government National Mortgage Association (“GNMA”). Additionally, at December 31, 2014 unrealized losses include one private issue.

The unrealized losses on the REMIC and CMO securities issued by FHLMC, FNMA, and GNMA and the private issuer 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 December 31, 2015 and 2014.

**GNMA:**

The unrealized losses in GNMA mortgage-backed securities at December 31, 2015 and 2014 consist of a loss on one security. The unrealized loss was caused by movements in interest rates. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company's investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell the security before recovery of the security's amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this security to be other-than-temporarily impaired at December 31, 2015 and 2014.

**FNMA:**

The unrealized losses in FNMA mortgage-backed securities at December 31, 2015 and 2014 consist of losses on 20 and 13 securities, respectively. 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 December 31, 2015 and 2014.

**FHMLC:**

The unrealized losses in FHMLC mortgage-backed securities at December 31, 2015 and 2014 consist of losses on three and one securities, respectively. 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 December 31, 2015 and 2014.

Credit related impairment for mortgage-backed securities are determined for each security by estimating losses based on the following set of assumptions: (1) delinquency and foreclosure levels; (2) projected losses at various loss severity levels; and (3) credit enhancement and coverage. Based on these reviews, no OTTI charge was recorded during the years ended December 31, 2015 and 2014. The Company recorded credit related OTTI charges totaling \$1.4 million on four private issue CMOs during the year ended December 31, 2013.

The private issue CMOs which incurred the above credit related OTTI charges were sold during the year ended December 31, 2013 for proceeds of \$18.3 million realizing a loss on sale of \$1.7 million.

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 years ended December 31,		
	2015	2014	2013
	(In thousands)		
Beginning balance	\$-	\$3,738	\$6,178
Recognition of actual losses	-	-	(842 )
OTTI charges due to credit loss recorded in earnings	-	-	1,419
Securities sold during the period	-	(3,738)	(3,017)
Ending balance	\$-	\$-	\$3,738

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

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Gross gains from the sale of securities	\$2,899	\$5,247	\$5,222
Gross losses from the sale of securities	(2,732)	(2,372)	(2,201)
Net gains from the sale of securities	\$167	\$2,875	\$3,021

Included in "Other assets" within our Consolidated Statements of Financial Condition are amounts held in a rabbi trust for certain non-qualified deferred compensation plans totaling \$14.8 million and \$14.0 million at December 31, 2015 and 2014, respectively.

## 7. Bank Premises and Equipment, Net

Bank premises and equipment are as follows at December 31:

	2015	2014
	(In thousands)	
Land	\$745	\$3,551

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Building and leasehold improvements	29,610	25,717
Equipment and furniture	19,770	19,197
Total	50,125	48,465
Less: Accumulated depreciation and amortization	24,503	26,597
Bank premises and equipment, net	\$25,622	\$21,868

During the year ended December 31, 2015, we sold three of our branch buildings in sale-leaseback transactions, realizing a net gain on sale of \$12.7 million, of which \$6.5 million was recognized in earnings during the year ended December 31, 2015 and \$6.2 million will be deferred and amortized over the 10 year term of the branch leases. We have no continuing involvement in the sold buildings other than as an ordinary lessee.

**8. Deposits**

Total deposits at December 31, 2015 and 2014, and the weighted average rate on deposits at December 31, 2015, are as follows:

	2015	2014	Weighted Average Rate 2015
	(Dollars in thousands)		
Interest-bearing deposits:			
Certificate of deposit accounts	\$1,403,302	\$1,305,823	1.41 %
Savings accounts	261,748	261,942	0.45
Money market accounts	472,489	290,263	0.46
NOW accounts	1,448,695	1,359,057	0.49
Total interest-bearing deposits	3,586,234	3,217,085	
Non-interest bearing demand deposits	269,469	255,834	
Total due to depositors	3,855,703	3,472,919	
Mortgagors' escrow deposits	36,844	35,679	0.17
Total deposits	\$3,892,547	\$3,508,598	

The aggregate amount of time deposits with denominations of \$250,000 or more (excluding brokered deposits issued in \$1,000.00 amounts under a master certificate of deposit) was \$169.2 million and \$109.6 million at December 31, 2015 and 2014, respectively. The aggregate amount of brokered deposits was \$982.8 million and \$763.9 million at December 31, 2015 and 2014, respectively.

Deposits obtained by the government banking division are collateralized by either securities or letters of credit issued by FHLB-NY or are placed in an Insured Cash Sweep service ("ICS"). The letters of credit are collateralized by mortgage loans pledged by the Bank.

At December 31, 2015, government banking division deposits totaled \$975.9 million, of which \$210.7 million were ICS deposits and \$765.2 million were collateralized by \$364.7 million in securities and \$494.0 million of letters of credit. At December 31, 2014, government banking division deposits totaled \$891.9 million, of which \$94.0 million were ICS deposits and \$797.9 million were collateralized by \$379.3 million in securities and \$499.1 million of letters of credit.

Interest expense on deposits is summarized as follows for the years ended December 31:



	2015	2014	2013
	(In thousands)		
Certificate of deposit accounts	\$20,943	\$22,420	\$24,414
Savings accounts	1,151	597	515
Money market accounts	1,551	667	294
NOW accounts	6,593	6,227	6,777
Total due to depositors	30,238	29,911	32,000
Mortgagors' escrow deposits	98	133	37
Total interest expense on deposits	\$30,336	\$30,044	\$32,037

Scheduled remaining maturities of certificate of deposit accounts are summarized as follows for the years ended December 31:

	2015	2014
	(In thousands)	
Within 12 months	\$448,229	\$455,295
More than 12 months to 24 months	478,361	269,840
More than 24 months to 36 months	247,349	229,931
More than 36 months to 48 months	167,529	176,876
More than 48 months to 60 months	35,558	148,424
More than 60 months	26,276	25,457
Total certificate of deposit accounts	\$1,403,302	\$1,305,823

### 9. Borrowed Funds and Securities Sold Under Agreements to Repurchase

Borrowed funds and securities sold under agreements to repurchase are summarized as follows at December 31:

	2015		2014	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Repurchase agreements - fixed rate:				
Due in 2016	\$38,000	1.92 %	\$38,000	1.92 %
Due in 2017	38,000	4.16	38,000	4.16
Due in 2020	40,000	3.45	40,000	3.45
Total repurchase agreements - fixed rate	116,000	3.18	116,000	3.18
FHLB-NY advances - fixed rate:				
Due in 2015	-	-	185,551	0.80
Due in 2016	386,152	1.04	315,847	1.15
Due in 2017	250,708	1.29	305,525	2.12
Due in 2018	265,088	1.30	74,798	1.29
Due in 2019	94,710	1.64	30,000	1.83
Due in 2020	110,000	2.98	-	-
Total FHLB-NY advances - fixed rate	1,106,658	1.40	911,721	1.44
Other Borrowings				
Due in 2016	20,000	0.56	-	-
Junior subordinated debentures - adjustable rate				

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Due in 2037	29,018	5.67	28,771	5.96
Total borrowings	\$1,271,676	1.65 %	\$1,056,492	1.75 %

During 2015, \$80.0 million in FHLB-NY fixed rate advances modified from an average cost of 4.41% to an average cost of 3.46%. This modification extended the maturity on the advances by an average of 2.3 years without incurring a prepayment penalty.

At December 31, 2015, the Bank was able to borrow up to \$2,478.8 million from the FHLB-NY in Federal Home Loan Bank advances and letters of credit. As of December 31, 2015, the Bank had \$1,601.1 million outstanding in combined balances of FHLB-NY advances and letters of credit. At December 31, 2015, the Bank also has unsecured lines of credit with other commercial banks totaling \$60.0 million.

Borrowings which have call provisions are summarized as follows at December 31, 2015:

	Amount	Rate	Maturity Date	Call Date
	(Dollars in thousands)			
FHLB-NY advances - fixed rate	\$30,000	3.60%	1/23/2020	1/23/2016
FHLB-NY advances - fixed rate	20,000	3.49	1/23/2020	1/25/2016
FHLB-NY advances - fixed rate	10,000	3.37	1/27/2020	1/26/2016
FHLB-NY advances - fixed rate	10,000	3.28	1/27/2020	1/26/2016
FHLB-NY advances - fixed rate	10,000	3.25	1/28/2020	1/28/2016
Repurchase agreements - fixed rate	20,000	2.20	7/12/2016	1/12/2016
Repurchase agreements - fixed rate	18,000	4.28	10/18/2017	1/19/2016
Repurchase agreements - fixed rate	18,000	1.60	4/19/2016	1/19/2016
Repurchase agreements - fixed rate	10,000	3.08	8/1/2020	2/1/2016
Repurchase agreements - fixed rate	10,000	3.19	2/1/2020	2/1/2016
Repurchase agreements - fixed rate	20,000	3.76	8/1/2020	2/1/2016
Repurchase agreements - fixed rate	20,000	4.05	9/19/2017	3/21/2016

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

Information relating to these agreements at or for the years ended December 31 is as follows:

	2015	2014	2013
	(Dollars in thousands)		
Book value of collateral	\$131,421	\$142,925	\$199,447
Estimated fair value of collateral	131,421	142,925	199,447
Average balance of outstanding agreements during the year	116,000	137,824	172,944
Maximum balance of outstanding agreements at a month end during the year	116,000	155,300	185,300

Average interest rate of outstanding agreements during the year <sup>(1)</sup> 3.22 % 5.37 % 3.42 %

During the year ended December 31, 2014, the Company prepaid \$30.0 million in FHLB-NY repurchase 1. agreements at an average cost of 4.98% while incurring a prepayment penalty totaling \$2.7 million. Excluding the prepayment penalty, the average interest rate of agreements during the year ended December 31, 2014 was 3.40%.

Pursuant to a blanket collateral agreement with the FHLB-NY, advances are secured by all of the Bank's stock in the FHLB-NY and certain qualifying mortgage loans in an amount at least equal to 110% of the advances outstanding. The Bank may also pledge mortgage-backed and mortgage-related securities, and other securities not otherwise pledged.

The Holding Company has three trusts formed under the laws of the State of Delaware for the purpose of issuing capital and common securities, and investing the proceeds thereof in junior subordinated debentures of the Holding Company. Each of these trusts issued \$20.6 million of securities which had a fixed-rate for the first five years, after which they reset quarterly based on a spread over 3-month LIBOR. The securities were first callable at par after five years, and pay cumulative dividends. The Holding Company has guaranteed the payment of these trusts' obligations under their capital securities. The terms of the junior subordinated debentures are the same as those of the capital securities issued by the trusts. The junior subordinated debentures issued by the Holding Company are carried at fair value in the consolidated financial statements.

The table below shows the terms of the securities issued by the trusts.

	Flushing Financial Capital Trust II	Flushing Financial Capital Trust III	Flushing Financial Capital Trust IV
Issue Date	June 20, 2007	June 21, 2007	July 3, 2007
Initial Rate	7.14	% 6.89	% 6.85 %
First Reset Date	September 1, 2012	June 15, 2012	July 30, 2012
Spread over 3-month LIBOR	1.41	% 1.44	% 1.42 %
Maturity Date	September 1, 2037	September 15, 2037	July 30, 2037

The consolidated financial statements do not include the securities issued by the trusts, but rather include the junior subordinated debentures of the Holding Company.

## 10. Income Taxes

Flushing Financial Corporation files consolidated Federal and combined New York State and New York City income tax returns with its subsidiaries, with the exception of the trusts, which file separate Federal income tax returns as trusts, and FPFC, which files a separate Federal income tax return as a real estate investment trust. Additionally, the Bank files New Jersey State tax returns. The Company remains subject to examination for its Federal, New York State and New Jersey income tax returns for the years ending on or after December 31, 2012. The Company is undergoing an examination of its New York City income tax returns for 2011, 2012 and 2013.

Income tax provisions are summarized as follows for the years ended December 31:

	2015	2014	2013
	(In thousands)		

Federal:

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Current	\$25,319	\$18,052	\$17,808
Deferred	(3,476 )	2,860	(464 )
Total federal tax provision	21,843	20,912	17,344
State and Local:			
Current	7,059	6,369	5,828
Deferred	(1,735 )	1,292	(216 )
Total state and local tax provision	5,324	7,661	5,612
Total income tax provision	\$27,167	\$28,573	\$22,956

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The income tax provision in the Consolidated Statements of Income has been provided at effective rates of 37.0%, 39.2% and 37.8% for the years ended December 31, 2015, 2014 and 2013, respectively. The effective rates differ from the statutory federal income tax rate as follows for the years ended December 31:

	2015		2014		2013	
	(Dollars in thousands)					
Taxes at federal statutory rate	\$25,681	35.0%	\$25,484	35.0%	\$21,248	35.0%
Increase (reduction) in taxes resulting from:						
State and local income tax, net of Federal income tax benefit	3,461	4.7	4,980	6.8	3,648	6.0
Other	(1,975)	(2.7)	(1,891)	(2.6)	(1,940)	(3.2)
Taxes at effective rate	\$27,167	37.0%	\$28,573	39.2%	\$22,956	37.8%

The components of the net deferred tax assets are as follows at December 31:

	2015	2014
	(In thousands)	
Deferred tax asset:		
Postretirement benefits	\$6,798	\$5,407
Allowance for loan losses	9,437	11,007
Stock based compensation	3,404	2,821
Depreciation	1,941	1,740
Unrealized loss on securities available for sale	395	-
Derivative financial instruments	1,724	1,025
Adjustment required to recognize funded status of postretirement pension plans	3,833	4,787
Gain on sale of buildings	2,531	-
Other	2,460	3,023
Deferred tax asset	32,523	29,810
Deferred tax liability:		
Valuation differences resulting from acquired assets and liabilities	-	2,764
Fair value adjustment on financial assets carried at fair value	187	132
Fair value adjustment on financial liabilities carried at fair value	14,364	14,480
Unrealized gains on securities available for sale	-	2,588
Other	3,411	2,525
Deferred tax liability	17,962	22,489
Net deferred tax asset included in other assets	\$14,561	\$7,321

The Company has recorded a deferred tax asset of \$32.5 million. 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 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 \$18.0 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 December 31, 2015 and 2014.

The Company does not have uncertain tax positions that are deemed material. The Company's policy is to recognize interest and penalties on income taxes in operating expenses. During the three years ended December 31, 2015, the Company did not recognize any material amounts of interest or penalties on income taxes.

## 11. Stock Based Compensation

For the years ended December 31, 2015, 2014 and 2013 the Company's net income, as reported, includes \$4.8 million, \$4.3 million and \$3.4 million, respectively, of stock-based compensation costs and \$1.8 million, \$1.7 million and \$1.3 million, respectively, of income tax benefits related to the stock-based compensations plans.

The Company estimates the fair value of stock options using the Black-Scholes valuation model at the date of grant. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock price, the risk-free interest rate over the options' expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. There were no stock options granted for the three years ended December 31, 2015. There were 318,120, 266,895 and 246,045 restricted stock units granted for the years ended December 31, 2015, 2014 and 2013, respectively.

The 2014 Omnibus Incentive Plan ("2014 Omnibus Plan") became effective on May 20, 2014 after adoption by the Board of Directors and approval by the stockholders. The 2014 Omnibus Plan authorizes the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can, but need not, be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The 2014 Omnibus Plan authorizes the issuance of 1,100,000 shares. To the extent that an award under the 2014 Omnibus Plan is cancelled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a participant in payment of the exercise price or taxes relating to an award, the shares retained by or returned to the Company will be available for future issuance under the 2014 Omnibus Plan. No further awards may be granted under the Company's 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan ("Prior Plans"). At December 31, 2015, there were 787,180 shares available for delivery in connection with awards under the 2014 Omnibus Plan. To satisfy stock option exercises or fund restricted stock and restricted stock unit awards, shares are issued from treasury stock, if available; otherwise new shares are issued. The exercise price per share of a stock option grant may not be less than the fair market value of the common stock of the Company, as defined in the 2014 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 2014 Omnibus Plan are generally subject to a minimum vesting period of three years with stock options having a 10-year maximum contractual term. Other awards do not have a contractual term of expiration. The Compensation Committee is authorized to grant awards that vest upon a participant's retirement. These amounts are included in stock-based compensation expense at the time of the participant's retirement eligibility.



The following table summarizes the Company's restricted stock unit ("RSU") awards under the 2014 Omnibus Plan and the Prior Plans in the aggregate for the year ended December 31, 2015:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2014	373,154	\$ 16.75
Granted	318,120	19.10
Vested	(260,700)	17.36
Forfeited	(14,665 )	18.39
Non-vested at December 31, 2015	415,909	\$ 18.10
Vested but unissued at December 31, 2015	290,226	\$ 18.08

As of December 31, 2015, there was \$5.4 million of total unrecognized compensation cost related to RSU awards granted under the 2014 Omnibus Plan and the Prior Plans. That cost is expected to be recognized over a weighted-average period of 3.2 years. The total fair value of awards vested for the years ended December 31, 2015, 2014 and 2013 were \$4.9 million, \$4.4 million and \$2.9 million, respectively. The vested but unissued RSU awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of these awards, which provide for vesting upon retirement, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting and settlement dates. As of December 31, 2015, there is no remaining unrecognized compensation cost related to stock options granted.

The following table summarizes certain information regarding the stock option awards under the 2014 Omnibus Plan and the Prior Plans in the aggregate for the year ended December 31, 2015:

	Shares	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual (years)	Aggregate Intrinsic Value (\$000)*
Outstanding at December 31, 2014	154,915	\$ 15.19		
Granted	-	-		
Exercised	(45,785 )	12.92		
Forfeited	-	-		
Outstanding at December 31, 2015	109,130	\$ 16.14	2.3	\$ 600
Exercisable shares at December 31, 2015	109,130	\$ 16.14	2.3	\$ 600

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



Cash proceeds, fair value received, tax benefits, and intrinsic value related to stock options exercised, and the weighted average grant date fair value for options granted, during the years ended December 31, 2015, 2014 and 2013 are provided in the following table:

(In thousands, except grant date fair value)	2015	2014	2013
Proceeds from stock options exercised	\$ 145	\$ 565	\$ 533
Fair value of shares received upon exercise of stock options	447	1,962	6,814
Tax benefit related to stock options exercised	99	88	151
Intrinsic value of stock options exercised	330	488	1,228
Weighted average fair value on grant date	n/a	n/a	n/a

*Phantom Stock Plan:* The Company maintains a non-qualified phantom stock plan as a supplement to its profit sharing plan for officers who have achieved the designated level and completed one year of service. Prior to January 1, 2015, the Plan included officers at a level that are no longer qualified to participate, however those that were eligible remain eligible to participate in the Plan. Awards are made under this plan on certain compensation not eligible for awards made under the profit sharing plan, due to the terms of the profit sharing plan and the Internal Revenue Code. Employees receive awards under this plan proportionate to the amount they would have received under the profit sharing plan, but for limits imposed by the profit sharing plan and the Internal Revenue Code. The awards are made as cash awards, and then converted to common stock equivalents (phantom shares) at the then current fair value of the Company's common stock. Dividends are credited to each employee's account in the form of additional phantom shares each time the Company pays a dividend on its common stock. In the event of a change of control (as defined in this plan), an employee's interest is converted to a fixed dollar amount and deemed to be invested in the same manner as his interest in the Bank's non-qualified deferred compensation plan. Employees vest under this plan 20% per year for the first 5 years of employment and are 100% vested thereafter. Employees also become 100% vested upon a change of control. Employees receive their vested interest in this plan in the form of a cash lump sum payment or installments, as elected by the employee, after termination of employment. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

The following table summarizes the Company's Phantom Stock Plan at or for the year ended December 31, 2015:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2014	67,113	\$20.27
Granted	12,924	19.44
Forfeited	(3 )	20.78
Distributions	(594 )	19.82
Outstanding at December 31, 2015	79,440	\$21.64
Vested at December 31, 2015	78,857	\$21.64

The Company recorded stock-based compensation expense for the phantom stock plan of \$169,000, \$17,000 and \$343,000 for the years ended December 31, 2015, 2014 and 2013, respectively. The total fair value of distributions from the phantom stock plan were \$12,000, \$35,000 and \$9,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

**12. Pension and Other Postretirement Benefit Plans**

The amounts recognized in accumulated other comprehensive income, on a pre-tax basis, consist of the following, as of December 31:

	Net Actuarial loss (gain)			Prior Service cost (credit)			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	(In thousands)								
Employee Retirement Plan	\$8,589	\$9,938	\$5,899	\$-	\$-	\$-	\$8,589	\$9,938	\$5,899
Other Postretirement Benefit Plans	1,296	2,130	205	(538)	(623)	(708)	758	1,507	(503)
Outside Directors Plan	(562)	(488)	(496)	91	131	171	(471)	(357)	(325)
Total	\$9,323	\$11,580	\$5,608	\$(447)	\$(492)	\$(537)	\$8,876	\$11,088	\$5,071

Amounts in accumulated other comprehensive income to be recognized as components of net periodic expense for these plans in 2016 are as follows:

	Net	Prior	Total
	Actuarial loss (gain)	Service cost (credit)	
	(In thousands)		
Employee Retirement Plan	\$808	\$ -	\$808
Other Postretirement Benefit Plans	47	(85)	(38)
Outside Directors Plan	(86)	40	(46)
Total	\$769	\$(45)	\$724

**Employee Retirement Plan:**

The Bank has a funded noncontributory defined benefit retirement plan covering substantially all of its salaried employees who were hired before September 1, 2005 (the "Retirement Plan"). The benefits are based on years of service and the employee's compensation during the three consecutive years out of the final ten years of service, which was completed prior to September 30, 2006, the date the Retirement Plan was frozen, that produces the highest average. The Bank's funding policy is to contribute annually the amount recommended by the Retirement Plan's actuary. The Bank's Retirement Plan invests in diversified equity and fixed-income funds, which are independently managed by a third party. The Company did not make a contribution to the Retirement Plan during the years ended December 31, 2015 or 2014. The Company contributed \$0.8 million to the Retirement Plan during the year ended December 31, 2013. The Company uses a December 31 measurement date for the Retirement Plan.





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The following table sets forth, for the Retirement Plan, the change in benefit obligation and assets, and for the Company, the amounts recognized in the Consolidated Statements of Financial Condition at December 31:

	2015	2014
	(In thousands)	
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$24,097	\$19,740
Interest cost	889	891
Actuarial (gain) loss	(1,208 )	4,446
Benefits paid	(1,014 )	(980 )
Projected benefit obligation at end of year	22,764	24,097
Change in plan assets:		
Market value of assets at beginning of year	20,509	20,496
Actual return on plan assets	429	993
Benefits paid	(1,014 )	(980 )
Market value of plan assets at end of year	19,924	20,509
Accrued pension liability included in other liabilities	\$(2,840 )	\$(3,588 )

The accumulated benefit obligation for the Retirement Plan was \$22.8 million and \$24.1 million at December 31, 2015 and 2014, respectively.

Assumptions used to determine the Retirement Plan's benefit obligations are as follows at December 31:

	2015	2014
Weighted average discount rate	4.06 %	3.76 %
Rate of increase in future compensation levels	n/a	n/a
Expected long-term rate of return on assets	7.25 %	7.50 %

The components of the net pension expense for the Retirement Plan are as follows for the years ended December 31:

	2015	2014	2013
	(In thousands)		
Interest cost	\$889	\$891	\$827
Amortization of unrecognized loss	1,112	759	1,222
Expected return on plan assets	(1,400)	(1,344)	(1,261)
Net pension expense (benefit)	601	306	788

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Current year actuarial (gain) loss	(237 )	4,798	(4,722)
Amortization of actuarial loss	(1,112)	(759 )	(1,222)
Total recognized in other comprehensive income	(1,349)	4,039	(5,944)
Total recognized in net pension cost (benefit) and other comprehensive income	\$(748 )	\$4,345	\$(5,156)

Assumptions used to develop periodic pension cost for the Retirement Plan for the years ended December 31:

	2015	2014	2013
Weighted average discount rate	3.76%	4.60%	3.75%
Rate of increase in future compensation levels	n/a	n/a	n/a
Expected long-term rate of return on assets	7.50%	7.50%	7.50%

The following benefit payments, which reflect expected future service, are expected to be paid by the Retirement Plan:

For the years ending December 31:	Future Benefit Payments (In thousands)
2016	\$ 1,172
2017	1,184
2018	1,177
2019	1,192
2020	1,193
2021 – 2025	6,502

The long-term rate-of-return-on-assets assumption was set based on historical returns earned by equities and fixed income securities, adjusted to reflect expectations of future returns as applied to the plan's target allocation of asset classes. Equities and fixed income securities were assumed to earn real rates of return in the ranges of 8-10% and 3-5%, respectively. When these overall return expectations are applied to the plans target allocation, the result is an expected rate return of approximately 8%.

The Retirement Plan's weighted average asset allocations at December 31, by asset category, were:

	2015	2014
Equity securities	70%	68%
Debt securities	30%	32%

Plan assets are invested in a diversified mix of stock and bond investment funds on the pooled account, group annuity platform of Prudential Retirement Services. Each fund has its own investment objectives, investment strategies and risks as detailed in its prospectus.

The long-term investment objectives are to maintain plan assets at a level that will sufficiently cover long-term obligations and to generate a return on plan assets that will meet or exceed the rate at which long-term obligations will grow. A combination of equity and fixed income portfolios are used to help achieve these objectives based on a long-term, liability based strategic mix of 60% equities and 40% fixed income. Adjustments to this mix are made periodically based on current capital market conditions and plan funding levels. Performance of the investment fund managers is monitored on an ongoing basis using modern portfolio risk analysis and appropriate index benchmarks.

The Bank does not expect to make a contribution to the Retirement Plan in 2016.

The fair value of the pooled separate accounts is determined by the investment manager and is based on the value of the underlying assets held at December 31, 2015 and 2014.

The following tables set forth the Retirement Plan's assets which are all carried at fair value, and the method that was used to determine their fair value, at December 31, 2015 and 2014:

<u>December 31, 2015</u>	Total	Quoted Prices in Active Markets for Identical Assets		
		Level 1	Level 2	Level 3
	(In thousands)		Significant Other Observable Inputs	Significant Other Unobservable Inputs
Pooled Separate Accounts				
U.S. large-cap growth (a)	\$5,114	\$ -	\$ 5,114	\$ -
U.S. large-cap value (b)	4,619	-	4,619	-
U.S. small-cap blend (c)	2,094	-	2,094	-
International blend (d)	2,079	-	2,079	-
Bond fund (e)	5,671	-	5,671	-
Prudential short term (f)	347	-	347	-
<b>Total</b>	<b>\$ 19,924</b>	<b>\$ -</b>	<b>\$ 19,924</b>	<b>\$ -</b>

<u>December 31, 2014</u>	Total	Quoted Prices in Active Markets for Identical Assets		
		Level 1	Level 2	Level 3
	(In thousands)		Significant Other Observable Inputs	Significant Other Unobservable Inputs
Pooled Separate Accounts				
U.S. large-cap growth (a)	\$4,832	\$ -	\$ 4,832	\$ -
U.S. large-cap value (b)	4,939	-	4,939	-
U.S. small-cap blend (c)	2,163	-	2,163	-
International blend (d)	1,966	-	1,966	-
Bond fund (e)	6,274	-	6,274	-
Prudential short term (f)	335	-	335	-
<b>Total</b>	<b>\$ 20,509</b>	<b>\$ -</b>	<b>\$ 20,509</b>	<b>\$ -</b>

a. Comprised of large-cap stocks seeking to outperform, over the long term, the Russell 1000 Growth Index. The portfolio will typically hold between 55 and 70 stocks.

b. Comprised of large-cap stocks seeking to outperform the Russell 1000 Value benchmark over the rolling three and five year periods, or a full market cycle, whichever is longer.

- c. Comprised of stocks with market capitalization of between \$100 million and the market capitalization of the largest stock in the Russell 2000 index at the time of purchase. The portfolio will typically hold between 40 and 100 stocks.
- d. Comprised of non-U.S. domiciled stocks. The portfolio will typically hold between 80 and 90 stocks.
- e. Comprised of a portfolio of fixed income securities including U.S agency mortgage-backed securities and investment grade bonds.
  - f. Comprised of money market instruments with an emphasis on safety and liquidity.

**Other Postretirement Benefit Plans:**

The Company sponsors two unfunded postretirement benefit plans (the “Postretirement Plans”) that cover all retirees who were full-time permanent employees with at least five years of service, and their spouses. Effective January 1, 2012, the Postretirement Plans are no longer available for new hires. One plan provides medical benefits through a 50% cost sharing arrangement. Effective January 1, 2000, the spouses of future retirees were required to pay 100% of the premiums for their coverage. The other plan provides life insurance benefits and is noncontributory. Effective January 1, 2010, life insurance benefits are not available for future retirees. Under these programs, eligible retirees receive lifetime medical and life insurance coverage for themselves and lifetime medical coverage for their spouses. The Company reserves the right to amend or terminate these plans at its discretion.

Comprehensive medical plan benefits equal the lesser of the normal plan benefit or the total amount not paid by Medicare. Life insurance benefits for retirees are based on annual compensation and age at retirement. As of December 31, 2015, the Company has not funded these plans. The Company used a December 31 measurement date for these plans.

The following table sets forth, for the Postretirement Plans, the change in benefit obligation and assets, and for the Company, the amounts recognized in the Consolidated Statements of Financial Condition at December 31:

	2015	2014
	(In thousands)	
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$8,073	\$5,586
Service cost	382	358
Interest cost	300	253
Actuarial loss (gain)	(715 )	1,925
Benefits paid	(63 )	(49 )
Projected benefit obligation at end of year	7,977	8,073
Change in plan assets:		
Market value of assets at beginning of year	-	-
Employer contributions	63	49
Benefits paid	(63 )	(49 )
Market value of plan assets at end of year	-	-
Accrued pension cost included in other liabilities	\$(7,977)	\$(8,073)

The accumulated benefit obligation for the Postretirement Plans was \$8.0 million and \$8.1 million at December 31, 2015 and 2014, respectively.



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Assumptions used in determining the actuarial present value of the accumulated postretirement benefit obligations at December 31 are as follows:

	2015	2014
Rate of return on plan assets	n/a	n/a
Discount rate	4.06%	3.76%
Rate of increase in health care costs		
Initial	7.00%	8.00%
Ultimate (year 2018)	5.00%	5.00%
Annual rate of salary increase for life insurance	n/a	n/a

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The resulting net periodic postretirement expense consisted of the following components for the years ended December 31:

	2015	2014	2013
	(In thousands)		
Service cost	\$382	\$358	\$449
Interest cost	300	253	219
Amortization of unrecognized loss	119	-	50
Amortization of past service credit	(85 )	(85 )	(85 )
Net postretirement benefit expense	716	526	633
Current year actuarial (gain) loss	(715)	1,925	(943)
Amortization of actuarial loss	(119)	-	(50 )
Amortization of prior service credit	85	85	85
Total recognized in other comprehensive income	(749)	2,010	(908)
Total recognized in net postretirement expense and other comprehensive income	\$(33 )	\$2,536	\$(275)

Assumptions used to develop periodic postretirement expense for the Postretirement Plans for the years ended December 31 were:

	2015	2014	2013
Rate of return on plan assets	n/a	n/a	n/a
Discount rate	3.76%	4.60%	3.75 %
Rate of increase in health care costs			
Initial	8.00%	9.00%	10.00%
Ultimate (year 2018)	5.00%	5.00%	5.00 %
Annual rate of salary increase for life insurance	n/a	n/a	n/a

The health care cost trend rate assumptions have a significant effect on the amounts reported. A one percentage point change in assumed health care trend rates would have the following effects:

	Increase	Decrease
	(In thousands)	
Effect on postretirement benefit obligation	\$1,634	\$(1,240)
Effect on total service and interest cost	177	(131 )

The Company expects to pay benefits of \$189,000 under its Postretirement Plans in 2016.

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The following benefit payments under the Postretirement Plan, which reflect expected future service, are expected to be paid:

For the years ending December 31:	Future Benefit Payments (In thousands)
2016	\$ 189
2017	229
2018	255
2019	280
2020	263
2021 – 2025	1,524

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**Defined Contribution Plans:**

The Company maintains a tax qualified 401(k) plan which covers substantially all salaried employees who have completed one year of service. Currently, annual matching contributions under the Bank's 401(k) plan equal 50% of the employee's contributions, up to a maximum of 3% of the employee's compensation. In addition, the 401(k) plan includes the Defined Contribution Retirement Plan ("DCRP"), under which the Bank contributes an amount equal to 4% of an employee's eligible compensation as defined in the plan, and the Profit Sharing Plan ("PSP"), under which at the discretion of the Company's Board of Directors a contribution is made. Contributions for the DCRP and PSP are made in the form of Company common stock at or after the end of each year. Annual contributions under these plans are subject to the limits imposed under the Internal Revenue Code. Contributions by the Company into the 401(k) plan vest 20% per year over the employee's first five years of service. Contributions to these plans are 100% vested upon a change of control (as defined in the applicable plan). Compensation expense recorded by the Company for these plans amounted to \$3.0 million, \$3.1 million and \$2.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The Bank provides a non-qualified deferred compensation plan as an incentive for officers who have achieved the designated level and completed one year of service. Prior to January 1, 2015, the Plan included officers at a level that are no longer qualified to participate, however those that were eligible remain eligible to participate in the Plan. In addition to the amounts deferred by the officers, the Bank matches 50% of their contributions, generally up to a maximum of 5% of the officers' salary. Matching contributions under this plan vest 20% per year for five years. The non-qualified deferred compensation plan assets are held in a rabbi trust totaling \$10.6 million and \$10.0 million at December 31, 2015 and 2014, respectively. Contributions become 100% vested upon a change of control (as defined in the plan). Compensation expense recorded by the Company for this plan amounted to \$0.4 million for each of the years ended December 31, 2015, 2014 and 2013.

**Employee Benefit Trust:**

An Employee Benefit Trust ("EBT") has been established to assist the Company in funding its benefit plan obligations. In connection with the Bank's conversion to a federal stock savings bank in 1995, the EBT borrowed \$7.9 million from the Company and used \$7,000 of cash received from the Bank to purchase 2,328,750 shares of the common stock of the Company. The loan was repaid from the Company's discretionary contributions to the EBT and dividend payments received on common stock held by the EBT. During the year ended December 31, 2010, the loan was fully repaid. Dividend payments received subsequent to the loan being repaid are used to purchase additional shares of common stock. Shares purchased with the loan proceeds are held in a suspense account for contribution to specified benefit plans. Shares released from the suspense account are used solely for funding matching contributions under the Bank's 401(k) plan, contributions to the 401(k) plan for the DCRP, and contributions to the PSP. For the years ended December 31, 2015, 2014 and 2013, the Company funded \$2.8 million, \$2.7 million and \$2.3 million, respectively, of employer contributions to the 401(k), DCRP and profit sharing plans from the EBT.

Upon a change of control (as defined in the EBT), the EBT will terminate and any trust assets remaining after certain benefit plan contributions will be distributed to all full-time employees of the Company with at least one year of service, in proportion to their compensation over the four most recently completed calendar years plus the portion of the current year prior to the termination of the EBT.

As shares are released from the suspense account, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings per share computations. The EBT shares are as follows at December 31:

	2015	2014
Shares owned by Employee Benefit Trust, beginning balance	800,950	913,792
Shares purchased	22,102	23,717
Shares released and allocated	(147,616 )	(136,559 )
Shares owned by Employee Benefit Trust, ending balance	675,436	800,950
Market value of unallocated shares.	\$14,616,435	\$16,235,257

#### **Outside Director Retirement Plan:**

The Bank has an unfunded noncontributory defined benefit Outside Director Retirement Plan (the “Directors’ Plan”), which provides benefits to each non-employee director who became a non-employee director before January 1, 2004, who has at least five years of service as a non-employee director and whose years of service as a non-employee director plus age equals or exceeds 55. Benefits are also payable to a non-employee director who became a non-employee director before January 1, 2004 and whose status as a non-employee director terminates because of death or disability or who is a non-employee director upon a change of control (as defined in the Directors’ Plan). Any person who became a non-employee director after January 1, 2004 is not eligible to participate in the Directors’ Plan. Upon termination an eligible director will be paid an annual retirement benefit equal to \$48,000. Such benefit will be paid in equal monthly installments for the lesser of the number of months such director served as a non-employee director or 120 months. In the event of a termination of Board service due to a change of control, a non-employee director who has completed at least two years of service as a non-employee director will receive a cash lump sum payment equal to 120 months of benefit, and a non-employee director with less than two years of service will receive a cash lump sum payment equal to a number of months of benefit equal to the number of months of his service as a non-employee director. In the event of the director’s death, the surviving spouse will receive the equivalent benefit. No benefits will be payable to a director who is removed for cause. The Holding Company has guaranteed the payment of benefits under the Directors’ Plan, for this reason the Bank has assets held in a rabbi trust totaling \$4.2 million and \$3.9 million at December 31, 2015 and 2014, respectively. Upon adopting the Directors’ Plan, the Bank elected to immediately recognize the effect of adopting the Directors’ Plan. Subsequent plan amendments are amortized as a past service liability. The Bank uses a December 31 measurement date for the Directors’ Plan.

The following table sets forth, for the Directors' Plan, the change in benefit obligation and assets, and for the Company, the amounts recognized in the Consolidated Statements of Financial Condition at December 31:

	2015	2014
	(In thousands)	
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$2,663	\$2,666
Service cost	45	54
Interest cost	95	116
Actuarial gain	(129 )	(53 )
Benefits paid	(144 )	(120 )
Projected benefit obligation at end of year	2,530	2,663
Change in plan assets:		
Market value of assets at beginning of year	-	-
Employer contributions	144	120
Benefits paid	(144 )	(120 )
Market value of plan assets at end of year	-	-
Accrued pension cost included in other liabilities	\$(2,530)	\$(2,663)

The accumulated benefit obligation for the Directors' Plan was \$2.5 million and \$2.7 million at December 31, 2015 and 2014, respectively.

The components of the net pension expense for the Directors' Plan are as follows for the years ended December 31:

	2015	2014	2013
	(In thousands)		
Service cost	\$45	\$54	\$82
Interest cost	95	116	98
Amortization of unrecognized gain	(56 )	(60 )	(36 )
Amortization of past service liability	40	40	40
Net pension expense	124	150	184
Current actuarial gain	(130)	(52 )	(122)
Amortization of actuarial gain	56	60	36
Amortization of prior service cost	(40 )	(40 )	(40 )
Total recognized in other comprehensive income	(114)	(32 )	(126)
Total recognized in net pension expense and other comprehensive income	\$10	\$118	\$58

Assumptions used to determine benefit obligations and periodic pension expense for the Directors' Plan for the years ended December 31:

	2015	2014	2013
Weighted average discount rate for the benefit obligation	4.06%	3.76%	4.60%
Weighted average discount rate for periodic pension benefit expense	3.76%	4.60%	3.75%
Rate of increase in future compensation levels	n/a	n/a	n/a

The following benefit payments under the Directors' Plan, which reflect expected future service, are expected to be paid:

For the years ending December 31:	Future Benefit Payments (In thousands)
2016	\$ 288
2017	288
2018	272
2019	288
2020	288
2021 – 2025	1,244

The Company expects to make payments of \$288,000 under its Directors' Plan in 2016.

### 13. Stockholders' Equity

#### **Dividend Restrictions on the Bank:**

In connection with the Bank's conversion from mutual to stock form in November 1995, a special liquidation account was established at the time of conversion, in accordance with the requirements of its primary regulator, which was equal to its capital as of June 30, 1995. The liquidation account is reduced as and to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases in deposits do not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of the Bank, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held. As of December 31, 2015, the Bank's liquidation account was \$0.8 million, and was presented within retained earnings.

In addition to the restriction described above, New York State and Federal banking regulations place certain restrictions on dividends paid by the Bank to the Holding Company. The total amount of dividends which may be paid at any date is generally limited to the net income of the Bank for the current year and prior two years, less any dividends previously paid from those earnings. As of December 31, 2015, the Bank had \$67.4 million in retained earnings available to distribute to the Holding Company in the form of cash dividends.



In addition, dividends paid by the Bank to the Holding Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

As a bank holding company, the Holding Company is subject to similar dividend restrictions.

#### **Stockholder Rights Plan:**

The Holding Company has adopted a Shareholder Rights Plan under which each stockholder has one right to purchase from the Holding Company, for each share of common stock owned, one one-hundredth of a share of Series A junior participating preferred stock at a price of \$65. The rights will become exercisable only if a person or group acquires 15% or more of the Holding Company's common stock or commences a tender or exchange offer which, if consummated, would result in that person or group owning at least 15% of the Common Stock (the "acquiring person or group"). In such case, all stockholders other than the acquiring person or group will be entitled to purchase, by paying the \$65 exercise price, Common Stock (or a common stock equivalent) with a value of twice the exercise price. In addition, at any time after such event, and prior to the acquisition by any person or group of 50% or more of the Common Stock, the Board of Directors may, at its option, require each outstanding right (other than rights held by the acquiring person or group) to be exchanged for one share of Common Stock (or one common stock equivalent). If a person or group becomes an acquiring person and the Holding Company is acquired in a merger or other business combination or sells more than 50% of its assets or earning power, each right will entitle all other holders to purchase, by payment of \$65 exercise price, common stock of the acquiring company with a value of twice the exercise price. The Shareholder Rights Plan expires on September 30, 2016.

#### **Treasury Stock Transactions:**

The Holding Company repurchased 735,599 common shares at an average cost of \$19.51 and 914,671 common shares at an average cost of \$19.29 during the years ended December 31, 2015 and 2014, respectively. At December 31, 2015, 899,600 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.

#### **Accumulated Other Comprehensive Income (Loss):**

The following are changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ended December 31, 2015, 2014 and 2013:

<u>December 31, 2015</u>	Unrealized Gains and (Losses) on Available Items for Sale Securities (In thousands)	Defined Benefit Pension	Total
Beginning balance, net of tax	\$3,392	\$(6,299)	\$(2,907)
Other comprehensive income (loss) before reclassifications, net of tax	(3,818)	615	(3,203)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(95 )	643	548
Net current period other comprehensive income (loss), net of tax	(3,913)	1,258	(2,655)
Ending balance, net of tax	\$(521 )	\$(5,041)	\$(5,562)

<u>December 31, 2014</u>	Unrealized Gains and (Losses) on Available Items for Sale Securities (In thousands)	Defined Benefit Pension	Total
Beginning balance, net of tax	\$(8,522 )	\$(2,853 )	\$(11,375 )
Other comprehensive income (loss) before reclassifications, net of tax	13,548	(3,790)	9,758
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(1,634 )	344	(1,290 )
Net current period other comprehensive income (loss), net of tax	11,914	(3,446)	8,468
Ending balance, net of tax	\$3,392	\$(6,299)	\$(2,907 )

<u>December 31, 2013</u>	Unrealized Gains and (Losses) on Available Items for Sale Securities (In thousands)	Defined Benefit Pension	Total
Beginning balance, net of tax	\$18,921	\$(6,784)	\$12,137
Other comprehensive income before reclassifications, net of tax	(26,541)	3,261	(23,280)
Amounts reclassified from accumulated other comprehensive income, net of tax	(902 )	670	(232 )
Net current period other comprehensive income, net of tax	(27,443)	3,931	(23,512)
Ending balance, net of tax	\$(8,522 )	\$(2,853)	\$(11,375)

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the year ended December 31, 2015:

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)		
Unrealized gains (losses) on available for sale securities:	\$ 167	Net gain on sale of securities
	(72 )	Tax expense
	\$ 95	Net of tax
Amortization of defined benefit pension items:		
Actuarial losses	\$ (1,178 )	Other operating expense
Prior service credits	46 (1)	Other operating expense
	(1,132 )	Total before tax
	489	Tax benefit
	\$ (643 )	Net of tax

These accumulated other comprehensive income components are included in the computation of net periodic (1)pension cost (see Note 12 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the year ended December 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)		
Unrealized gains (losses) on available for sale securities:	\$ 2,875	Net gain on sale of securities
	(1,241 )	Tax expense
	\$ 1,634	Net of tax
Amortization of defined benefit pension items:		

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Actuarial losses	\$ (700	)(1)	Other operating expense
Prior service credits	45	(1)	Other operating expense
	(655	)	Total before tax
	311		Tax benefit
	\$ (344	)	Net of tax

These accumulated other comprehensive income components are included in the computation of net periodic (1)pension cost (see Note 12 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).

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

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)		
Unrealized gains (losses) on available for sale securities:	\$ 3,021	Net gain on sale of securities
	(1,321 )	Tax expense
	\$ 1,700	Net of tax
OTTI charges	\$ (1,419 )	OTTI charge
	621	Tax benefit
	\$ (798 )	Net of tax
Amortization of defined benefit pension items:		
Actuarial losses	\$ (1,237 )	Other operating expense
Prior service credits	46 (1)	Other operating expense
	(1,191 )	Total before tax
	521	Tax benefit
	\$ (670 )	Net of tax

These accumulated other comprehensive income components are included in the computation of net periodic (1) pension cost (see Note 12 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).

#### 14. Regulatory Capital

The federal banking agencies have substantially amended the regulatory risk-based capital rules applicable to the Bank. The amendments implemented the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. The new rules apply regulatory capital requirements to the Bank. The amended rules included new minimum risk-based capital and leverage ratios, which became effective in January 2015, with certain requirements to be phased in beginning in 2016, and refined the definition of what constitutes “capital” for purposes of calculating those ratios.

The new minimum capital level requirements applicable to the Bank include: (i) a new common equity Tier 1 risk-based capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based

capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The amended rules also establish a “capital conservation buffer” of 2.5% above the new regulatory minimum capital ratios, and would result in the following minimum ratios: (i) a common equity Tier 1 risk-based capital ratio of 7.0%; (ii) a Tier 1 risk-based capital ratio of 8.5%; and (iii) a total risk-based capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

As of December 31, 2015, 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.

	December 31, 2015		December 31, 2014	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$494,690	8.89 %	\$472,251	9.63 %
Requirement to be well capitalized	278,175	5.00	245,254	5.00
Excess	216,515	3.89	226,997	4.63
Common Equity Tier I risk-based capital:				
Capital level	\$494,690	12.62%	n/a	n/a
Requirement to be well capitalized	254,768	6.50	n/a	n/a
Excess	239,922	6.12	n/a	n/a
Tier I risk-based capital:				
Capital level	\$494,690	12.62%	\$472,251	13.87%
Requirement to be well capitalized	313,560	8.00	204,354	6.00
Excess	181,130	4.62	267,897	7.87
Total risk-based capital:				
Capital level	\$516,226	13.17%	\$497,347	14.60%
Requirement to be well capitalized	391,950	10.00	340,589	10.00
Excess	124,276	3.17	156,758	4.60



The Holding Company is subject to the same regulatory capital requirements as the Bank. As of December 31, 2015, 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.

	December 31, 2015		December 31, 2014	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$490,919	8.84 %	\$471,233	9.62 %
Requirement to be well capitalized	277,611	5.00	244,960	5.00
Excess	213,308	3.84	226,273	4.62
Common Equity Tier I risk-based capital:				
Capital level	\$462,883	11.83 %	n/a	n/a
Requirement to be well capitalized	254,335	6.50	n/a	n/a
Excess	208,548	5.33	n/a	n/a
Tier I risk-based capital:				
Capital level	\$490,919	12.55 %	\$471,233	13.87 %
Requirement to be well capitalized	313,028	8.00	203,878	6.00
Excess	177,891	4.55	267,355	7.87
Total risk-based capital:				
Capital level	\$512,454	13.10 %	\$496,329	14.61 %
Requirement to be well capitalized	391,285	10.00	339,797	10.00
Excess	121,169	3.10	156,532	4.61

## 15. Commitments and Contingencies

### Commitments:

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and lines of credit. The instruments involve, to varying degrees, elements of credit and market risks in excess of the amount recognized in the consolidated financial statements.

The Company's exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for loan commitments and lines of credit is represented by the contractual amounts of these instruments.

Commitments to extend credit (principally real estate mortgage loans) and lines of credit (principally business lines of credit and home equity lines of credit) amounted to \$96.2 million and \$232.5 million, respectively, at December 31, 2015. Included in these commitments were \$50.1 million of fixed-rate commitments at a weighted average rate of 4.18% and \$278.7 million of adjustable-rate commitments with a weighted average rate of 3.46%, as of December 31, 2015. Since generally all of the loan commitments are expected to be drawn upon, the total loan commitments approximate future cash requirements, whereas the amounts of lines of credit may not be indicative of the Company's future cash requirements. The loan commitments generally expire in 90 days, while construction loan lines of credit mature within eighteen months and home equity lines of credit mature within ten years. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are legally binding agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. Collateral held consists primarily of real estate.

The Bank collateralized a portion of its deposits with letters of credit issued by FHLB-NY. At December 31, 2015, there were \$494.0 million of letters of credit outstanding. The letters of credit are collateralized by mortgage loans pledged by the Bank.

The Trusts issued capital securities with a par value of \$61.9 million in June and July 2007. The Holding Company has guaranteed the payment of the Trusts' obligations under these capital securities.

The Company's minimum annual rental payments for Bank facilities due under non-cancelable leases are as follows:

	Minimum Rental (In thousands)
Years ended December 31:	
2016	\$ 4,516
2017	4,383
2018	4,448
2019	5,332
2020	5,357
Thereafter	25,502
Total minimum payments required	\$ 49,538

The leases have escalation clauses for operating expenses and real estate taxes. The Company's non-cancelable operating lease agreements expire through 2031. Rent expense under these leases for the years ended December 31, 2015, 2014 and 2013 was approximately \$5.8 million, \$3.8 million and \$3.7 million, respectively.

#### **Contingencies:**

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 or cash flows.

#### **16. Concentration of Credit Risk**

The Company's lending is concentrated in the New York City metropolitan area. The Company evaluates each customer's creditworthiness on a case-by-case basis under the Company's established underwriting policies. The collateral obtained by the Company generally consists of first liens on one-to-four family residential, multi-family residential, and commercial real estate. At December 31, 2015, the largest amount the Bank could lend to one borrower was approximately \$74.2 million, and at that date, the Bank's largest aggregate amount of loans to one borrower was \$65.5 million, all of which were performing according to their terms.

### **17. Related Party Transactions**

At December 31, 2015, one loan for \$18,000 was outstanding to an executive officer of the Company and one loan for \$356,000 was outstanding to a relative of a Director of the Company. These loans were made in the ordinary course of business and were fully approved in accordance with all of the Company's credit underwriting standards and were made at market rates of interest and other normal terms but with reduced origination fees. No such loans were made during 2015 and 2014. The Company believes that such loans do not involve more than the normal risk of collectability or present other unfavorable features.

### **18. Fair Value of Financial Instruments**

The Company carries certain financial assets and financial liabilities at fair value in accordance with GAAP which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and expands disclosures about fair value measurements. GAAP permits entities to choose to measure many financial instruments and certain other items at fair value. At December 31, 2015, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$30.7 million and \$29.0 million, respectively. At December 31, 2014, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$32.6 million and \$28.8 million, respectively. The Company elected to measure at fair value, securities with a cost of \$5.0 million that were purchased during the year ended December 31, 2014. During the year ended December 31, 2014, the Company sold financial assets carried under the fair value option totaling \$6.2 million. The Company did not purchase or sell any financial assets or liabilities under the fair value option during the year ended December 31, 2015.

Management selected the fair value option for certain investment securities, and certain borrowed funds as the yield, at the time of election, on the financial assets was below-market, while the rate on the financial liabilities was above-market rate. Management also considered the average duration of these instruments, which, for investment securities, was longer than the average for the portfolio of securities, and, for borrowings, primarily represented the longer-term borrowings of the Company. Choosing these instruments for the fair value option adjusted the carrying value of these financial assets and financial liabilities to their current fair value, and more closely aligned the financial performance of the Company with the economic value of these financial instruments. Management believed that electing the fair value option for these financial assets and financial liabilities allows them to better react to changes in interest rates. At the time of election, Management did not elect the fair value option for investment securities and borrowings with shorter duration, adjustable rates, and yields that approximated the then current market rate, as management believed that these financial assets and financial liabilities approximated their economic value.

The following table presents the financial assets and financial liabilities reported at fair value under the fair value option at December 31, 2015 and 2014, and the changes in fair value included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments, for the years ended December 31, 2015, 2014 and 2013:

Description	Fair Value Measurements at December 31, 2015	Fair Value Measurements at December 31, 2014	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option For the year ended December 31,		
			2015	2014	2013
(Dollars in thousands)					
Mortgage-backed securities	\$ 2,527	\$ 4,678	\$(59 )	\$75	\$(725 )
Other securities	28,205	27,915	53	598	241
Borrowed funds	29,018	28,771	(238)	802	(5,651)
Net gain (loss) from fair value adjustments <sup>(1)</sup>			\$(244)	\$1,475	\$(6,135)

The net gain (loss) from fair value adjustments presented in the above table does not include net gains and (losses) (1) of (\$1.6) million, (\$4.0) million and \$3.6 million from the change in fair value of derivative instruments during the years ended December 31, 2015, 2014 and 2013, respectively.

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 December 31, 2015 and 2014. The fair value of borrowed funds includes accrued interest payable of \$0.1 million at December 31, 2015 and 2014.

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

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

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

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

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

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

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

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

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 Company's 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 December 31:

Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a recurring basis	
	2015	2014	2015	2014	2015	2014

Assets:

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Securities available for sale

Mortgage-backed Securities	\$ -	\$ -	\$ 668,740	\$ 704,933	\$ -	\$ -	\$ 668,740	\$ 704,933
Other securities	-	-	317,445	245,768	7,212	22,609	324,657	268,377
Interest rate swaps	-	-	48	84	-	-	48	84
Total assets	\$ -	\$ -	\$ 986,233	\$ 950,785	\$ 7,212	\$ 22,609	\$ 993,445	\$ 973,394

Liabilities:

Borrowings	\$ -	\$ -	\$ -	\$ -	\$ 29,018	\$ 28,771	\$ 29,018	\$ 28,771
Interest rate swaps	-	-	4,314	2,649	-	-	4,314	2,649
Total liabilities	\$ -	\$ -	\$ 4,314	\$ 2,649	\$ 29,018	\$ 28,771	\$ 33,332	\$ 31,420



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The following tables set 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 periods indicated:

	For the year ended December 31, 2015		
	Trust	Junior	
	Municipal preferred securities	subordinated debentures	
	(In thousands)		
Beginning balance	\$15,519	\$ 7,090	\$ 28,771
Transfers to held-to-maturity	(4,510 )	-	-
Purchases	1,000	-	-
Principal repayments	(8,009 )	-	-
Maturities	(4,000 )	-	-
Sales	-	-	-
Net gain from fair value adjustment of financial assets <sup>(1)</sup>	-	117	-
Net loss from fair value adjustment of financial liabilities <sup>(1)</sup>	-	-	238
Increase in accrued interest payable	-	-	9
Change in unrealized gains included in other comprehensive income	-	5	-
Ending balance	\$-	\$ 7,212	\$ 29,018
Changes in unrealized held at period end	\$-	\$ 5	\$ -

	For the year ended December 31, 2014		
	Trust	Junior	
	Municipal preferred securities	subordinated debentures	
	(In thousands)		
Beginning balance	\$9,223	\$14,935	\$ 29,570
Purchases	7,595	-	-
Principal repayments	(214 )	-	-
Maturities	(1,085 )	-	-
Sales	-	(11,133)	-
Net gain from fair value adjustment of financial assets <sup>(1)</sup>	-	71	-
Net gain from fair value adjustment of financial liabilities <sup>(1)</sup>	-	-	(801 )
Increase in accrued interest payable	-	-	2
Change in unrealized gains included in other comprehensive income	-	3,217	-
Ending balance	\$15,519	\$7,090	\$ 28,771
Changes in unrealized held at period end	\$-	\$3,217	\$ -

<sup>(1)</sup> These totals in the tables above are presented in the Consolidated Statement of Income under net gains (losses) from fair value adjustments.

During the years ended December 31, 2015 and 2014, there were no transfers between Levels 1, 2 and 3.

The following table presents the quantitative information about recurring Level 3 fair value measurements of financial instruments as of December 31, 2015:

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

The significant unobservable inputs used in the fair value measurement of the Company's trust preferred securities and junior subordinated debentures valued under Level 3 are the effective yields used in the cash flow models. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

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

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

The significant unobservable inputs used in the fair value measurement of the Company's municipal securities, trust preferred securities and junior subordinated debentures valued under Level 3 are the effective yields used in the cash flow models. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.



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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 December 31:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a non-recurring basis	
	2015	2014	2015	2014	2015	2014	2015	2014
Assets:								
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$15,360	\$22,174	\$15,360	\$22,174
Other real estate owned	-	-	-	-	4,932	6,326	4,932	6,326
Total assets	\$ -	\$ -	\$ -	\$ -	\$20,292	\$28,500	\$20,292	\$28,500

The following table presents the quantitative information about non-recurring Level 3 fair value measurements of financial instruments as of December 31, 2015:

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

Other real  
estate owned

Other real estate owned	\$366	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-5.0% to	25.0%	12.0 %
Other real estate owned	\$816	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales Capitalization rate	-10.0% to	15.0%	2.5 %  8.6 %

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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 December 31, 2014:

	Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:					
Impaired loans	\$6,981	Income approach	Capitalization rate	7.3% to 8.5%	7.8 %
			Loss severity discount	0.5% to 81.7%	21.3 %
Impaired loans	\$6,935	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-41.5% to 40.0%	-2.2 %
			Loss severity discount	1.8% to 89.4%	20.0 %
Impaired loans	\$8,258	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-55.0% to 25.0%	-6.1 %
			Capitalization rate	5.8% to 11.0%	8.0 %
			Loss severity discount	0.9% to 74.4%	30.0 %
Other real estate owned	\$4,768	Income approach	Capitalization rate	9.0% to 12.0%	9.1 %
			Loss severity discount	0.9% to 4.9%	1.0 %
Other real estate owned	\$587	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-11.9% to 15.0%	-3.5 %
			Loss severity discount	0.0% to 36.9%	9.6 %
Other real estate owned	\$971	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-25.0% to 0.0%	-8.9 %
			Capitalization rate	7.5% to 8.0%	7.7 %
			Loss severity discount	0.0% to 6.2%	3.0 %

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at December 31, 2015 and 2014.

The fair value of each material class of financial instruments at December 31, 2015 and 2014 and the related methods and assumptions used to estimate fair value are as follows:

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

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

**FHLB-NY stock:**

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

**Securities:**

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



**Loans:**

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

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

**Other Real Estate Owned:**

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

**Accrued Interest Receivable:**

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

**Due to Depositors:**

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

**Borrowings:**

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

**Accrued Interest Payable:**

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

**Interest Rate Swaps:**

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

**Other Financial Instruments:**

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

At December 31, 2015 and 2014, the fair values of the above financial instruments approximate the recorded amounts of the related fees and were not considered to be material.

The following table sets forth the carrying amounts and fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at December 31, 2015:

	December 31, 2015		Level 1	Level 2	Level 3
	Carrying Amount	Fair Value			
(in thousands)					
Assets:					
Cash and due from banks	\$42,363	\$42,363	\$42,363	\$-	\$-
Securities held-to-maturity					
Other securities	6,180	6,180	-	-	6,180
Securities available for sale					
Mortgage-backed securities	668,740	668,740	-	668,740	-
Other securities	324,657	324,657	-	317,445	7,212
Loans	4,387,979	4,434,079	-	-	4,434,079
FHLB-NY stock	56,066	56,066	-	56,066	-
Interest rate swaps	48	48	-	48	-
Total assets	\$5,486,033	\$5,532,133	\$42,363	\$1,042,299	\$4,447,471
Liabilities:					
Deposits	\$3,892,547	\$3,902,888	\$2,489,245	\$1,413,643	\$-
Borrowings	1,271,676	1,279,946	-	1,250,928	29,018
Interest rate swaps	4,314	4,314	-	4,314	-
Total liabilities	\$5,168,537	\$5,187,148	\$2,489,245	\$2,668,885	\$29,018

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

	December 31, 2014		Level 1	Level 2	Level 3
	Carrying Amount	Fair Value			
(in thousands)					
Assets:					
Cash and due from banks	\$34,265	\$34,265	\$34,265	\$-	\$-
Mortgage-backed Securities	704,933	704,933	-	704,933	-
Other securities	268,377	268,377	-	245,768	22,609
Loans	3,810,373	3,871,087	-	-	3,871,087
FHLB-NY stock	46,924	46,924	-	46,924	-
Interest rate swaps	84	84	-	84	-
Total assets	\$4,864,956	\$4,925,670	\$34,265	\$997,709	\$3,893,696
Liabilities:					
Deposits	\$3,508,598	\$3,524,123	\$2,202,775	\$1,321,348	\$-
Borrowings	1,056,492	1,070,428	-	1,041,657	28,771
Interest rate swaps	2,649	2,649	-	2,649	-
Total liabilities	\$4,567,739	\$4,597,200	\$2,202,775	\$2,365,654	\$28,771

## 19. Derivative Financial Instruments

At December 31, 2015 and 2014, the Company's derivative financial instruments consisted of interest rate swaps. The Company's interest rate swaps are used for two purposes. The first purpose is to mitigate the Company's exposure to rising interest rates on a portion (\$18.0 million) of its floating rate junior subordinated debentures that have a contractual value of \$61.9 million. The second purpose is to mitigate the Company's exposure to rising interest rates on certain fixed rate loans totaling \$146.9 million and \$32.8 million at December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014 interest rate swaps with a combined notional amount of \$36.3 million, were not designated as hedges. Interest rate swaps with a combined notional amount of \$128.5 million and \$14.5 million were designated as fair value hedges at December 31, 2015 and 2014, respectively. Changes in the fair value of the interest rate swaps not designated as hedges are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income. During 2015 and 2014, the Company did not record any hedge ineffectiveness.

The following tables set forth information regarding the Company's derivative financial instruments:

	At or for the year ended December 31, 2015	
	Notional Amount	Net Carrying Value <sup>(1)</sup>
	(In thousands)	
Interest rate swaps (non-hedge)	\$36,321	\$(2,799 )
Interest rate swaps (hedge)	28,588	48
Interest rate swaps (hedge)	99,955	(1,515 )
Total derivatives	\$164,864	\$(4,266 )

	At or for the year ended December 31, 2014	
	Notional Amount	Net Carrying Value <sup>(1)</sup>
	(In thousands)	
Interest rate swaps (non-hedge)	\$36,321	\$(2,239 )
Interest rate swaps (hedge)	4,131	84
Interest rate swaps (hedge)	10,340	(410 )

Total derivatives                      \$50,792    \$(2,565 )

Derivatives in a net positive position are recorded as “Other assets” and derivatives in a net negative position are (1) recorded as “Other liabilities” in the Consolidated Statements of Financial Condition. There were no unrealized losses on derivative financial instruments at December 31, 2015 and 2014.

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

(In thousands)	For the year ended		
	December 31,		
	2015	2014	2013
Financial Derivatives:			
Interest rate caps (non-hedge)	\$-	\$-	\$(18 )
Interest rate swaps (non-hedge)	(561 )	(3,919)	3,603
Interest rate swaps (hedge)	(1,036)	(124 )	29
Net Gain (loss) <sup>(1)</sup>	\$(1,597)	\$(4,043)	\$3,614

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

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

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

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

December 31, 2014

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(In thousands)	Gross Amount of Recognized Assets		Net Amount of Assets Presented in the Statement of Condition	Gross Amounts Not Offset in the Consolidated Statement of Condition		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Statement of Condition		Financial Instruments	Cash Collateral Received	Net Amount
Interest rate swaps	\$84	\$ -	\$ 84	\$ 84	\$ -	\$ -



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

		December 31, 2015			Gross Amounts Not Offset in the Consolidated Statement of Condition		
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Condition	Net Amount of Liabilities Presented in the Statement of Condition	Financial Instruments	Cash Collateral Pledged	Net Amount	
Interest rate swaps	\$4,314	\$ -	\$ 4,314	\$ 48	\$ 4,266	\$ -	

  

		December 31, 2014			Gross Amounts Not Offset in the Consolidated Statement of Condition		
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Condition	Net Amount of Liabilities Presented in the Statement of Condition	Financial Instruments	Cash Collateral Pledged	Net Amount	
Interest rate swaps	\$2,649	\$ -	\$ 2,649	\$ 84	\$ 2,565	\$ -	

## 20. New Authoritative Accounting Pronouncements

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

adopting this new guidance on our consolidated results of operations and financial condition.

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". This ASU establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The guidance in this ASU for public companies is effective for the annual periods beginning after December 15, 2016, including interim periods therein. In August 2015, the FASB approved a one-year delay of the effective date of this standard. The deferral would require public entities to apply the standard for annual reporting periods beginning after December 15, 2017. Public companies would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016. The Company will be evaluating the provisions of ASU 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on our financial position or results of operation.

## 21. Quarterly Financial Data (unaudited)

Selected unaudited quarterly financial data for the fiscal years ended December 31, 2015 and 2014 is presented below:

	2015				2014			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(In thousands, except per share data)							
Quarterly operating data:								
Interest income	\$52,468	\$51,913	\$50,222	\$49,543	\$49,171	\$49,177	\$49,569	\$49,211
Interest expense	13,052	12,603	12,082	11,989	12,057	17,220	12,740	12,724
Net interest income	39,416	39,310	38,140	37,554	37,114	31,957	36,829	36,487
Provision (benefit) for loan losses	664	(370 )	(516 )	(734 )	(3,192 )	(618 )	(1,092 )	(1,119 )
Other operating income	2,145	1,697	9,947	1,930	(576 )	7,123	1,986	1,710
Other operating expense	23,824	23,708	24,248	25,939	21,685	21,437	20,624	22,093
Income before income tax expense	17,073	17,669	24,355	14,279	18,045	18,261	19,283	17,223
Income tax expense	5,439	6,661	9,521	5,546	6,988	7,060	7,598	6,927
Net income	\$11,634	\$11,008	\$14,834	\$8,733	\$11,057	\$11,201	\$11,685	\$10,296
Basic earnings per common share	\$0.40	\$0.38	\$0.51	\$0.30	\$0.38	\$0.38	\$0.39	\$0.34
Diluted earnings per common share	\$0.40	\$0.38	\$0.51	\$0.30	\$0.38	\$0.38	\$0.39	\$0.34
Dividends per common share	\$0.16	\$0.16	\$0.16	\$0.16	\$0.15	\$0.15	\$0.15	\$0.15
Average common shares outstanding for:								
Basic earnings per share	28,862	28,927	29,246	29,397	29,343	29,772	30,059	29,984
Diluted earnings per share	28,879	28,946	29,268	29,419	29,366	29,796	30,090	30,022

**22. Parent Company Only Financial Information**

Earnings of the Bank are recognized by the Holding Company using the equity method of accounting. Accordingly, earnings of the Bank are recorded as increases in the Holding Company's investment, any dividends would reduce the Holding Company's investment in the Bank, and any changes in the Bank's unrealized gain or loss on securities available for sale, net of taxes, would increase or decrease, respectively, the Holding Company's investment in the Bank.

The condensed financial statements for the Holding Company are presented below:

Condensed Statements of Financial Condition	December 31, 2015	December 31, 2014
	(Dollars in thousands)	
<b>Assets:</b>		
Cash and due from banks	\$5,654	\$7,749
Securities available for sale:		
Other securities (\$872 and \$864 at fair value pursuant to the fair value option at December 31, 2015 and 2014, respectively)	1,170	1,156
Interest receivable	4	4
Investment in subsidiaries	502,798	482,996
Goodwill	2,185	2,185
Other assets	4,251	4,402
<b>Total assets</b>	<b>\$516,062</b>	<b>\$498,492</b>
<b>Liabilities:</b>		
Borrowings (at fair value pursuant to the fair value option at December 31, 2015 and 2014)	\$29,018	\$28,770
Other liabilities	13,977	13,475
<b>Total liabilities</b>	<b>42,995</b>	<b>42,245</b>
<b>Stockholders' Equity:</b>		
Preferred stock	-	-
Common stock	315	315
Additional paid-in capital	210,652	206,437
Treasury stock, at average cost (2,700,037 shares and 2,126,772 at December 31, 2015 and 2014, respectively)	(48,868 )	(37,221 )
Retained earnings	316,530	289,623
Accumulated other comprehensive loss, net of taxes	(5,562 )	(2,907 )
<b>Total equity</b>	<b>473,067</b>	<b>456,247</b>
<b>Total liabilities and equity</b>	<b>\$516,062</b>	<b>\$498,492</b>



Condensed Statements of Income	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Dividends from the Bank	\$26,000	\$20,000	\$20,000
Interest income	242	512	590
Interest expense	(1,075 )	(1,039 )	(1,066 )
Gain on sale of securities	-	-	17
Net gain (loss) from fair value adjustments	(231 )	779	(5,475 )
Other operating expenses	(1,298 )	(786 )	(621 )
Income before taxes and equity in undistributed earnings of subsidiary	23,638	19,466	13,445
Income tax benefit	687	668	2,857
Income before equity in undistributed earnings of subsidiary	24,325	20,134	16,302
Equity in undistributed earnings of the Bank	21,884	24,105	21,450
Net income	46,209	44,239	37,752
Other comprehensive (loss) income, net of tax	(2,655 )	8,468	(23,512)
Comprehensive income	\$43,554	\$52,707	\$14,240

Condensed Statements of Cash Flows	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Operating activities:			
Net income	\$46,209	\$44,239	\$37,752
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of the Bank	(21,884)	(24,105)	(21,450)
Net gain on sale of securities	-	-	(17 )
Deferred income tax (benefit) provision	575	17	(2,348 )
Fair value adjustments for financial assets and financial liabilities	231	(779 )	5,475
Stock based compensation expense	4,676	4,246	3,068
Net change in operating assets and liabilities	2,174	2,088	1,746
Net cash provided by operating activities	31,981	25,706	24,226
Investing activities:			
Purchases of securities available for sale	-	(22 )	(23 )
Proceeds from sales and calls of securities available for sale	-	1,699	517
Net cash provided by investing activities	-	1,677	494
Financing activities:			
Purchase of treasury stock	(15,605)	(18,872)	(14,151)
Cash dividends paid	(18,616)	(17,852)	(15,618)
Stock options exercised	145	565	533
Net cash used in financing activities	(34,076)	(36,159)	(29,236)
Net decrease in cash and cash equivalents	(2,095 )	(8,776 )	(4,516 )
Cash and cash equivalents, beginning of year	7,749	16,525	21,041

Cash and cash equivalents, end of year	\$5,654	\$7,749	\$16,525
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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Flushing Financial Corporation

Uniondale, New York

We have audited the accompanying consolidated statement of financial condition of Flushing Financial Corporation and subsidiaries (the “Company”) as of December 31, 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flushing Financial Corporation and subsidiaries at December 31, 2015, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP



New York, New York

March 15, 2016

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Flushing Financial Corporation

We have audited the accompanying consolidated statement of financial condition of Flushing Financial Corporation (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flushing Financial Corporation and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York

March 16, 2015



**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Flushing Financial Corporation

Uniondale, New York

We have audited Flushing Financial Corporation and subsidiaries (the “Company”) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended and our report dated March 15, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York

March 15, 2016

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

*Disclosure 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 Annual Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2015, the design and operation of these disclosure controls and procedures were effective. During the period covered by this Annual 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.

*Management's Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 based upon criteria in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (“COSO”). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015 based on those criteria issued by COSO.

BDO USA, LLP, the Company's independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, as stated in its report which appears on page 149.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Other than the disclosures below, information regarding the directors and executive officers of the Company appears in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held May 19, 2015 ("Proxy Statement") under the captions "Board Nominees," "Continuing Directors," "Executive Officers Who Are Not Directors" and "Meeting and Committees of the Board of Directors – Audit Committee" and is incorporated herein by this reference. Information regarding Section 16(a) beneficial ownership appears in the Company's Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by this reference.

*Code of Ethics.* The Company has adopted a Code of Business Conduct and Ethics that applies to all of its directors, officers and employees. This code is publicly available on the Company's website at: <https://www.sn1.com/Cache/1500076553.PDF?Y=&O=PDF&D=&FID=1500076553&T=&IID=102398> Any substantive amendments to the code and any grant of a waiver from a provision of the code requiring disclosure under applicable SEC or NASDAQ rules will be disclosed in a report on Form 8-K.

*Audit Committee Financial Expert.* The Board of Directors of the Company has determined that Louis C. Grassi, the Chairman of the Audit Committee, is an "audit committee financial expert" as defined under Item 401(h) of Regulation S-K, and that he is independent as defined under applicable NASDAQ listing standards. Mr. Grassi is a certified public accountant and a certified fraud examiner.

Item 11. Executive Compensation.

Information regarding executive compensation appears in the Proxy Statement under the caption "Executive Compensation" and is incorporated herein by this reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding security ownership of certain beneficial owners appears in the Proxy Statement under the caption "Stock Ownership of Certain Beneficial Owners" and is incorporated herein by this reference.



Information regarding security ownership of management appears in the Proxy Statement under the caption “Stock Ownership of Management” and is incorporated herein by this reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships and related transactions and directors independence appears in the Proxy Statement under the captions “Compensation Committee Interlocks and Insider Participation” and “Related Party Transactions” and is incorporated herein by this reference.

Item 14. Principal Accounting Fees and Services.

Information regarding fees paid to the Company’s independent auditor appears in the Proxy Statement under the caption “Schedule of Fees to Independent Auditors” and is hereby incorporated by this reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements

The following financial statements are included in Item 8 of this Annual Report and are incorporated herein by this reference:

- Consolidated Statements of Financial Condition at December 31, 2015 and 2014
- Consolidated Statements of Income for each of the three years in the period ended December 31, 2015
- Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2015
- Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2015
- Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2015
- Notes to Consolidated Financial Statements
- Reports of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto included in Item 8 of this Annual Report and are incorporated herein by this reference.

3. Exhibits Required by Securities and Exchange Commission Regulation S-K

<u>Exhibit</u> <u>Number</u>	<u>Description</u>
3.1	Certificate of Incorporation of Flushing Financial Corporation (1)
3.2	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (5)
3.3	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (15)
3.4	Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (6)
3.5	Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (12)
3.6	Amended and Restated By-Laws of Flushing Financial Corporation (18)
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 (11)
4.2	Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
10.1*	Form of Amended and Restated Employment Agreement between Flushing Bank and Certain Officers (16)
10.2*	Form of Amended and Restated Employment Agreement between Flushing Financial Corporation and Certain Officers (16)
10.3*	Amended and Restated Employment Agreement between Flushing Financial Corporation and John R. Buran (16)
10.4*	Amended and Restated Employment Agreement between Flushing Bank and John R. Buran (16)
10.5*	Amended and Restated Employment Agreement between Flushing Financial Corporation and Maria A. Grasso (16)
10.6*	Amended and Restated Employment Agreement between Flushing Bank and Maria A. Grasso (16)
10.7*	Flushing Bank Specified Officer Change in Control Severance Policy (as Amended Effective January 1, 2016) (filed herewith)
10.8*	Employee Severance Compensation Plan for Vice Presidents and Assistant Vice Presidents of Flushing Bank (Effective as of January 1, 2016) (filed herewith)
10.9*	Employee Severance Compensation Plan of Flushing Bank (Amended and Restated as of January 1, 2016) (filed herewith)
10.10*	Amended and Restated Outside Director Retirement Plan (10)
10.11*	Amended and Restated Flushing Bank Outside Director Deferred Compensation Plan (4)
10.12*	Amended and Restated Flushing Bank Supplemental Savings Incentive Plan (19)
10.13*	Form of Indemnity Agreement among Flushing Bank, Flushing Financial Corporation, and each Director (2)
10.14*	Form of Indemnity Agreement among Flushing Bank, Flushing Financial Corporation, and Certain Officers (2)
10.15*	Employee Benefit Trust Agreement (1)
10.16*	Amendment to the Employee Benefit Trust Agreement (3)
10.17*	Guarantee by Flushing Financial Corporation (1)
10.18*	1996 Restricted Stock Incentive Plan of Flushing Financial Corporation (8)

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- 10.19\* 1996 Stock Option Incentive Plan of Flushing Financial Corporation (7)
- 10.20\* Form of Outside Director Restricted Stock Award Letter (9)
- 10.21\* Form of Outside Director Restricted Stock Unit Award Letter (filed herewith)
- 10.22\* Form of Outside Director Stock Option Grant Letter (9)
- 10.23\* Form of Employee Restricted Stock Award Letter (9)
- 10.24\* Form of Employee Restricted Stock Unit Grant Letter Agreement (filed herewith)
- 10.25\* Form of Employee Stock Option Award Letter (9)
- 10.26\* Amended and Restated Flushing Financial Corporation 2005 Omnibus Incentive Plan (13)
- 10.27\* Amendment to Flushing Financial Corporation 2005 Omnibus Incentive Plan (14)
- 10.28\* Annual Incentive Plan for Executives and Senior Officers (15)
- 10.29\* Form of Amendment to Employee Stock Option Award Letter (17)

- 10.30\* Form of Amendment to Director Stock Option Award Letter (17)
- 10.31 Lease agreement between Flushing Bank and Rexcorp Plaza SPE LLC (18)
- 10.32\* Flushing Financial Corporation 2014 Omnibus Incentive Plan (18)
- 21.1 Subsidiaries information incorporated herein by reference to Part I – Subsidiary Activities
- 23.1 Consent of Independent Registered Public Accounting Firm (filed herewith)
- 23.2 Consent of Independent Registered Public Accounting Firm (filed herewith)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)
- 32.1 Certification Pursuant to 18 U.S.C, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (furnished herewith)
- 32.2 Certification Pursuant to 18 U.S.C, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (furnished herewith)
- 101.INS XBRL Instance Document (filed herewith)
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

\* Indicates compensatory plan or arrangement.

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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 10-Q for the quarter ended September 30, 1996.
    - (3) Incorporated by reference to Exhibits filed with Form 10-K for the year ended December 31, 1997.
    - (4) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2000.
      - (5) Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.
    - (6) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.
    - (7) Incorporated by reference to Exhibits filed with Form 10-K for the year ended December 31, 2003.
    - (8) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended June 30, 2004.
    - (9) Incorporated by reference to Exhibits filed with Form 10-K for the year ended December 31, 2004.
    - (10) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended March 31, 2006.
      - (11) Incorporated by reference to Exhibit filed with Form 8-K filed September 11, 2006.
      - (12) Incorporated by reference to Exhibit filed with Form 8-K filed September 27, 2006.
  - (13) Incorporated by reference to Appendices filed with Proxy Statement on Schedule 14A filed April 7, 2011.
  - (14) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2011.
  - (15) Incorporated by reference to Exhibits filed with Form 10-K for the year ended December 31, 2011.
  - (16) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended June 30, 2013.
  - (17) Incorporated by reference to Exhibits filed with Form 10-K for the year ended December 31, 2012.
  - (18) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended June 30, 2014.

- (19) Incorporated by reference to Exhibits filed with Form 10-K for the year ended December 31, 2014.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Company has duly caused this report, to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, New York, on March 15, 2016.

FLUSHING  
FINANCIAL  
CORPORATION

By/S/JOHN R. BURAN  
John R. Buran  
President and CEO

POWER OF ATTORNEY

We, the undersigned directors and officers of Flushing Financial Corporation (the "Company") hereby severally constitute and appoint John R. Buran and Susan K. Cullen as our true and lawful attorneys and agents, each acting alone and with full power of substitution and re-substitution, to do any and all things in our names in the capacities indicated below which said John R. Buran or Susan K. Cullen may deem necessary or advisable to enable the Company to comply with the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with the report on Form 10-K, or amendment thereto, including specifically, but not limited to, power and authority to sign for us in our names in the capacities indicated below the report on Form 10-K, or amendment thereto; and we hereby approve, ratify and confirm all that said John R. Buran or Susan K. Cullen shall do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K, has been signed by the following persons in the capacities and on the dates indicated.

**Signature**

**Title**

**Date**

/S/JOHN R. BURAN John R. Buran	Director, President (Principal Executive Officer)	March 8, 2016
/S/JOHN E. ROE, SR. John E. Roe, Sr.	Director, Chairman	March 8, 2016
/S/SUSAN K. CULLEN Susan K. Cullen	Treasurer (Principal Financial and Accounting Officer)	March 8, 2016
/S/ JAMES D. BENNETT James D. Bennett	Director	March 8, 2016
/S/STEVEN J. D'IORIO Steven J. D'Iorio	Director	March 8, 2016



/S/LOUIS C. GRASSI            Director March 8, 2016  
Louis C. Grassi

/S/SAM S. HAN                Director March 8, 2016  
Sam S. Han

/S/MICHAEL J. HEGARTY    Director March 8, 2016  
Michael J. Hegarty

/S/JOHN J. MCCABE         Director March 8, 2016  
John J. McCabe

/S/ALFRED A. DELLIBOVI   Director March 8, 2016  
Alfred A. DelliBovi

/S/DONNA M. O'BRIEN      Director March 8, 2016  
Donna M. O'Brien

/S/MICHAEL J. RUSSO      Director March 8, 2016  
Michael J. Russo

/S/THOMAS S. GULOTTA    Director March 8, 2016  
Thomas S. Gulotta

/S/CAREN C. YOH            Director March 8, 2016  
Caren C. Yoh