

FLUSHING FINANCIAL CORP
Form 10-Q
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

Commission file number **001-33013**

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-3209278

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

220 RXR Plaza, Uniondale, New York 11556

(Address of principal executive offices)

(718) 961-5400

(Registrant's telephone number, including area code)

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

(Former address of Principal executive offices)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares of the registrant's Common Stock outstanding as of July 31, 2015 was 28,924,818.

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

(Unaudited)

Item 1. Financial Statements

| (Dollars in thousands, except per share data) | June 30, 2015 | December 31, 2014 |
|--|--------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$36,599 | \$34,265 |
| Securities held-to-maturity: | | |
| Other securities (none pledged) (fair value of \$7,220 at June 30, 2015) | 7,220 | - |
| Securities available for sale: | | |
| Mortgage-backed securities (including assets pledged of \$438,646 and \$464,626 at June 30, 2015 and December 31, 2014, respectively; \$4,037 and \$4,678 at fair value pursuant to the fair value option at June 30, 2015 and December 31, 2014, respectively.) | 729,674 | 704,933 |
| Other securities (including assets pledged of \$68,516 and \$57,562 at June 30, 2015 and December 31, 2014, respectively; \$28,122 and \$27,915 at fair value pursuant to the fair value option at June 30, 2015 and December 31, 2014, respectively) | 307,823 | 268,377 |
| Loans held for sale | 300 | - |
| Loans: | | |
| Multi-family residential | 2,017,891 | 1,923,460 |
| Commercial real estate | 726,136 | 621,569 |
| One-to-four family mixed-use property | 567,060 | 573,779 |
| One-to-four family residential | 189,573 | 187,572 |
| Co-operative apartments | 7,681 | 9,835 |
| Construction | 3,673 | 5,286 |
| Small Business Administration | 12,181 | 7,134 |
| Taxi medallion | 21,211 | 22,519 |
| Commercial business and other | 472,485 | 447,500 |
| Net unamortized premiums and unearned loan fees | 13,251 | 11,719 |
| Allowance for loan losses | (23,084) | (25,096) |
| Net loans | 4,008,058 | 3,785,277 |
| Interest and dividends receivable | 17,980 | 17,251 |
| Bank premises and equipment, net | 24,418 | 21,868 |
| Federal Home Loan Bank of New York stock | 49,926 | 46,924 |
| Bank owned life insurance | 114,088 | 112,656 |
| Goodwill | 16,127 | 16,127 |
| Other assets | 47,751 | 69,335 |
| Total assets | \$5,359,964 | \$5,077,013 |

LIABILITIES

| | | |
|---|-----------|------------|
| Due to depositors: | | |
| Non-interest bearing | \$257,575 | \$ 255,834 |
| Interest-bearing: | | |
| Certificate of deposit accounts | 1,375,506 | 1,305,823 |
| Savings accounts | 264,718 | 261,942 |
| Money market accounts | 399,191 | 290,263 |
| NOW accounts | 1,357,412 | 1,359,057 |
| Total interest-bearing deposits | 3,396,827 | 3,217,085 |
| Mortgagors' escrow deposits | 43,930 | 35,679 |
| Borrowed funds (\$29,476 and \$28,771 at fair value pursuant to the fair value option at June 30, 2015 and December 31, 2014, respectively) | 999,435 | 940,492 |
| Securities sold under agreements to repurchase | 116,000 | 116,000 |
| Other liabilities | 84,061 | 55,676 |
| Total liabilities | 4,897,828 | 4,620,766 |

Commitments and contingencies (Notes 4 & 5)

STOCKHOLDERS' EQUITY

| | | |
|---|-------------|--------------|
| Preferred stock (\$0.01 par value; 5,000,000 shares authorized; None issued) | - | - |
| Common stock (\$0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at June 30, 2015 and December 31, 2014; 28,923,000 shares and 29,403,823 shares outstanding at June 30, 2015 and December 31, 2014, respectively) | 315 | 315 |
| Additional paid-in capital | 209,257 | 206,437 |
| Treasury stock, at average cost (2,607,595 shares and 2,126,772 shares at June 30, 2015 and December 31, 2014, respectively) | (46,980) | (37,221) |
| Retained earnings | 303,300 | 289,623 |
| Accumulated other comprehensive loss, net of taxes | (3,756) | (2,907) |
| Total stockholders' equity | 462,136 | 456,247 |
| Total liabilities and stockholders' equity | \$5,359,964 | \$ 5,077,013 |

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

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

(Unaudited)

| | For the three months | | For the six months | |
|--|-------------------------|----------|--------------------|----------|
| | ended June 30, | | ended June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Interest and dividend income | | | | |
| Interest and fees on loans | \$44,084 | \$42,489 | \$87,618 | \$84,609 |
| Interest and dividends on securities: | | | | |
| Interest | 5,988 | 6,867 | 11,858 | 13,742 |
| Dividends | 118 | 195 | 236 | 384 |
| Other interest income | 32 | 18 | 53 | 45 |
| Total interest and dividend income | 50,222 | 49,569 | 99,765 | 98,780 |
| Interest expense | | | | |
| Deposits | 7,437 | 7,670 | 14,895 | 15,388 |
| Other interest expense | 4,645 | 5,070 | 9,176 | 10,076 |
| Total interest expense | 12,082 | 12,740 | 24,071 | 25,464 |
| Net interest income | 38,140 | 36,829 | 75,694 | 73,316 |
| Benefit for loan losses | (516) | (1,092) | (1,250) | (2,211) |
| Net interest income after benefit for loan losses | 38,656 | 37,921 | 76,944 | 75,527 |
| Non-interest income | | | | |
| Banking services fee income | 898 | 867 | 1,782 | 1,576 |
| Net gain on sale of securities | 64 | - | 64 | - |
| Net gain on sale of loans | 47 | - | 49 | - |
| Net gain on sale of buildings | 6,537 | - | 6,537 | - |
| Net gain (loss) from fair value adjustments | 768 | (402) | 173 | (1,046) |
| Federal Home Loan Bank of New York stock dividends | 457 | 430 | 975 | 981 |
| Bank owned life insurance | 715 | 755 | 1,432 | 1,531 |
| Other income | 461 | 336 | 865 | 654 |
| Total non-interest income | 9,947 | 1,986 | 11,877 | 3,696 |
| Non-interest expense | | | | |
| Salaries and employee benefits | 13,157 | 11,944 | 27,823 | 24,522 |
| Occupancy and equipment | 2,635 | 1,919 | 5,348 | 3,954 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Professional services | 1,350 | 1,527 | 3,129 | 2,737 |
| FDIC deposit insurance | 811 | 673 | 1,560 | 1,370 |
| Data processing | 1,172 | 1,042 | 2,247 | 2,110 |
| Depreciation and amortization | 867 | 717 | 1,535 | 1,432 |
| Other real estate owned/foreclosure expense | 87 | 279 | 607 | 535 |
| Other operating expenses | 4,169 | 2,523 | 7,938 | 6,057 |
| Total non-interest expense | 24,248 | 20,624 | 50,187 | 42,717 |
| Income before income taxes | 24,355 | 19,283 | 38,634 | 36,506 |
| Provision for income taxes | | | | |
| Federal | 7,155 | 5,513 | 11,407 | 10,271 |
| State and local | 2,366 | 2,085 | 3,660 | 4,254 |
| Total taxes | 9,521 | 7,598 | 15,067 | 14,525 |
| Net income | \$ 14,834 | \$ 11,685 | \$ 23,567 | \$ 21,981 |
| Basic earnings per common share | \$0.51 | \$0.39 | \$0.80 | \$0.73 |
| Diluted earnings per common share | \$0.51 | \$0.39 | \$0.80 | \$0.73 |
| Dividends per common share | \$0.16 | \$0.15 | \$0.32 | \$0.30 |

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

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

(Unaudited)

| (Dollars in thousands) | For the three months ended | | For the six months ended | |
|--|-------------------------------|----------|-----------------------------|----------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Net income | \$14,834 | \$11,685 | \$23,567 | \$21,981 |
| Other comprehensive income, net of tax: | | | | |
| Amortization of actuarial losses | 171 | 98 | 345 | 161 |
| Amortization of prior service credits | (7) | (7) | (13) | (10) |
| Reclassification adjustment for net gains included in income | (36) | - | (36) | - |
| Net unrealized (losses) gains on securities | (5,477) | 6,513 | (1,145) | 11,873 |
| Total other comprehensive income, net of tax | \$(5,349) | \$6,604 | \$(849) | \$12,024 |
| Comprehensive income | \$9,485 | \$18,289 | \$22,718 | \$34,005 |

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

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

(Unaudited)

| (Dollars in thousands) | For the six months ended June 30, | |
|---|---|-----------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$23,567 | \$21,981 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Benefit for loan losses | (1,250) | (2,211) |
| Depreciation and amortization of bank premises and equipment | 1,535 | 1,432 |
| Amortization of premium, net of accretion of discount | 4,447 | 3,582 |
| Net (gain) loss from fair value adjustments | (173) | 1,046 |
| Net gain from sale of loans | (49) | - |
| Net gain from sale of securities | (64) | - |
| Net gain from sale of buildings | (6,537) | - |
| Income from bank owned life insurance | (1,432) | (1,531) |
| Stock-based compensation expense | 3,643 | 3,135 |
| Deferred compensation | (2,004) | (1,486) |
| Excess tax benefit from stock-based payment arrangements | (380) | (748) |
| Deferred income tax (benefit) provision | (3,855) | 2,745 |
| Increase in other liabilities | 706 | 1,948 |
| Decrease in other assets | 5,374 | 1,489 |
| Net cash provided by operating activities | 23,528 | 31,382 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of bank premises and equipment | (7,841) | (855) |
| Net purchases of Federal Home Loan Bank of New York shares | (3,002) | (5,382) |
| Purchases of securities held-to-maturity | (3,100) | - |
| Proceeds from maturities of securities held-to-maturity | 390 | - |
| Purchases of securities available for sale | (138,095) | (70,871) |
| Proceeds from sales and calls of securities available for sale | 25,039 | 1,871 |
| Proceeds from maturities and prepayments of securities available for sale | 61,868 | 47,535 |
| Proceeds from sale of buildings | 20,209 | - |
| Net originations of loans | (82,544) | (90,946) |
| Purchases of loans | (126,070) | (12,884) |
| Proceeds from sale of real estate owned | 2,070 | 2,034 |
| Proceeds from sale of delinquent loans | 5,028 | 7,332 |
| Net cash used in investing activities | (246,048) | (122,166) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|-----------|-----------|
| Net increase in non-interest bearing deposits | 1,741 | 15,920 |
| Net increase (decrease) in interest-bearing deposits | 179,213 | (18,405) |
| Net increase in mortgagors' escrow deposits | 8,251 | 8,189 |
| Net proceeds from short-term borrowed funds | 35,000 | 109,000 |
| Proceeds from long-term borrowings | 72,996 | - |
| Repayment of long-term borrowings | (50,000) | (9,300) |
| Purchases of treasury stock | (13,490) | (3,285) |
| Excess tax benefit from stock-based payment arrangements | 380 | 748 |
| Proceeds from issuance of common stock upon exercise of stock options | 142 | 429 |
| Cash dividends paid | (9,379) | (9,015) |
| Net cash provided by financing activities | 224,854 | 94,281 |
| | | |
| Net increase in cash and cash equivalents | 2,334 | 3,497 |
| Cash and cash equivalents, beginning of period | 34,265 | 33,485 |
| Cash and cash equivalents, end of period | \$36,599 | \$36,982 |

SUPPLEMENTAL CASH FLOW DISCLOSURE

| | | |
|--|----------|----------|
| Interest paid | \$23,585 | \$25,172 |
| Income taxes paid | 16,221 | 12,236 |
| Taxes paid if excess tax benefits were not tax deductible | 16,601 | 12,984 |
| Non-cash activities: | | |
| Securities purchased not yet settled | 22,037 | - |
| Securities transferred from available for sale to held-to-maturity | 4,510 | - |
| Loans transferred to Other Real Estate Owned | 772 | 655 |
| Loans provided for the sale of Other Real Estate Owned | 175 | 308 |
| Loans held for investment transferred to loans held for sale | 300 | - |

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

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity**

(Unaudited)

| | For the six months ended | |
|---|-----------------------------|-------------|
| (Dollars in thousands, except per share data) | June 30, 2015 | 2014 |
| Common Stock | | |
| Balance, beginning of period | \$315 | \$315 |
| No activity | - | - |
| Balance, end of period | \$315 | \$315 |
| Additional Paid-In Capital | | |
| Balance, beginning of period | \$206,437 | \$201,902 |
| Award of common shares released from Employee Benefit Trust (136,114 and 129,694 common shares for the six months ended June 30, 2015 and 2014, respectively) | 1,969 | 1,975 |
| Shares issued upon vesting of restricted stock unit awards (59,532 and 2,500 common shares for the six months ended June 30, 2015 and 2014, respectively) | 160 | 9 |
| Issuance upon exercise of stock options (6,025 and 100,625 common shares for the six months ended June 30, 2015 and 2014, respectively) | 8 | 296 |
| Stock-based compensation activity, net | 303 | 392 |
| Stock-based income tax benefit | 380 | 748 |
| Balance, end of period | \$209,257 | \$205,322 |
| Treasury Stock | | |
| Balance, beginning of period | \$(37,221) | \$(22,053) |
| Purchases of outstanding shares (635,199 and 108,120 common shares for the six months ended June 30, 2015 and 2014, respectively) | (12,380) | (2,143) |
| Shares issued upon vesting of restricted stock unit awards (204,110 and 188,480 common shares for the six months ended June 30, 2015 and 2014, respectively) | 3,577 | 2,972 |
| Issuance upon exercise of stock options (9,725 and 100,625 common shares for the six months ended June 30, 2015 and 2014, respectively) | 174 | 1,608 |
| Purchases of shares to fund options exercised (998 and 63,732 common shares for the six months ended June 30, 2015 and 2014, respectively) | (20) | (1,290) |
| Repurchase of shares to satisfy tax obligations (58,461 and 55,465 common shares for the six months ended June 30, 2015 and 2014, respectively) | (1,110) | (1,142) |
| Balance, end of period | \$(46,980) | \$(22,048) |
| Retained Earnings | | |
| Balance, beginning of period | \$289,623 | \$263,743 |
| Net income | 23,567 | 21,981 |

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| | | |
|---|------------|-------------|
| Cash dividends declared and paid on common shares (\$0.32 and \$0.30 per common share for the six months ended June 30, 2015 and 2014, respectively) | (9,379) | (9,015) |
| Issuance upon exercise of stock options (3,700 common shares and 7,200 common shares for the six months ended June 30, 2015 and 2014, respectively) | (8) | (45) |
| Shares issued upon vesting of restricted stock unit awards (144,578 and 185,980 common shares for the six months ended June 30, 2015 and 2014, respectively) | (503) | (395) |
| Balance, end of period | \$303,300 | \$276,269 |
| Accumulated Other Comprehensive Income (loss) | | |
| Balance, beginning of period | \$(2,907) | \$(11,375) |
| Change in net unrealized gains (losses) on securities available for sale, net of taxes of approximately \$833 and (\$9,141) for the six months ended June 30, 2015 and 2014, respectively | (1,145) | 11,873 |
| Reclassification adjustment for loss included in net income, net of taxes of approximately \$28 for the six months ended June 30, 2015 | (36) | - |
| Amortization of actuarial losses, net of taxes of approximately (\$268) and (\$189) for the six months ended June 30, 2015 and 2014, respectively | 345 | 161 |
| Amortization of prior service credits, net of taxes of approximately \$10 and \$13 for the six months ended June 30, 2015 and 2014, respectively) | (13) | (10) |
| Balance, end of period | \$(3,756) | \$649 |
| Total Stockholders' Equity | \$462,136 | \$460,507 |

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

2.

Use of Estimates

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

3.

Earnings Per Share

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

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

(Unaudited)

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

| | For the three months ended | | For the six months ended | |
|---|---------------------------------------|----------|--------------------------|----------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| | (In thousands, except per share data) | | | |
| Net income, as reported | \$14,834 | \$11,685 | \$23,567 | \$21,981 |
| Divided by: | | | | |
| Weighted average common shares outstanding | 29,246 | 30,059 | 29,321 | 30,022 |
| Weighted average common stock equivalents | 22 | 31 | 22 | 34 |
| Total weighted average common shares outstanding and common stock equivalents | 29,268 | 30,090 | 29,343 | 30,056 |
| Basic earnings per common share | \$0.51 | \$0.39 | \$0.80 | \$0.73 |
| Diluted earnings per common share ⁽¹⁾ | \$0.51 | \$0.39 | \$0.80 | \$0.73 |
| Dividend payout ratio | 31.4 % | 38.5 % | 40.0 % | 41.1 % |

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

4. Debt and Equity Securities

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

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

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

| | Amortized Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|------------------------------|-------------------|---------------|------------------------------|-------------------------------|
| (In thousands) | | | | |
| Securities held-to-maturity: | | | | |
| Municipals | \$7,220 | \$7,220 | \$ - | \$ - |
| Total | \$7,220 | \$7,220 | \$ - | \$ - |

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

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

(Unaudited)

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

| | Amortized Cost <i>(In thousands)</i> | Gross Unrealized Fair Value | Gross Unrealized Gains | Losses |
|-------------------------------------|--|-----------------------------------|------------------------------|----------|
| Securities available for sale: | | | | |
| Corporate | \$ 105,852 | \$ 104,648 | \$ 521 | \$ 1,725 |
| Municipals | 136,927 | 139,911 | 3,114 | 130 |
| Mutual funds | 21,193 | 21,193 | - | - |
| Other | 42,004 | 42,071 | 69 | 2 |
| Total other securities | 305,976 | 307,823 | 3,704 | 1,857 |
| REMIC and CMO | 530,684 | 532,662 | 6,165 | 4,187 |
| GNMA | 12,802 | 13,080 | 401 | 123 |
| FNMA | 170,838 | 170,534 | 1,635 | 1,939 |
| FHLMC | 13,259 | 13,398 | 139 | - |
| Total mortgage-backed securities | 727,583 | 729,674 | 8,340 | 6,249 |
| Total securities available for sale | \$ 1,033,559 | \$ 1,037,497 | \$ 12,044 | \$ 8,106 |

Mortgage-backed securities shown in the table above include two private issue collateralized mortgage obligations ("CMOs") that are collateralized by commercial real estate mortgages with amortized cost and fair value of \$9.1 million at June 30, 2015.

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

| Amortized Fair Value | Gross | Gross |
|----------------------|------------|------------|
| Cost | Unrealized | Unrealized |

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

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

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

(Unaudited)

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

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

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

| | For the three months ended | | For the six months ended | |
|--|----------------------------------|------------------|--------------------------------|------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| | (In thousands) | | | |
| Gross gains from the sale of securities | \$233 | \$ - | \$233 | \$ - |
| Gross losses from the sale of securities | (169) | - | (169) | - |
| Net gains from the sale of securities | \$64 | \$ - | \$64 | \$ - |

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

| | Amortized Cost | Fair Value |
|---|-------------------|---------------|
| | (In thousands) | |
| Securities held-to-maturity: ⁽¹⁾ | | |
| Due in one year or less | \$6,140 | \$6,140 |
| Due after one year through five years | 1,080 | 1,080 |
| Total securities held-to-maturity | \$7,220 | \$7,220 |

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

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

(Unaudited)

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

| | Amortized Cost (In thousands) | Fair Value |
|---|-------------------------------------|-------------|
| Securities available for sale: ⁽¹⁾ | | |
| Due in one year or less | \$32,046 | \$32,232 |
| Due after one year through five years | 15,000 | 15,298 |
| Due after five years through ten years | 92,077 | 90,741 |
| Due after ten years | 166,853 | 169,552 |
| Total other securities | 305,976 | 307,823 |
| Mortgage-backed securities | 727,583 | 729,674 |
| Total securities available for sale | \$1,033,559 | \$1,037,497 |

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

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

| | Total Fair Value (In thousands) | Unrealized Losses | Less than 12 months Fair Value | Unrealized Losses | 12 months or more Fair Value | Unrealized Losses |
|------------|---------------------------------------|----------------------|-----------------------------------|----------------------|---------------------------------|----------------------|
| Corporate | \$53,275 | \$ 1,725 | \$38,413 | \$ 1,587 | \$14,862 | \$ 138 |
| Municipals | 17,077 | 130 | 17,077 | 130 | - | - |

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| | | | | | | |
|-------------------------------------|------------|----------|------------|----------|------------|----------|
| Other | 298 | 2 | 298 | 2 | - | - |
| Total other securities | 70,650 | 1,857 | 55,788 | 1,719 | 14,862 | 138 |
| REMIC and CMO | 245,107 | 4,187 | 141,760 | 1,205 | 103,347 | 2,982 |
| GNMA | 7,727 | 123 | 7,727 | 123 | - | - |
| FNMA | 100,608 | 1,939 | 68,604 | 1,040 | 32,004 | 899 |
| Total mortgage-backed securities | 353,442 | 6,249 | 218,091 | 2,368 | 135,351 | 3,881 |
| Total securities available for sale | \$ 424,092 | \$ 8,106 | \$ 273,879 | \$ 4,087 | \$ 150,213 | \$ 4,019 |

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Corporate:

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

Municipal Securities:

The unrealized losses in Municipal securities at June 30, 2015, consist of losses on five 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 June 30, 2015.

Other Securities:

The unrealized losses in Other Securities at June 30, 2015, consist of a loss on one single issuer trust preferred security. The unrealized losses on this security were caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. 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 June 30, 2015.

REMIC and CMO:

The unrealized losses in Real Estate Mortgage Investment Conduit (“REMIC”) and CMO securities at June 30, 2015 consist of 12 issues from the Federal Home Loan Mortgage Corporation (“FHLMC”), 14 issues from the Federal National Mortgage Association (“FNMA”) and nine issues from Government National Mortgage Association (“GNMA”). The unrealized losses on the REMIC and CMO securities issued by FHLMC, FNMA and GNMA were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms, and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements, and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2015.

GNMA:

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

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

(Unaudited)

FNMA:

The unrealized losses in FNMA securities at June 30, 2015 consist of losses on 17 securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes will cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2015.

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

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

5.

Loans

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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

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

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

loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off. The 85% is based on the actual net proceeds the Bank has received from the sale of other real estate owned ("OREO") as a percentage of OREO's appraised value.

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

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

As of June 30, 2015, we utilized recent third party appraisals of the collateral to measure impairment for \$26.0 million, or 65.9%, of collateral dependent impaired loans, and used internal evaluations of the property's value for \$13.5 million, or 34.1%, of collateral dependent impaired loans.

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

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

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

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

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For the six months ended

June 30, 2015

(Dollars in thousands)

Number Balance Modification description

| | Number | Balance | Modification description |
|-------------------------------|--------|---------|----------------------------|
| | | | Received a below market |
| Small Business Administration | 1 | \$ 41 | interest rate and the loan |
| | | | amortization was extended |
| Total | 1 | \$ 41 | |

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

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

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(Unaudited)

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

| (Dollars in thousands) | June 30, 2015 | | December 31, 2014 | |
|---|-----------------|-------------------------|-------------------|-------------------------|
| | Number Recorded | | Number Recorded | |
| | of contracts | of investment contracts | of contracts | of investment contracts |
| Multi-family residential | 9 | \$ 2,657 | 10 | \$ 3,034 |
| Commercial real estate | 3 | 2,356 | 3 | 2,373 |
| One-to-four family - mixed-use property | 7 | 2,358 | 7 | 2,381 |
| One-to-four family - residential | 1 | 349 | 1 | 354 |
| Small business administration | 1 | 39 | - | - |
| Commercial business and other | 4 | 2,167 | 4 | 2,249 |
| Total performing troubled debt restructured | 25 | \$ 9,926 | 25 | \$ 10,391 |

During the six months ended June 30, 2015 one TDR loan of \$0.4 million was transferred to non-performing status, which resulted in this loan being included in non-performing loans.

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) | June 30, 2015 | | December 31, 2014 | |
|------------------------|-----------------|-------------------------|-------------------|-------------------------|
| | Number Recorded | | Number Recorded | |
| | of contracts | of investment contracts | of contracts | of investment contracts |

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| | | | | |
|--|---|--------|---|----------|
| Multi-family residential | 1 | \$ 378 | - | \$ - |
| Commercial real estate | - | - | 1 | 2,252 |
| One-to-four family - mixed use property | 1 | 187 | 1 | 187 |
| Total troubled debt restructurings that subsequently defaulted | 2 | \$ 565 | 2 | \$ 2,439 |

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

(Unaudited)

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

| (In thousands) | June 30, 2015 | December 31, 2014 |
|---|------------------|----------------------|
| Loans ninety days or more past due and still accruing: | | |
| Multi-family residential | \$- | \$ 676 |
| Commercial real estate | 416 | 820 |
| One-to-four family - mixed-use property | 353 | 405 |
| One-to-four family - residential | 13 | 14 |
| Commercial Business and other | 315 | 386 |
| Total | 1,097 | 2,301 |
| Non-accrual mortgage loans: | | |
| Multi-family residential | 6,352 | 6,878 |
| Commercial real estate | 2,694 | 5,689 |
| One-to-four family - mixed-use property | 6,238 | 6,936 |
| One-to-four family - residential | 11,329 | 11,244 |
| Total | 26,613 | 30,747 |
| Non-accrual non-mortgage loans: | | |
| Small business administration | 170 | - |
| Commercial business and other | 537 | 1,143 |
| Total | 707 | 1,143 |
| Total non-accrual loans | 27,320 | 31,890 |
| Total non-accrual loans and loans ninety days or more past due and still accruing | \$28,417 | \$ 34,191 |

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

| | For the three months ended | | For the six months ended | |
|---|----------------------------------|-------|-----------------------------|---------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| | <i>(In thousands)</i> | | | |
| Interest income that would have been recognized had the loans performed in accordance with their original terms | \$662 | \$989 | \$1,313 | \$1,979 |
| Less: Interest income included in the results of operations | 143 | 151 | 301 | 318 |
| Total foregone interest | \$519 | \$838 | \$1,012 | \$1,661 |

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

(Unaudited)

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

| (in thousands) | 30 - 59 Days | 60 - 89 Days | Greater than 90 Days | Total Past Due | Current | Total Loans |
|---|-----------------|-----------------|----------------------------|----------------------|--------------------|--------------------|
| Multi-family residential | \$7,289 | \$- | \$6,209 | \$13,498 | \$2,004,393 | \$2,017,891 |
| Commercial real estate | 862 | 417 | 3,110 | 4,389 | 721,747 | 726,136 |
| One-to-four family - mixed-use property | 8,019 | 588 | 6,591 | 15,198 | 551,862 | 567,060 |
| One-to-four family - residential | 524 | 354 | 11,138 | 12,016 | 177,557 | 189,573 |
| Co-operative apartments | - | - | - | - | 7,681 | 7,681 |
| Construction loans | - | - | - | - | 3,673 | 3,673 |
| Small Business Administration | 128 | - | 170 | 298 | 11,883 | 12,181 |
| Taxi medallion | - | - | - | - | 21,211 | 21,211 |
| Commercial business and other | 5 | 466 | 746 | 1,217 | 471,268 | 472,485 |
| Total | \$16,827 | \$1,825 | \$27,964 | \$46,616 | \$3,971,275 | \$4,017,891 |

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

| (in thousands) | 30 - 59 Days | 60 - 89 Days | Greater than 90 Days | Total Past Due | Current | Total Loans |
|---|-----------------|-----------------|----------------------------|----------------------|-------------|-------------|
| Multi-family residential | \$7,721 | \$1,729 | \$7,554 | \$17,004 | \$1,906,456 | \$1,923,460 |
| Commercial real estate | 2,171 | 1,344 | 6,510 | 10,025 | 611,544 | 621,569 |
| One-to-four family - mixed-use property | 10,408 | 1,154 | 7,341 | 18,903 | 554,876 | 573,779 |
| One-to-four family - residential | 1,751 | 2,244 | 11,051 | 15,046 | 172,526 | 187,572 |
| Co-operative apartments | - | - | - | - | 9,835 | 9,835 |
| Construction loans | 3,000 | - | - | 3,000 | 2,286 | 5,286 |
| Small Business Administration | 90 | - | - | 90 | 7,044 | 7,134 |
| Taxi medallion | - | - | - | - | 22,519 | 22,519 |

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

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

(Unaudited)

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

| (in thousands) | Multi-family residential | Commercial real estate | One-to-four family - mixed-use property | One-to-four family - residential | Co-operative apartments | Construction loans | Small Business Administration | Taxi Medallion | Commercial business and other |
|---|--------------------------|------------------------|---|----------------------------------|-------------------------|--------------------|-------------------------------|----------------|-------------------------------|
| Allowance for credit losses: | | | | | | | | | |
| Beginning balance | \$8,629 | \$3,902 | \$5,429 | \$1,465 | \$- | \$23 | \$266 | \$11 | \$4,366 |
| Charge-offs | (303) | (14) | (394) | (91) | - | - | - | - | (1) |
| Recoveries | 191 | (4) | 44 | 74 | - | - | 7 | - | - |
| Provision (Benefit) | (217) | (158) | 101 | (15) | - | 6 | 18 | - | (251) |
| Ending balance | \$8,300 | \$3,726 | \$5,180 | \$1,433 | \$- | \$29 | \$291 | \$11 | \$4,114 |
| Ending balance: individually evaluated for impairment | \$263 | \$17 | \$507 | \$53 | \$- | \$- | \$- | \$- | \$127 |
| Ending balance: collectively evaluated for impairment | \$8,037 | \$3,709 | \$4,673 | \$1,380 | \$- | \$29 | \$291 | \$11 | \$3,987 |
| Financing Receivables: | | | | | | | | | |
| Ending Balance | \$2,017,891 | \$726,136 | \$567,060 | \$189,573 | \$7,681 | \$3,673 | \$12,181 | \$21,211 | \$472,485 |
| Ending balance: individually evaluated for impairment | \$11,562 | \$5,702 | \$13,221 | \$13,662 | \$613 | \$- | \$348 | \$- | \$5,533 |
| Ending balance: collectively evaluated for impairment | \$2,006,329 | \$720,434 | \$553,839 | \$175,911 | \$7,068 | \$3,673 | \$11,833 | \$21,211 | \$466,952 |

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

(Unaudited)

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

| (in thousands) | Multi-family residential | Commercial real estate | One-to-four family - mixed-use property | One-to-four family - residential | Co-operative apartments | Construction loans | Small Business Administration | Taxi Medallion | Commercial business and other |
|---|--------------------------|------------------------|---|----------------------------------|-------------------------|--------------------|-------------------------------|----------------|-------------------------------|
| Allowance for credit losses: | | | | | | | | | |
| Beginning balance | \$ 11,103 | \$ 5,379 | \$ 7,142 | \$ 1,944 | \$ - | \$ 40 | \$ 391 | \$ 14 | \$ 4,257 |
| Charge-offs | (69) | (39) | (175) | (37) | - | - | (49) | - | (1) |
| Recoveries | 134 | - | 95 | 97 | - | - | 51 | - | 50 |
| Provision (Benefit) | (418) | (13) | (69) | (214) | - | (6) | (20) | - | (352) |
| Ending balance | \$ 10,750 | \$ 5,327 | \$ 6,993 | \$ 1,790 | \$ - | \$ 34 | \$ 373 | \$ 14 | \$ 3,954 |
| Ending balance: individually evaluated for impairment | \$ 299 | \$ 197 | \$ 601 | \$ 56 | \$ - | \$ - | \$ - | \$ - | \$ 150 |
| Ending balance: collectively evaluated for impairment | \$ 10,451 | \$ 5,130 | \$ 6,392 | \$ 1,734 | \$ - | \$ 34 | \$ 373 | \$ 14 | \$ 3,804 |
| Financing Receivables: | | | | | | | | | |
| Ending Balance | \$ 1,784,111 | \$ 510,224 | \$ 581,207 | \$ 192,895 | \$ 9,885 | \$ 4,717 | \$ 7,543 | \$ 25,291 | \$ 405,853 |
| Ending balance: individually evaluated for impairment | \$ 20,613 | \$ 16,728 | \$ 16,704 | \$ 13,505 | \$ - | \$ 570 | \$ - | \$ - | \$ 7,899 |
| Ending balance: collectively evaluated for impairment | \$ 1,763,498 | \$ 493,496 | \$ 564,503 | \$ 179,390 | \$ 9,885 | \$ 4,147 | \$ 7,543 | \$ 25,291 | \$ 397,954 |

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

(Unaudited)

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

| (in thousands) | Multi-family residential | Commercial real estate | One-to-four family - mixed-use property | One-to-four family - residential | Co-operative apartments | Construction loans | Small Business Administration | Taxi Medallion | Commercial business and other |
|---|--------------------------|------------------------|---|----------------------------------|-------------------------|--------------------|-------------------------------|----------------|-------------------------------|
| Allowance for credit losses: | | | | | | | | | |
| Beginning balance | \$8,827 | \$4,202 | \$5,840 | \$1,690 | \$- | \$42 | \$279 | \$11 | \$4,205 |
| Charge-offs | (400) | (32) | (472) | (244) | - | - | - | - | (52) |
| Recoveries | 214 | 68 | 47 | 74 | - | - | 27 | - | 8 |
| Provision (Benefit) | (341) | (512) | (235) | (87) | - | (13) | (15) | - | (47) |
| Ending balance | \$8,300 | \$3,726 | \$5,180 | \$1,433 | \$- | \$29 | \$291 | \$11 | \$4,114 |
| Ending balance: individually evaluated for impairment | \$263 | \$17 | \$507 | \$53 | \$- | \$- | \$- | \$- | \$127 |
| Ending balance: collectively evaluated for impairment | \$8,037 | \$3,709 | \$4,673 | \$1,380 | \$- | \$29 | \$291 | \$11 | \$3,987 |
| Financing Receivables: | | | | | | | | | |
| Ending Balance | \$2,017,891 | \$726,136 | \$567,060 | \$189,573 | \$7,681 | \$3,673 | \$12,181 | \$21,211 | \$472,485 |
| Ending balance: individually evaluated for impairment | \$11,562 | \$5,702 | \$13,221 | \$13,662 | \$613 | \$- | \$348 | \$- | \$5,533 |
| Ending balance: collectively evaluated for impairment | \$2,006,329 | \$720,434 | \$553,839 | \$175,911 | \$7,068 | \$3,673 | \$11,833 | \$21,211 | \$466,952 |

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

(Unaudited)

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

| (in thousands) | Multi-family residential | Commercial real estate | One-to-four family - mixed-use property | One-to-four family - residential | Co-operative apartments | Construction loans | Small Business Administration | Taxi Medallion | Commercial business and other |
|---|--------------------------|------------------------|---|----------------------------------|-------------------------|--------------------|-------------------------------|----------------|-------------------------------|
| Allowance for credit losses: | | | | | | | | | |
| Beginning balance | \$12,084 | \$4,959 | \$6,328 | \$2,079 | \$104 | \$444 | \$458 | \$- | \$5,320 |
| Charge-offs | (674) | (86) | (258) | (79) | - | - | (49) | - | (125) |
| Recoveries | 141 | 382 | 135 | 165 | 7 | - | 61 | - | 50 |
| Provision (Benefit) | (801) | 72 | 788 | (375) | (111) | (410) | (97) | 14 | (1,291) |
| Ending balance | \$10,750 | \$5,327 | \$6,993 | \$1,790 | \$- | \$34 | \$373 | \$14 | \$3,954 |
| Ending balance: individually evaluated for impairment | \$299 | \$197 | \$601 | \$56 | \$- | \$- | \$- | \$- | \$150 |
| Ending balance: collectively evaluated for impairment | \$10,451 | \$5,130 | \$6,392 | \$1,734 | \$- | \$34 | \$373 | \$14 | \$3,804 |
| Financing Receivables: | | | | | | | | | |
| Ending Balance | \$1,784,111 | \$510,224 | \$581,207 | \$192,895 | \$9,885 | \$4,717 | \$7,543 | \$25,291 | \$405,853 |
| Ending balance: individually evaluated for impairment | \$20,613 | \$16,728 | \$16,704 | \$13,505 | \$- | \$570 | \$- | \$- | \$7,899 |
| Ending balance: collectively evaluated for impairment | \$1,763,498 | \$493,496 | \$564,503 | \$179,390 | \$9,885 | \$4,147 | \$7,543 | \$25,291 | \$397,954 |

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

(Unaudited)

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

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| (In thousands) | | | | | |
| With no related allowance recorded: | | | | | |
| Mortgage loans: | | | | | |
| Multi-family residential | \$9,232 | \$10,050 | \$ - | \$ 10,347 | \$ 77 |
| Commercial real estate | 5,163 | 5,220 | - | 6,099 | 71 |
| One-to-four family mixed-use property | 10,160 | 11,741 | - | 11,219 | 103 |
| One-to-four family residential | 13,313 | 16,190 | - | 13,244 | 42 |
| Co-operative apartments | 613 | 613 | - | 204 | 10 |
| Construction | - | - | - | - | - |
| Non-mortgage loans: | | | | | |
| Small Business Administration | 309 | 309 | - | 209 | 6 |
| Taxi Medallion | - | - | - | - | - |
| Commercial Business and other | 2,971 | 3,341 | - | 3,997 | 100 |
| Total loans with no related allowance recorded | 41,761 | 47,464 | - | 45,319 | 409 |
| With an allowance recorded: | | | | | |
| Mortgage loans: | | | | | |
| Multi-family residential | 2,330 | 2,330 | 263 | 2,508 | 61 |
| Commercial real estate | 539 | 539 | 17 | 1,151 | 15 |
| One-to-four family mixed-use property | 3,061 | 3,061 | 507 | 3,077 | 84 |
| One-to-four family residential | 349 | 349 | 53 | 351 | 7 |
| Co-operative apartments | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Non-mortgage loans: | | | | | |
| Small Business Administration | 39 | 39 | - | 27 | 1 |
| Taxi Medallion | - | - | - | - | - |

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| | | | | | |
|--|----------|----------|--------|-----------|--------|
| Commercial Business and other | 2,562 | 2,562 | 127 | 2,627 | 69 |
| Total loans with an allowance recorded | 8,880 | 8,880 | 967 | 9,741 | 237 |
| Total Impaired Loans: | | | | | |
| Total mortgage loans | \$44,760 | \$50,093 | \$ 840 | \$ 48,200 | \$ 470 |
| Total non-mortgage loans | \$5,881 | \$6,251 | \$ 127 | \$ 6,860 | \$ 176 |

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

(Unaudited)

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

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| (In thousands) | | | | | |
| With no related allowance recorded: | | | | | |
| Mortgage loans: | | | | | |
| Multi-family residential | \$ 10,481 | \$ 11,551 | \$ - | \$ 14,168 | \$ 194 |
| Commercial real estate | 7,100 | 7,221 | - | 11,329 | 51 |
| One-to-four family mixed-use property | 12,027 | 13,381 | - | 12,852 | 321 |
| One-to-four family residential | 12,816 | 15,709 | - | 13,015 | 103 |
| Co-operative apartments | - | - | - | - | - |
| Construction | - | - | - | 285 | - |
| Non-mortgage loans: | | | | | |
| Small Business Administration | - | - | - | - | - |
| Taxi Medallion | - | - | - | - | - |
| Commercial Business and other | 2,779 | 3,149 | - | 3,428 | 137 |
| Total loans with no related allowance recorded | 45,203 | 51,011 | - | 55,077 | 806 |
| With an allowance recorded: | | | | | |
| Mortgage loans: | | | | | |
| Multi-family residential | 2,779 | 2,779 | 286 | 2,936 | 149 |
| Commercial real estate | 2,373 | 2,373 | 21 | 3,242 | 167 |
| One-to-four family mixed-use property | 3,093 | 3,093 | 579 | 3,249 | 170 |
| One-to-four family residential | 354 | 354 | 54 | 358 | 14 |
| Co-operative apartments | - | - | - | - | - |
| Construction | - | - | - | 187 | - |
| Non-mortgage loans: | | | | | |
| Small Business Administration | - | - | - | - | - |
| Taxi Medallion | - | - | - | - | - |

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| | | | | | |
|--|----------|----------|--------|-----------|----------|
| Commercial Business and other | 2,713 | 2,713 | 154 | 3,149 | 115 |
| Total loans with an allowance recorded | 11,312 | 11,312 | 1,094 | 13,121 | 615 |
| Total Impaired Loans: | | | | | |
| Total mortgage loans | \$51,023 | \$56,461 | \$ 940 | \$ 61,621 | \$ 1,169 |
| Total non-mortgage loans | \$5,492 | \$5,862 | \$ 154 | \$ 6,577 | \$ 252 |

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

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

(Unaudited)

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

| (In thousands) | Special Mention | Substandard | Doubtful | Loss | Total |
|---|-----------------|-------------|----------|------|----------|
| Multi-family residential | \$ 3,859 | \$ 8,904 | \$ - | \$ - | \$12,763 |
| Commercial real estate | 2,697 | 3,347 | - | - | 6,044 |
| One-to-four family - mixed-use property | 4,944 | 10,863 | - | - | 15,807 |
| One-to-four family - residential | 997 | 13,313 | - | - | 14,310 |
| Co-operative apartments | - | 613 | - | - | 613 |
| Construction loans | - | - | - | - | - |
| Small Business Administration | 241 | 243 | - | - | 484 |
| Commercial business and other | 1,690 | 3,879 | - | - | 5,569 |
| Total loans | \$ 14,428 | \$ 41,162 | \$ - | \$ - | \$55,590 |

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

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

Commitments to extend credit (principally real estate mortgage loans and business loans) and lines of credit (principally home equity lines of credit and business lines of credit) amounted to \$131.4 million and \$202.4 million, respectively, at June 30, 2015.

6.

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value. At June 30, 2015, the Bank had one multi-family residential loan held for sale of \$0.3 million. At December 31, 2014, the Bank did not have any loans classified as held for sale.

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

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

(Unaudited)

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

| (Dollars in thousands) | For the three months ended | | | |
|---|----------------------------|----------|---------------------------------|-----------------------|
| | June 30, 2015 | | | |
| | Loans sold | Proceeds | Net (charge-offs) recoveries | Net gain (loss) |
| Multi-family residential | 2 | \$ 1,045 | \$ 137 | \$ - |
| Commercial real estate | 1 | 1,311 | - | - |
| One-to-four family - mixed-use property | 4 | 1,150 | - | 47 |
| Total | 7 | \$ 3,506 | \$ 137 | \$ 47 |

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

| (Dollars in thousands) | For the three months ended | | | |
|--------------------------|----------------------------|----------|---------------------------------|-----------------------|
| | June 30, 2014 | | | |
| | Loans sold | Proceeds | Net (charge-offs) recoveries | Net gain (loss) |
| Multi-family residential | 3 | \$ 1,478 | \$ 76 | \$ - |
| Commercial real estate | 1 | 430 | - | - |
| Total | 4 | \$ 1,908 | \$ 76 | \$ - |

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

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For the six months ended

| (Dollars in thousands) | June 30, 2015 | | Net (charge-offs) recoveries | Net gain (loss) |
|---|---------------|----------|---------------------------------|-----------------------|
| | Loans sold | Proceeds | | |
| Multi-family residential | 4 | \$ 1,881 | \$ 137 | \$ (2) |
| Commercial real estate | 1 | 1,311 | - | - |
| One-to-four family - mixed-use property | 7 | 1,836 | - | 51 |
| Total | 12 | \$ 5,028 | \$ 137 | \$ 49 |

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

(Unaudited)

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

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

7. Other Real Estate Owned

The following are changes in OREO during the periods indicated:

| | For the three months ended | | For the six months ended | |
|---|----------------------------|---------|--------------------------|---------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Balance at beginning of period | \$5,252 | \$1,700 | \$6,326 | \$2,985 |
| Acquisitions | 289 | 491 | 772 | 606 |
| Recovery (write-down) of carrying value | (896) | 49 | (896) | (5) |
| Sales | (390) | (894) | (1,947) | (2,240) |
| Balance at end of period | \$4,255 | \$1,346 | \$4,255 | \$1,346 |

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

| | For the three months ended | | For the six months ended | |
|---|-------------------------------|------------------|-----------------------------|------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| | (In thousands) | | | |
| Gross gains | \$86 | \$77 | \$302 | \$131 |
| Gross losses | - | - | (6) | (30) |
| Recovery (write-down) of carrying value | (896) | 49 | (896) | (5) |
| Total gain (loss) | \$(810) | \$126 | \$(600) | \$96 |

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. During the three and six months ended June 30, 2015 we did not foreclose on any consumer mortgages through in-substance repossession.

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

(Unaudited)

8. Repurchase Agreements

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

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

| | At June 30, 2015 | | | |
|-----------------------------|--|-------------------|--------------|-----------|
| | Remaining Contractual Maturity of Agreements | | | |
| | Less than 1 year | 1 year to 3 years | Over 3 years | Total |
| | (In thousands) | | | |
| Repurchase agreements: | | | | |
| Mortgage-backed securities | \$18,000 | \$58,000 | \$40,000 | \$116,000 |
| Total repurchase agreements | \$18,000 | \$58,000 | \$40,000 | \$116,000 |

The fair value of the collateral pledged for the repurchase agreements above was \$134.4 million at June 30, 2015.

9. Stock-Based Compensation

For the three months ended June 30, 2015 and 2014, the Company's net income, as reported, includes \$0.9 million and \$0.6 million, respectively, of stock-based compensation costs and \$0.3 million and \$0.2 million, respectively, of income tax benefits related to the stock-based compensation plans. For the six months ended June 30, 2015 and 2014, the Company's net income, as reported, includes \$3.6 million and \$3.1 million, respectively, of stock-based compensation costs and \$1.4 million and \$1.2 million, respectively, of income tax benefits related to the stock-based compensation plans.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock price, the risk-free interest rate over the options' expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. During the three months ended June 30, 2015, the Company granted 3,600 restricted stock units. There were no restricted stock units granted during the three months ended June 30, 2014. During the six months ended June 30, 2015 and 2014, the Company granted 318,120 and 264,095 restricted stock units, respectively. There were no stock options granted during the three and six months ended June 30, 2015 and 2014.

The 2014 Omnibus Incentive Plan ("2014 Omnibus Plan") became effective on May 20, 2014 after adoption by the Board of Directors and approval by the stockholders. The 2014 Omnibus Plan authorizes the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can, but need not, be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The 2014 Omnibus Plan authorizes the issuance of 1,100,000 shares. To the extent that an award under the 2014 Omnibus Plan is cancelled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a participant in payment of the exercise price or taxes relating to an award, the shares retained by or returned to the Company will be available for future issuance under the 2014 Omnibus Plan. No further awards may be granted under the Company's 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan (the "Prior Plans"). At June 30, 2015, there were 783,230 shares available for delivery in connection with awards under the 2014 Omnibus Plan. To satisfy stock option exercises or fund restricted stock and restricted stock unit awards, shares are issued from treasury stock, if available; otherwise new shares are issued. The exercise price per share of a stock option grant may not be less than the fair value of the common stock of the Company, as defined in the Omnibus Plan, on the date of grant and may not be re-priced without the approval of the Company's stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years with stock options having a 10-year maximum contractual term. Other awards do not have a contractual term of expiration. The Compensation Committee is authorized to grant awards that vest upon a participant's retirement. These amounts are included in stock-based compensation expense at the time of the participant's retirement eligibility.

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

(Unaudited)

The following table summarizes the Company's restricted stock unit ("RSU") awards under the 2014 Omnibus Plan and the Prior Plans in the aggregate at or for the six months ended June 30, 2015:

| | Shares | Weighted-Average Grant-Date Fair Value |
|--------------------------------------|-----------|--|
| Non-vested at December 31, 2014 | 373,154 | \$ 16.75 |
| Granted | 318,120 | 19.10 |
| Vested | (258,700) | 17.37 |
| Forfeited | (7,320) | 18.42 |
| Non-vested at June 30, 2015 | 425,254 | \$ 18.10 |
| Vested but unissued at June 30, 2015 | 288,426 | \$ 18.08 |

As of June 30, 2015, there was \$6.7 million of total unrecognized compensation cost related to non-vested full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 3.5 years. The total fair value of awards vested for the three months ended June 30, 2015 was \$0.8 million. There were no awards vested for the three months ended June 30, 2014. The total fair value of awards vested for the six months ended June 30, 2015 and 2014 was \$4.9 million and \$4.1 million, respectively. The vested but unissued RSU awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of these awards, which provide for vesting upon retirement, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting and settlement dates. As of June 30, 2015, there is no remaining unrecognized compensation cost related to stock options granted.

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

(Unaudited)

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

| | Shares | Weighted- Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (\$000)* |
|----------------------------------|----------|---|--|---|
| Outstanding at December 31, 2014 | 154,915 | \$ 15.19 | | |
| Granted | - | - | | |
| Exercised | (9,725) | 16.65 | | |
| Forfeited | - | - | | |
| Outstanding at June 30, 2015 | 145,190 | \$ 15.09 | 3.1 | \$ 860 |

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

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

| (In thousands) | For the three months ended | | For the six months ended | |
|---------------------------------------|----------------------------------|------|-----------------------------|-------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Proceeds from stock options exercised | \$142 | \$87 | \$142 | \$429 |

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| | | | | |
|---|----|-----|----|-------|
| Fair value of shares received upon exercised of stock options | - | 812 | 20 | 1,290 |
| Tax benefit related to stock options exercised | 8 | 24 | 9 | 93 |
| Intrinsic value of stock options exercised | 31 | 105 | 33 | 317 |

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

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

(Unaudited)

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

| Phantom Stock Plan | Shares | Fair Value |
|----------------------------------|--------|------------|
| Outstanding at December 31, 2014 | 67,113 | \$20.27 |
| Granted | 11,729 | 19.28 |
| Forfeited | (2) | 20.58 |
| Distributions | (451) | 19.64 |
| Outstanding at June 30, 2015 | 78,389 | \$21.01 |
| Vested at June 30, 2015 | 78,119 | \$21.01 |

The Company recorded stock-based compensation expense (benefit) for the Phantom Stock Plan of \$85,000 and (\$25,000) for the three months ended June 30, 2015 and 2014, respectively. The total fair value of the distributions from the Phantom Stock Plan was \$1,000 and \$7,000 for the three months ended June 30, 2015 and 2014, respectively.

For the six months ended June 30, 2015 and 2014, the Company recorded stock-based compensation expense for the Phantom Stock Plan of \$94,000 and \$17,000, respectively. The total fair value of the distributions from the Phantom Stock Plan during the six months ended June 30, 2015 and 2014 was \$9,000 and \$13,000, respectively.

10. Pension and Other Postretirement Benefit Plans

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

| | |
|-----------------------|---------------------|
| Three months ended | Six months ended |
|-----------------------|---------------------|

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| (In thousands) | June 30, | | June 30, | |
|--|----------|-------|----------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Employee Pension Plan: | | | | |
| Interest cost | \$221 | \$223 | \$442 | \$446 |
| Amortization of unrecognized loss | 290 | 190 | 581 | 380 |
| Expected return on plan assets | (350) | (336) | (700) | (672) |
| Net employee pension expense | \$161 | \$77 | \$323 | \$154 |
| Outside Director Pension Plan: | | | | |
| Service cost | \$11 | \$13 | \$22 | \$26 |
| Interest cost | 24 | 29 | 48 | 58 |
| Amortization of unrecognized gain | (14) | (15) | (28) | (30) |
| Amortization of past service liability | 10 | 10 | 20 | 20 |
| Net outside director pension expense | \$31 | \$37 | \$62 | \$74 |
| Other Postretirement Benefit Plans: | | | | |
| Service cost | \$95 | \$90 | \$190 | \$180 |
| Interest cost | 75 | 63 | 150 | 126 |
| Amortization of unrecognized loss | 30 | - | 60 | - |
| Amortization of past service credit | (22) | (22) | (43) | (43) |
| Net other postretirement expense | \$178 | \$131 | \$357 | \$263 |

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2014 that it expects to contribute \$0.3 million and \$0.2 million to the Outside Director Pension Plan (the “Outside Director Pension Plan”) and the other postretirement benefit plans (the “Other Postretirement Benefit Plans”), respectively, during the year ending December 31, 2015. The Company does not expect to make a contribution to the Employee Pension Plan (the “Employee Pension Plan”). As of June 30, 2015, the Company has contributed \$76,000 to the Outside Director Pension Plan and \$37,000 to the Other Postretirement Benefit Plans. As of June 30, 2015, the Company has not revised its expected contributions for the year ending December 31, 2015.

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

(Unaudited)

11. Fair Value of Financial Instruments

The Company carries certain financial assets and financial liabilities at fair value in accordance with GAAP which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and expands disclosures about fair value measurements. GAAP permits entities to choose to measure many financial instruments and certain other items at fair value. At June 30, 2015, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$32.2 million and \$29.5 million, respectively. At December 31, 2014, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$32.6 million and \$28.8 million, respectively. The Company did not elect to carry any additional financial assets or financial liabilities under the fair value option during the six months ended June 30, 2015. The Company elected to measure at fair value securities with a cost of \$5.0 million that were purchased during the six months ended June 30, 2014. During the six months ended June 30, 2014, the Company sold financial assets carried under the fair value option totaling \$1.9 million.

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

| | Fair Value Measurements at June 30, 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 | | | |
| | | | Three Months Ended | | Six Months Ended | |
| | | | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| (Dollars in thousands) | | | | | | |
| Mortgage-backed securities | \$ 4,037 | \$ 4,678 | \$(28) | \$24 | \$(36) | \$72 |
| Other securities | 28,122 | 27,915 | (108) | 172 | 89 | 497 |
| Borrowed funds | 29,476 | 28,771 | (1,229) | 154 | (705) | 179 |

| | | | | |
|---|-----------|-------|---------|-------|
| Net gain (loss) from fair value adjustments ⁽¹⁾ ⁽²⁾ | \$(1,365) | \$350 | \$(652) | \$748 |
|---|-----------|-------|---------|-------|

The net gain (loss) from fair value adjustments presented in the above table does not include net gains (losses) of (1) \$2.1 million and (\$0.8) million for the three months ended June 30, 2015 and 2014, respectively, from the change in the fair value of interest rate swaps.

The net gain (loss) from fair value adjustments presented in the above table does not include net gains (losses) of (2) \$0.8 million and (\$1.8) million for the six months ended June 30, 2015 and 2014, respectively, from the change in the fair value of interest rate swaps.

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

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

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

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 June 30, 2015 and December 31, 2014.

Level 2 – when quoted market prices are not available, fair value is estimated using quoted market prices for similar financial instruments and adjusted for differences between the quoted instrument and the instrument being valued. Fair value can also be estimated by using pricing models, or discounted cash flows. Pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices and credit spreads. In addition to observable market information, models also incorporate maturity and cash flow assumptions. At June 30, 2015 and December 31, 2014, Level 2 included mortgage related securities, corporate debt, certain municipal securities, mutual funds 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 June 30, 2015 and December 31, 2014, Level 3 included certain municipal securities and trust preferred securities owned by and junior subordinated debentures issued by the Company.

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

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

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Other Unobservable Inputs (Level 3) | | Total carried at fair value on a recurring basis | |
|----------------------------|---|-------------|---|------------------|--|-----------------|--|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets: | | | | | | | | |
| Mortgage-backed Securities | \$- | \$ - | \$729,674 | \$704,933 | \$- | \$- | \$729,674 | \$704,933 |
| Other securities | - | - | 292,698 | 245,768 | 15,125 | 22,609 | 307,823 | 268,377 |
| Interest rate swaps | - | - | 94 | 84 | - | - | 94 | 84 |
| Total assets | \$- | \$ - | \$1,022,466 | \$950,785 | \$15,125 | \$22,609 | \$1,037,591 | \$973,394 |
| Liabilities: | | | | | | | | |
| Borrowings | \$- | \$ - | \$- | \$- | \$29,476 | \$28,771 | \$29,476 | \$28,771 |
| Interest rate swaps | - | - | 1,711 | 2,649 | - | - | 1,711 | 2,649 |
| Total liabilities | \$- | \$ - | \$1,711 | \$2,649 | \$29,476 | \$28,771 | \$31,187 | \$31,420 |

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

(Unaudited)

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

| | For the three months ended June 30, 2015 | | |
|--|---|--------------------------------------|-----------|
| | Trust Municipal preferred securities | Junior subordinated debentures | |
| | (In thousands) | | |
| Beginning balance | \$14,464 | \$ 7,189 | \$ 28,245 |
| Transfer to held-to-maturity | (4,510) | - | - |
| Principal repayments | (55) | - | - |
| Maturities | (2,000) | - | - |
| Net gain from fair value adjustment of financial assets included in earnings (1) | - | 37 | - |
| Net loss from fair value adjustment of financial liabilities included in earnings (1) | - | - | 1,229 |
| Increase in accrued interest payable | - | - | 2 |
| Change in unrealized gains included in other comprehensive income | - | - | - |
| Ending balance | \$7,899 | \$ 7,226 | \$ 29,476 |
| Changes in unrealized gains (losses) held at period end | \$- | \$ - | \$ - |

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

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

For the three months ended
June 30, 2014

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| | Municipal | Trust preferred securities (In thousands) | Junior subordinated debentures |
|---|-----------|--|--------------------------------|
| Beginning balance | \$ 10,170 | \$ 13,059 | \$ 29,541 |
| Purchases | 475 | - | - |
| Principal repayments | (53) | - | - |
| Net gain from fair value adjustment of financial assets included in earnings (1) | - | 29 | - |
| Net gain from fair value adjustment of financial liabilities included in earnings (1) | - | - | (154) |
| Increase in accrued interest payable | - | - | 1 |
| Change in unrealized gains (losses) included in other comprehensive income | - | 273 | - |
| Ending balance | \$ 10,592 | \$ 13,361 | \$ 29,388 |
| Changes in unrealized gains (losses) held at period end | \$- | \$ 273 | \$ - |

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

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(Unaudited)

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

| | For the six months ended June 30, 2015 | | |
|--|---|----------------------------------|--------------------------------------|
| | Municipal | Trust preferred securities | Junior subordinated debentures |
| | (In thousands) | | |
| Beginning balance | \$ 15,519 | \$ 7,090 | \$ 28,771 |
| Transfer to held-to-maturity | (4,510) | - | - |
| Purchases | 1,000 | - | - |
| Principal repayments | (110) | - | - |
| Maturities | (4,000) | - | - |
| Net gain from fair value adjustment of financial assets included in earnings (1) | - | 131 | - |
| Net loss from fair value adjustment of financial liabilities included in earnings (1) | - | - | 705 |
| Decrease in accrued interest payable | - | - | - |
| Change in unrealized gains (losses) included in other comprehensive income | - | 5 | - |
| Ending balance | \$ 7,899 | \$ 7,226 | \$ 29,476 |
| Changes in unrealized gains (losses) held at period end | \$- | \$ 5 | \$ - |

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

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

| | For the six months ended June 30, 2014 | | |
|--|---|----------------------------------|--------------------------------------|
| | Municipal | Trust preferred securities | Junior subordinated debentures |
| | (In thousands) | | |
| Beginning balance | \$9,223 | \$ 14,935 | \$ 29,570 |
| Purchases | 2,475 | - | - |
| Principal repayments | (1,106) | - | - |
| Sales | - | (1,871) | - |
| Net gain from fair value adjustment of financial assets included in earnings (1) | - | 55 | - |
| Net gain from fair value adjustment of financial liabilities included in earnings (1) | - | - | (179) |
| Decrease in accrued interest payable | - | - | (3) |
| Change in unrealized gains (losses) included in other comprehensive income | - | 242 | - |
| Ending balance | \$10,592 | \$ 13,361 | \$ 29,388 |
| Changes in unrealized gains (losses) held at period end | \$- | \$ 242 | \$ - |

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

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

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

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

| | Fair Value | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|--------------------------------|------------------------|-----------------------|--------------------|--------------------------|
| | (Dollars in thousands) | | | |
| Assets: | | | | |
| Municipals | \$7,899 | Discounted cash flows | Discount rate | 4.0% (4.0%) |
| Trust Preferred Securities | \$7,226 | Discounted cash flows | Discount rate | 7.0% - 7.1% (7.1%) |
| Liabilities: | | | | |
| Junior subordinated debentures | \$29,476 | Discounted cash flows | Discount rate | 7.0% (7.0%) |

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

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

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

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

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

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

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

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Other Unobservable Inputs (Level 3) | | Total carried at fair value on a recurring basis | |
|-------------------------|---|------|---|------|--|----------|--|----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| (In thousands) | | | | | | | | |
| Assets: | | | | | | | | |
| Loans held for sale | \$- | \$ - | \$ - | \$ - | \$300 | \$- | \$300 | \$- |
| Impaired loans | | | | | 16,912 | 22,174 | 16,912 | 22,174 |
| Other real estate owned | - | - | - | - | 4,255 | 6,326 | 4,255 | 6,326 |
| Total assets | \$- | \$ - | \$ - | \$ - | \$21,467 | \$28,500 | \$21,467 | \$28,500 |

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

| Fair Value (Dollars in thousands) | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---------------------|--------------------|--------------------------|
|---|---------------------|--------------------|--------------------------|

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Assets:

| | | | | | |
|-------------------------|---------|-----------------------------------|--|-----------|---------------|
| Loans held for sale | \$300 | Sales approach | Adjustment to sales comparison value to reconcile differences between comparable sales | 59.6% | (59.6%) |
| | | | Loss severity discount | | |
| Impaired loans | \$3,910 | Income approach | Capitalization rate | 7.3% to | 8.0% (7.7%) |
| | | | Loss severity discount | 0.5% to | 55.4% (15.7%) |
| Impaired loans | \$5,587 | Sales approach | Adjustment to sales comparison value to reconcile differences between comparable sales | -50.0% to | 40.0% (-5.9%) |
| | | | Loss severity discount | 0.2% to | 89.4% (13.2%) |
| Impaired loans | \$7,415 | Blended income and sales approach | Adjustment to sales comparison value to reconcile differences between comparable sales | -50.0% to | 25.0% (-2.3%) |
| | | | Capitalization rate | 5.6% to | 11.0% (7.5%) |
| | | | Loss severity discount | 0.9% to | 50.7% (16.3%) |
| Other real estate owned | \$158 | Income approach | Capitalization rate | 12.0% | (12.0%) |
| | | | Loss severity discount | 16.1% | (16.1%) |
| Other real estate owned | \$4,097 | Sales approach | Adjustment to sales comparison value to reconcile differences between comparable sales | -41.5% to | 25.0% (0.0%) |
| | | | Loss severity discount | 1.6% to | 66.2% (18.5%) |

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

(Unaudited)

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

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at June 30, 2015 and December 31, 2014.

The estimated fair value of each material class of financial instruments at June 30, 2015 and December 31, 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 (Level 1).

FHLB-NY stock:

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Securities:

The estimated fair values of securities are contained in Note 4 of Notes to Consolidated Financial Statements. Fair value is based upon quoted market prices (Level 1 input), where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued (Level 2 input). When there is limited activity or less transparency around inputs to the valuation, securities are valued using (Level 3 input).

Loans held for sale:

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

Loans:

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

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

Due to Depositors:

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

Borrowings:

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

Interest Rate Swaps:

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

Other Real Estate Owned:

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

Other Financial Instruments:

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

At June 30, 2015 and December 31, 2014, the fair values of the above financial instruments approximate the recorded amounts of the related fees and were not considered to be material.

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

(Unaudited)

The following table sets forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at June 30, 2015:

| | June 30, 2015 | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | | |
| Assets: | | | | | |
| Cash and due from banks | \$36,599 | \$36,599 | \$36,599 | \$- | \$- |
| Securities held-to-maturity | 7,220 | 7,220 | - | - | 7,220 |
| Mortgage-backed securities available for sale | 729,674 | 729,674 | - | 729,674 | - |
| Other securities available for sale | 307,823 | 307,823 | - | 292,698 | 15,125 |
| Loans | 4,031,142 | 4,078,118 | - | - | 4,078,118 |
| FHLB-NY stock | 49,926 | 49,926 | - | 49,926 | - |
| Interest rate swaps | 94 | 94 | - | 94 | - |
| Total assets | \$5,162,478 | \$5,209,454 | \$36,599 | \$1,072,392 | \$4,100,463 |
| Liabilities: | | | | | |
| Deposits | \$3,698,332 | 3,785,530 | \$2,322,826 | \$1,462,704 | \$- |
| Borrowings | 1,115,435 | 1,130,046 | - | 1,100,570 | 29,476 |
| Interest rate swaps | 1,711 | 1,711 | - | 1,711 | - |
| Total liabilities | \$4,815,478 | \$4,917,287 | \$2,322,826 | \$2,564,985 | \$29,476 |

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

(Unaudited)

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

| | December 31, 2014 | | | | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Carrying | Fair | | | |
| | Amount | Value | Level 1 | Level 2 | Level 3 |
| | (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 |

12.**Derivative Financial Instruments**

At June 30, 2015 and December 31, 2014, the Company's derivative financial instruments consist of interest rate swaps. The Company's interest rate swaps are used to mitigate the Company's exposure to rising interest rates on a

portion (\$18.0 million) of its floating rate junior subordinated debentures that have a contractual value of \$61.9 million. Additionally, the Company at times may use interest rate swaps to mitigate the Company's exposure to rising interest rates on its fixed rate loans.

At June 30, 2015 and December 31, 2014, derivatives with a combined notional amount of \$36.3 million were not designated as hedges. At June 30, 2015 and December 31, 2014, derivatives with a combined notional amount of \$19.4 million and \$14.5 million, respectively, were designated as fair value hedges. Changes in the fair value of the derivatives not designated as hedges are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income. The portion of the changes in the fair value of the derivative designated as a fair value hedge which is considered ineffective are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income.

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

(Unaudited)

The following table sets forth information regarding the Company's derivative financial instruments at June 30, 2015:

| | Notional Amount | Net Carrying Value ⁽¹⁾ |
|---------------------------------|--------------------|---|
| (In thousands) | | |
| Interest rate swaps (non-hedge) | \$36,321 | \$(1,367) |
| Interest rate swaps (hedge) | 4,087 | 94 |
| Interest rate swaps (hedge) | 15,305 | (344) |
| Total derivatives | \$55,713 | \$(1,617) |

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

| | Notional Amount | Net Carrying Value ⁽¹⁾ |
|---------------------------------|--------------------|---|
| (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) |

(1) Derivatives in a net positive position are recorded as "Other assets" and derivatives in a net negative position are recorded as "Other liabilities" in the Consolidated Statements of Financial Condition.

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

| | For the three months ended | | For the six months ended | |
|---------------------------------|-------------------------------|---------|-----------------------------|-----------|
| (In thousands) | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Financial Derivatives: | | | | |
| Interest rate swaps (non-hedge) | \$(2,125) | \$(719) | \$871 | \$(1,733) |
| Interest rate swaps (hedge) | (8) | (33) | (46) | (61) |
| Net Gain (loss) ⁽¹⁾ | \$(2,133) | \$(752) | \$825 | \$(1,794) |

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

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

(Unaudited)

13. Income Taxes

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

Income tax provisions are summarized as follows:

| (In thousands) | For the three months | | For the six months | |
|-------------------------------------|----------------------|---------|--------------------|----------|
| | ended June 30, | | ended June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Federal: | | | | |
| Current | \$11,153 | \$5,675 | \$14,067 | \$8,412 |
| Deferred | (3,998) | (162) | (2,660) | 1,859 |
| Total federal tax provision | 7,155 | 5,513 | 11,407 | 10,271 |
| State and Local: | | | | |
| Current | 4,148 | 2,102 | 4,855 | 3,368 |
| Deferred | (1,782) | (17) | (1,195) | 886 |
| Total state and local tax provision | 2,366 | 2,085 | 3,660 | 4,254 |
| Total income tax provision | \$9,521 | \$7,598 | \$15,067 | \$14,525 |

The effective tax rate was 39.1% and 39.4% for the three months ended June 30, 2015 and 2014, respectively, and 39.0% and 39.8% for the six months ended June 30, 2015 and 2014, respectively. The decrease in the effective tax rate was primarily due to the prior year being affected by changes in New York State tax code passed on March 31, 2014, which resulted in a reduction in the Company's deferred tax assets and a corresponding increase in tax expense during the three and six months ended June 30, 2014.

On April 13, 2015, the Governor of New York signed the New York State 2015 budget, which included changes to the New York City tax code. The approved budget changes the manner in which the Bank's tax liability is calculated for New York City. Based on our review of the changes to the New York City tax code, we do not anticipate a significant change to the Company's tax expense.

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

| (dollars in thousands) | For the three months ended June 30, | | | | For the six months ended June 30, | | | |
|---|--|--------|---------|--------|--------------------------------------|--------|----------|--|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| Taxes at federal statutory rate | \$8,524 | 35.0% | \$6,749 | 35.0% | \$13,522 | 35.0% | \$12,777 | |
| Increase (reduction) in taxes resulting from: | | | | | | | | |
| State and local income tax, net of Federal income tax benefit | 1,538 | 6.3 | 1,355 | 7.0 | 2,379 | 6.2 | 2,765 | |
| Other | (541) | (2.2) | (506) | (2.6) | (834) | (2.2) | (1,017) | |
| Taxes at effective rate | \$9,521 | 39.1% | \$7,598 | 39.4% | \$15,067 | 39.0% | \$14,525 | |

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

(Unaudited)

The Company has recorded a deferred tax asset of \$30.7 million at June 30, 2015, which is included in “Other assets” in the Consolidated Statements of Financial Condition. This represents the anticipated net federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. The Company has reported taxable income for federal, state, and local tax purposes in each of the past three fiscal years. In management’s opinion, in view of the Company’s previous, current and projected future earnings trend, the probability that some of the Company’s \$18.9 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 June 30, 2015.

14. Accumulated Other Comprehensive Income:

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

| | 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 before reclassifications, net of tax | (1,145) | - | (1,145) |
| Amounts reclassified from accumulated other comprehensive income, net of tax | (36) | 332 | 296 |

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| | | | |
|---|---------|-----------|-----------|
| Net current period other comprehensive income, net of tax | (1,181) | 332 | (849) |
| Ending balance, net of tax | \$2,211 | \$(5,967) | \$(3,756) |

The following table sets forth the changes in accumulated other comprehensive income by component for the six months ended June 30, 2014:

| | 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 before reclassifications, net of tax | 11,873 | - | 11,873 |
| Amounts reclassified from accumulated other comprehensive income, net of tax | - | 151 | 151 |
| Net current period other comprehensive income, net of tax | 11,873 | 151 | 12,024 |
| Ending balance, net of tax | \$3,351 | \$(2,702) | \$649 |

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

(Unaudited)

The following table sets forth significant amounts reclassified from accumulated other comprehensive income by component for the three months ended June 30, 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 on available for sale securities: | \$ 64 | Net gain on sale of securities |
| | (28) | Tax expense |
| | \$ 36 | Net of tax |
| Amortization of defined benefit pension items: | | |
| Actuarial losses | \$ (306) (1) | Other expense |
| Prior service credits | 12 (1) | Other expense |
| | (294) | Total before tax |
| | 130 | Tax benefit |
| | \$ (164) | Net of tax |

These accumulated other comprehensive income components are included in the computation of net periodic (1)pension cost (See Note 10 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 three months ended June 30, 2014:

| Details about Accumulated Other Comprehensive Income Components | Amounts Reclassified from Accumulated Other Comprehensive Income | Affected Line Item in the Statement Where Net Income is Presented |
|---|--|--|
|---|--|--|

(Dollars in thousands)

Amortization of defined benefit pension items:

| | | |
|-----------------------|---------------|------------------|
| Actuarial losses | \$ (175) (1) | Other expense |
| Prior service credits | 12 (1) | Other expense |
| | (163) | Total before tax |
| | 72 | Tax benefit |
| | \$ (91) | Net of tax |

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

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

(Unaudited)

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the six months ended June 30, 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 on available for sale securities: | \$ 64 | Net gain on sale of securities |
| | (28) | Tax expense |
| | \$ 36 | Net of tax |
| Amortization of defined benefit pension items: | | |
| Actuarial losses | \$ (613) (1) | Other expense |
| Prior service credits | 23 (1) | Other expense |
| | (590) | Total before tax |
| | 258 | Tax benefit |
| | \$ (332) | Net of tax |

These accumulated other comprehensive income components are included in the computation of net periodic (1)pension cost (See Note 10 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 six months ended June 30, 2014:

| Details about Accumulated Other Comprehensive Income Components | Amounts Reclassified from Accumulated Other Comprehensive Income | Affected Line Item in the Statement Where Net Income is Presented |
|--|--|--|
|--|--|--|

(Dollars in thousands)

Amortization of defined benefit pension items:

| | | |
|-----------------------|---------------|------------------|
| Actuarial losses | \$ (350) (1) | Other expense |
| Prior service credits | 23 (1) | Other expense |
| | (327) | Total before tax |
| | 176 | Tax benefit |
| | \$ (151) | Net of tax |

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

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

(Unaudited)

15. Regulatory Capital

Under current capital regulations, the Bank is required to comply with four separate capital adequacy standards. As of June 30, 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.

| | June 30, 2015 | | December 31, 2014 | |
|--|------------------------|-------------------------|-------------------|-------------------------|
| | Amount | Percent of Assets | Amount | Percent of Assets |
| | (Dollars in thousands) | | | |
| Tier I (leverage) capital: | | | | |
| Capital level | \$483,407 | 9.13 % | \$472,251 | 9.63 % |
| Requirement to be well capitalized | 264,746 | 5.00 | 245,254 | 5.00 |
| Excess | 218,661 | 4.13 | 226,997 | 4.63 |
| Common Equity Tier I risk-based capital: | | | | |
| Capital level | \$483,407 | 13.07 % | n/a | n/a |
| Requirement to be well capitalized | 240,326 | 6.50 | n/a | n/a |
| Excess | 243,081 | 6.57 | n/a | n/a |
| Tier 1 risk-based capital: | | | | |
| Capital level | \$483,407 | 13.07 % | \$472,251 | 13.87 % |
| Requirement to be well capitalized | 295,786 | 8.00 | 204,345 | 6.00 |
| Excess | 187,621 | 5.07 | 267,906 | 7.87 |
| Total risk-based capital: | | | | |
| Capital level | \$506,491 | 13.70 % | \$497,347 | 14.60 % |
| Requirement to be well capitalized | 369,732 | 10.00 | 340,589 | 10.00 |
| Excess | 136,759 | 3.70 | 156,758 | 4.60 |

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

(Unaudited)

The Holding Company is subject to the same regulatory capital requirements as the Bank. As of June 30, 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.

| | June 30, 2015 | | December 31, 2014 | |
|--|------------------------|-------------------------|-------------------|-------------------------|
| | Amount | Percent of Assets | Amount | Percent of Assets |
| | (Dollars in thousands) | | | |
| Tier I (leverage) capital: | | | | |
| Capital level | \$478,658 | 9.06 % | \$471,233 | 9.62 % |
| Requirement to be well capitalized | 264,295 | 5.00 | 244,960 | 5.00 |
| Excess | 214,363 | 4.06 | 226,273 | 4.62 |
| Common Equity Tier I risk-based capital: | | | | |
| Capital level | \$450,169 | 12.20 % | n/a | n/a |
| Requirement to be well capitalized | 239,927 | 6.50 | n/a | n/a |
| Excess | 210,242 | 5.70 | n/a | n/a |
| Tier I risk-based capital: | | | | |
| Capital level | \$478,658 | 12.97 % | \$471,233 | 13.87 % |
| Requirement to be well capitalized | 295,295 | 8.00 | 203,878 | 6.00 |
| Excess | 183,363 | 4.97 | 267,355 | 7.87 |
| Total risk-based capital: | | | | |
| Capital level | \$501,742 | 13.59 % | \$496,329 | 14.61 % |
| Requirement to be well capitalized | 369,119 | 10.00 | 339,797 | 10.00 |
| Excess | 132,623 | 3.59 | 156,532 | 4.61 |

16. New Authoritative Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-04 to clarify that when an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014- 04 is effective for annual reporting periods beginning after December 15, 2014. Adoption of this update did not have a material effect on the Company’s consolidated results of operations or financial condition.

In May 2014, the FASB issued ASU 2014-09 which provides new guidance that supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition”. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact of adopting this new guidance on our consolidated results of operations and financial condition.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

In June 2014, the FASB issued ASU 2014-11 which amends the authoritative accounting guidance under ASC Topic 860 “Transfers and Servicing.” The amendments require two accounting changes. First, the amendments change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require additional disclosures regarding repurchase agreements. The amendments are effective for the first interim or annual period beginning after December 15, 2014. Entities are required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Early adoption is prohibited. The amendments regarding disclosures for certain transactions accounted for as a sale are required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. Adoption of this update did not have a material effect on the Company’s consolidated results of operation or financial condition. (See Note 8 of Notes to Consolidated Financial Statements “Repurchase Agreements”.)

In August 2014, the FASB issued ASU 2014-14 which amends the authoritative accounting guidance under ASC Topic 310 “Receivables.” The amendments require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the follow conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make claim on the guarantee, and the creditor has the ability to recover under that claim and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Entities should adopt the amendments in this Update using either a prospective transition method or a modified retrospective transition method. Adoption of this update did not have a material effect on the Company’s consolidated results of operations or financial condition.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

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

This Quarterly Report should be read in conjunction with the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2014. In addition, please read this section in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements contained herein.

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

Statements contained in this Quarterly Report relating to plans, strategies, objectives, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed elsewhere in this Quarterly Report and in other documents filed by us with the Securities and Exchange Commission from time to time, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2014. 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.

Executive Summary

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

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

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

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

continue our emphasis on the origination of multi-family residential mortgage loans, 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.

Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate risk and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk

exposure, our interest rate sensitivity “gap” position, the types of securities to be held and other factors. We classify our investment securities as available for sale or held-to-maturity.

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

The second quarter of 2015 continued the trend of improving credit quality, as we continued to see improvements in non-performing assets. Non-performing assets were \$32.8 million at June 30, 2015, which was a decrease of \$5.0 million, or 13.1%, from March 31, 2015. The decrease in non-performing assets and our ability to minimize charge-offs has allowed us to record a benefit of \$0.5 million in our reserve for loan losses during the three months ended June 30, 2015, which is the sixth consecutive quarter of recording a benefit. Non-accrual loans decreased \$2.2 million, or 7.3%, during the second quarter to \$27.5 million, and are at their lowest level since the fourth quarter of 2008. During the second quarter of 2015 we sold seven delinquent loans with a book value of \$3.3 million, receiving \$3.5 million upon sale. Net charge-offs for the three months ended June 30, 2015 were \$0.5 million. We continued our practice of obtaining updated appraisals and recording charge-offs based on these current values as opposed to adding to the allowance for loan losses. This process has ensured that we have kept pace with changing values in the real estate market. The average loan-to-value ratio for our non-performing loans collateralized by real estate was 47.0% at June 30, 2015.

Net loans increased \$34.1 million, or 0.9%, during the second quarter of 2015. Loan originations and purchases for the three months ended June 30, 2015 totaled \$196.9 million. The quarter included the purchase of loan participations of \$14.8 million in commercial business loans, at a yield of 2.89%. We continued our focus on the origination and purchase of multi-family real estate, commercial real estate and commercial business loans as originations and purchases of these loan types accounted for 87.1% of the quarter’s originations. We also saw an improvement in the yield on loan originations as the average rate of originations was 3.79% in the second quarter of 2015, compared to 3.55% in the first quarter of 2015. Loan applications in process have continued to remain strong, totaling \$469.2 million at June 30, 2015 compared to \$317.3 million at March 31, 2015.

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During the current quarter we completed the previously announced move of our headquarters to RXR Plaza. The new office space allows us to bring a majority of our non-branch staff into one location providing efficiencies and synergies which were not available when the staff was spread throughout many different locations. As part of the move we also opened a new full-service branch at the same location. Additionally, during the current quarter we sold three of our branch buildings in a sale leaseback transaction, realizing a gain on sale of \$12.7 million, of which \$6.5 million was recognized in earnings during the three months ended June 30, 2015 and \$6.2 million will be deferred and recognized over the term of the branch leases.

Our net interest margin for the second quarter of 2015 was 3.03%, a decrease of six basis points from the first quarter of 2015. However, net interest income increased \$0.6 million to \$38.1 million, compared to the first quarter of 2015, due to the growth in interest earning assets. Excluding prepayment penalty income and additional interest collected from non-accrual loans, the net interest margin decreased four basis points to 2.90% for the three months ended June 30, 2015 from 2.94% for the three months ended March 31, 2015.

At June 30, 2015, the Bank continues to be well-capitalized under regulatory requirements, with Tier 1, Common Equity Tier 1 Risk-based, Tier 1 Risk-based and Total Risk-based capital ratios of 9.13%, 13.07%, 13.07% and 13.70%, respectively. The Company is also subject to the same regulatory requirements. At June 30, 2015, the Company’s capital ratios for Tier 1, Common Equity Tier 1 Risk-based, Tier 1 Risk-based and Total Risk-based capital ratios were 9.06%, 12.20%, 12.97% and 13.59%, respectively.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED

JUNE 30, 2015 AND 2014

General. Net income for the three months ended June 30, 2015 was \$14.8 million, an increase of \$3.1 million, or 26.9%, compared to \$11.7 million for the three months ended June 30, 2014. Diluted earnings per common share were \$0.51 for the three months ended June 30, 2015, an increase of \$0.12, or 30.8%, from \$0.39 for the three months ended June 30, 2014.

Return on average equity increased to 12.7% for the three months ended June 30, 2015 from 10.3% for the three months ended June 30, 2014. Return on average assets increased to 1.1% for the three months ended June 30, 2015 from 1.0% for the three months ended June 30, 2014.

Interest Income. Total interest and dividend income increased \$0.7 million, or 1.3%, to \$50.2 million for the three months ended June 30, 2015 from \$49.6 million for the three months ended June 30, 2014. The increase in interest income was primarily attributable to an increase of \$454.9 million in the average balance of interest-earning assets to \$5,033.7 million for the three months ended June 30, 2015 from \$4,578.8 million for the comparable prior year period, partially offset by a decrease of 34 basis points in the yield of interest-earning assets to 3.99% for the three months ended June 30, 2015 from 4.33% in the comparable prior year period. The 34 basis point decline in the yield of interest-earning assets was primarily due to a 45 basis point reduction in the yield of the loan portfolio to 4.43% for the three months ended June 30, 2015 from 4.88% for the three months ended June 30, 2014, combined with a 22 basis point decline in the yield on total securities to 2.46% for the three months ended June 30, 2015 from 2.68% for the comparable prior year period. The yield of interest-earning assets was positively impacted by an increase of \$496.0 million in the average balance of total loans, net to \$3,981.9 million for the three months ended June 30, 2015 from \$3,485.9 million for the comparable prior year period and a decrease of \$60.7 million in the average balance of the lower yielding total securities portfolio to \$992.0 million for the three months ended June 30, 2015 from \$1,052.7 million for the comparable prior year period. The 45 basis point decrease in the yield of the loan portfolio was primarily due to the decline in the rates earned on new loan originations, existing loans modifying to lower rates, and higher yielding loans prepaying. Excluding prepayment penalty income, the yield on the total loans, net, decreased 44 basis points to 4.28% for the three months ended June 30, 2015 from 4.72% for the three months ended June 30, 2014. The 22 basis point decrease in the yield of the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio.

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Interest Expense. Interest expense decreased \$0.7 million, or 5.2%, to \$12.1 million for the three months ended June 30, 2015 from \$12.7 million for the three months ended June 30, 2014. The decrease in interest expense was primarily due to a 17 basis point decrease in interest-bearing liabilities to 1.06% for the three months ended June 30, 2015 from 1.23% for the comparable prior year period. The 17 basis point decrease in the cost of interest-bearing liabilities was primarily attributable to decreases of 48 basis points and 28 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 14 basis points and 25 basis points in the cost of money market accounts and savings accounts, respectively, for the three months ended June 30, 2015 from the comparable prior year period. The cost of money market accounts increased primarily due to our shifting Government NOW deposits to a money market product which does not require us to provide collateral, which will allow us to invest these funds in higher yielding assets. The cost of savings accounts increased as we increased the rate we pay on some of our savings products to attract additional deposits. Additionally, the cost of interest-bearing liabilities was negatively affected by increases of \$187.4 million and \$66.9 million in the average balance of higher costing certificates of deposit and borrowed funds, respectively, during the three months ended June 30, 2015, which was partially offset by an increase of \$141.8 million in the average balance of lower costing core deposits during the three months ended June 30, 2015 to \$2,075.5 million from \$1,933.7 million for the comparable prior year period.

Net Interest Income. For the three months ended June 30, 2015, net interest income was \$38.1 million, an increase of \$1.3 million, or 3.6%, from \$36.8 million for the three months ended June 30, 2014. The increase in net interest income was primarily attributable to an increase of \$454.9 million in the average balance of interest-earning assets to \$5,033.7 million for the three months ended June 30, 2015 from \$4,578.8 million for the comparable prior year period, partially offset by a 17 basis point decrease in the net interest spread to 2.93% for the three months ended June 30, 2015 from 3.10% for the comparable prior year period. The yield on interest-earning assets decreased 34 basis points to 3.99% for the three months ended June 30, 2015 from 4.33% for the three months ended June 30, 2014, while the cost of interest-bearing liabilities decreased 17 basis points to 1.06% for the three months ended June 30, 2015 from 1.23% for the comparable prior year period. The net interest margin declined 19 basis points to 3.03% for the three months ended June 30, 2015 from 3.22% for the three months ended June 30, 2014. The three months ended June 30, 2015 included \$0.1 million in additional interest collected from non-accrual loans compared to \$0.4 million recorded during the three months ended June 30, 2014. Excluding this additional interest collected from non-accrual loans, the net interest margin decreased 16 basis points to 3.02% for the three months ended June 30, 2015 from 3.18% for the three months ended June 30, 2014. Further excluding prepayment penalty income of \$1.5 million and \$1.3 million recorded during the three months ended June 30, 2015 and 2014, respectively, the net interest margin decreased 17 basis points to 2.90% for the three months ended June 30, 2015, compared to 3.07% for the three months ended June 30, 2014.

Benefit for Loan Losses. The benefit for loan losses for the three months ended June 30, 2015 was \$0.5 million, a decrease of \$0.6 million, or 52.7% from a benefit of \$1.1 million during the comparable prior year period. The benefit recorded during the three months ended June 30, 2015 was primarily due to the continued improvement in credit conditions and an improvement in the impact of the qualitative factors used in the calculation of the allowance for loan losses. During the three months ended June 30, 2015, non-accrual loans decreased \$2.2 million to \$27.5 million from \$29.6 million at March 31, 2015 and net charge-offs continued to be minimal at \$0.5 million, or five basis points of average loans, for the three months ended June 30, 2015. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 47.0% at June 30, 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 \$0.5 million for the three months ended June 30, 2015. See “-ALLOWANCE FOR LOAN LOSSES.”

Non-Interest Income. Non-interest income for the three months ended June 30, 2015 was \$9.9 million, an increase of \$8.0 million, or 400.9% from \$2.0 million for the three months ended June 30, 2014. The increase in non-interest income was primarily due to increases of \$6.5 million in net gains on sale of buildings and \$1.2 million in net gains from fair value adjustments, as the current period included net gains from fair value adjustments of \$0.8 million compared to net losses from fair value adjustments of \$0.4 million recorded in the comparable prior year period.

Non-Interest Expense. Non-interest expense was \$24.2 million for the three months ended June 30, 2015, an increase of \$3.6 million, or 17.6%, from \$20.6 million for the three months ended June 30, 2014. The increase in non-interest expense was primarily due to an increase of \$1.6 million in other operating expense and an increase of \$1.2 million in salaries and benefits, primarily due to increases in staffing in the lending, 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 the three months ended June 30, 2015 including a write-down of \$0.8 million on one OREO to reduce the carrying value of the property to its anticipated net selling price, \$0.4 million in expenses related to the move of our corporate headquarters and \$0.3 million in expenses related to the growth of the Bank. The current period also included an increase of \$0.7 million in occupancy and equipment primarily due to increases in rent expense of \$0.4 million for our new corporate headquarters and new branch at the same location and \$0.3 million from additional space in Manhattan for Business Bankers and a new branch location, which we expect to open in the third quarter of 2015. The efficiency ratio increased to 57.5% for the three months ended June 30, 2015 from 52.9% for the three months ended June 30, 2014, primarily due to the increased expenses discussed above.

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Income before Income Taxes. Income before the provision for income taxes increased \$5.1 million, or 26.3%, to \$24.4 million for the three months ended June 30, 2015 from \$19.3 million for the three months ended June 30, 2014 for the reasons discussed above.

Provision for Income Taxes. Income tax expense increased \$1.9 million, or 25.3%, to \$9.5 million for the three months ended June 30, 2015 from \$7.6 million for the three months ended June 30, 2014, primarily due to the increase in income before income taxes as discussed above. The effective tax rate was 39.1% and 39.4% for the three months ended June 30, 2015 and 2014, respectively.

COMPARISON OF OPERATING RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

General. Net income for the six months ended June 30, 2015 was \$23.6 million, an increase of \$1.6 million, or 7.2%, compared to \$22.0 million for the six months ended June 30, 2014. Diluted earnings per common share were \$0.80 for the six months ended June 30, 2015, an increase of \$0.07, or 9.6%, from \$0.73 for the six months ended June 30, 2014.

Return on average equity increased to 10.2% for the six months ended June 30, 2015, from 9.9% for the six months ended June 30, 2014. Return on average assets was 0.9% for the six months ended June 30, 2015 and 2014.

Interest Income. Total interest and dividend income increased \$1.0 million, or 1.0%, to \$99.8 million for the six months ended June 30, 2015 from \$98.8 million for the six months ended June 30, 2014. The increase in interest income was primarily attributable to an increase of \$415.6 million in the average balance of interest-earning assets to \$4,948.1 million for the six months ended June 30, 2015 from \$4,532.6 million for the comparable prior year period, partially offset by a decrease of 33 basis points in the yield of interest-earning assets to 4.03% for the six months ended June 30, 2015 from 4.36% in the comparable prior year period. The 33 basis point decline in the yield of interest-earning assets was primarily due to a 44 basis point reduction in the yield of the loan portfolio to 4.48% for the six months ended June 30, 2015 from 4.92% for the six months ended June 30, 2014, combined with a 24 basis point decline in the yield on total securities to 2.46% for the six months ended June 30, 2015 from 2.70% for the

comparable prior year period. The yield of interest-earning assets was positively impacted by an increase of \$476.3 million in the average balance of total loans, net to \$3,915.2 million for the three months ended June 30, 2015 from \$3,438.9 million for the comparable prior year period and a decrease of \$65.1 million in the average balance of the lower yielding total securities portfolio to \$981.3 million for the three months ended June 30, 2015 from \$1,046.4 million for the comparable prior year period. The 44 basis point decrease in the yield of the loan portfolio was primarily due to the decline in the rates earned on new loan originations, existing loans modifying to lower rates, and higher yielding loans prepaying. Excluding prepayment penalty income, the yield on total loans, net, decreased 43 basis points to 4.34% for the six months ended June 30, 2015 from 4.77% for the six months ended June 30, 2014. The 24 basis point decrease in the yield of the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio.

Interest Expense. Interest expense decreased \$1.4 million, or 5.5%, to \$24.1 million for the six months ended June 30, 2015 from \$25.5 million for the six months ended June 30, 2014. The decrease in interest expense was primarily due to a 16 basis point decrease in interest-bearing liabilities to 1.08% for the six months ended June 30, 2015 from 1.24% for the comparable prior year period. The 16 basis point decrease in the cost of interest-bearing liabilities was primarily attributable to decreases of 45 basis points and 27 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 12 basis points and 23 basis points in the cost of money market accounts and savings accounts, respectively, for the six months ended June 30, 2015 from the comparable prior year period. The cost of money market accounts increased primarily due to our shifting Government NOW deposits to a money market product which does not require us to provide collateral, which will allow us to invest these funds in higher yielding assets. The cost of savings accounts increased as we increased the rate we pay on some of our savings products to attract additional deposits. Additionally, the cost of interest-bearing liabilities was negatively affected by increases of \$187.7 million and \$52.5 million in the average balance of higher costing certificates of deposit and borrowed funds, respectively, during the six months ended June 30, 2015, which was partially offset by an increase of \$115.6 million in the average balance of lower costing core deposits during the six months ended June 30, 2015 to \$2,049.0 million from \$1,933.4 million for the comparable prior year period.

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Net Interest Income. For the six months ended June 30, 2015, net interest income was \$75.7 million, an increase of \$2.4 million, or 3.2%, from \$73.3 million for the six months ended June 30, 2014. The increase in net interest income was primarily attributable to an increase of \$415.6 million in the average balance of interest-earning assets to \$4,948.1 million for the six months ended June 30, 2015 from \$4,532.6 million for the comparable prior year period, partially offset by a 17 basis point decrease in the net interest spread to 2.95% for the six months ended June 30, 2015 from 3.12% for the comparable prior year period. The yield on interest-earning assets decreased 33 basis points to 4.03% for the six months ended June 30, 2015 from 4.36% for the six months ended June 30, 2014, while the cost of interest-bearing liabilities decreased 16 basis points to 1.08% for the six months ended June 30, 2015 from 1.24% for the comparable prior year period. The net interest margin declined 18 basis points to 3.06% for the six months ended June 30, 2015 from 3.24% for the six months ended June 30, 2014. Each of the six months ended June 30, 2015 and June 30, 2014 included \$0.7 million in additional interest collected from non-accrual loans. Excluding this additional interest collected from non-accrual loans, the net interest margin decreased 17 basis points to 3.03% for the six months ended June 30, 2015 from 3.20% for the six months ended June 30, 2014. Further excluding prepayment penalty income of \$2.7 million and \$2.6 million recorded during the six months ended June 30, 2015 and 2014, respectively, the net interest margin decreased 17 basis points to 2.92% for the six months ended June 30, 2015, compared to 3.09% for the six months ended June 30, 2014.

Benefit for Loan Losses. The benefit for loan losses for the six months ended June 30, 2015 was \$1.3 million, a decrease of \$1.0 million, or 43.5%, from a benefit of \$2.2 million during the comparable prior year period. The benefit recorded during the six months ended June 30, 2015 was primarily due to the continued improvement in credit conditions and an improvement in the impact of the qualitative factors used in the calculation of the allowance for loan losses. During the six months ended June 30, 2015, non-accrual loans decreased \$4.4 million to \$27.5 million from \$31.9 million at December 31, 2014 and net charge-offs continued to be minimal at \$0.8 million, or four basis points of average loans, for the six months ended June 30, 2015. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 47.0% at June 30, 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 \$1.3 million for the six months ended June 30, 2015. See “-ALLOWANCE FOR LOAN LOSSES.”

Non-Interest Income. Non-interest income for the six months ended June 30, 2015 was \$11.9 million, an increase of \$8.2 million, or 221.3% from \$3.7 million for the six months ended June 30, 2014. The increase in non-interest income was primarily due to increases of \$6.5 million in net gains on sale of buildings, as we sold and leased back our Brooklyn branch buildings, and \$1.2 million in net gains from fair value adjustments, as the current period included net gains from fair value adjustments of \$0.2 million compared to net losses from fair value adjustments of \$1.0

million recorded in the comparable prior year period.

Non-Interest Expense. Non-interest expense was \$50.2 million for the six months ended June 30, 2015, an increase of \$7.5 million, or 17.5%, from \$42.7 million for the six months ended June 30, 2014. The increase in non-interest expense was primarily due to an increase of \$1.9 million in other operating expense and an increase of \$3.3 million in salaries and benefits, primarily due to increases in staffing in the lending, 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 the current period including a net loss of \$0.6 million from the sale of OREO, \$0.3 million in ATM fraud losses recorded in the first quarter of 2015, \$0.4 million in expenses related to the move of our corporate headquarters and \$0.5 million in expenses related to the growth of the Bank. The current period also included an increase of \$1.4 million in occupancy and equipment primarily due to \$0.2 million recorded in the first quarter of 2015 for temporary staff for additional security to guard against further ATM fraud losses and increases in rent expense of \$0.9 million for our new corporate headquarters and new branch at the same location and \$0.3 million from additional space in Manhattan for Business Bankers and a new branch location, which we expect to open in the third quarter of 2015. During the current period the Bank also experienced increases of \$0.4 million, \$0.2 million, \$0.1 million and \$0.1 million in professional services, FDIC insurance expense, data processing expense and depreciation and amortization, respectively, due to the growth of the Bank. The efficiency ratio increased to 61.2% for the six months ended June 30, 2015 from 54.7% for the six months ended June 30, 2014, primarily due to the increased expenses discussed above.

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Income before Income Taxes. Income before the provision for income taxes increased \$2.1 million, or 5.8%, to \$38.6 million for the six months ended June 30, 2015 from \$36.5 million for the six months ended June 30, 2014 for the reasons discussed above.

Provision for Income Taxes. The provision for income taxes for the six months ended June 30, 2015 was \$15.1 million, an increase of \$0.5 million, or 3.7%, from \$14.5 million for the comparable prior year period. The increase was primarily due to an increase of \$2.1 million in income before income taxes, partially offset by a decrease in the effective tax rate to 39.0% for the six months ended June 30, 2015 from 39.8% for the six months ended June 30, 2014. The decrease in the effective tax rate was primarily due to the prior year being affected by changes in New York State tax code passed on June 30, 2014, which resulted in a reduction in the Company’s deferred tax assets and a corresponding increase in tax expense during the six months ended June 30, 2014.

FINANCIAL CONDITION

Assets. Total assets at June 30, 2015 were \$5,360.0 million, an increase of \$283.0 million, or 5.6%, from \$5,077.0 million at December 31, 2014. Total loans, net increased \$222.8 million, or 5.9%, during the six months ended June 30, 2015 to \$4,008.1 million from \$3,785.3 million at December 31, 2014. Loan originations and purchases were \$503.4 million for the six months ended June 30, 2015, an increase of \$114.2 million from \$389.2 million for the six months ended June 30, 2014. During the six months ended June 30, 2015, we continued to focus on the origination and purchase of multi-family residential, commercial real estate and commercial business loans with a full relationship. Loan applications in process have remained strong, totaling \$469.2 million at June 30, 2015 compared to \$295.9 million at December 31, 2014.

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

| (In thousands) | For the three months ended June 30, | | For the six months ended June 30, | |
|---|--|-----------|--------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Multi-family residential ⁽¹⁾ | \$50,429 | \$107,197 | \$177,175 | \$165,009 |
| Commercial real estate ⁽²⁾ | 57,331 | 18,205 | 143,726 | 31,621 |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| One-to-four family – mixed-use property | 9,916 | 8,429 | 24,897 | 18,428 |
| One-to-four family – residential | 8,975 | 6,404 | 22,078 | 15,504 |
| Co-operative apartments | 450 | - | 450 | - |
| Construction | 845 | 300 | 1,387 | 997 |
| Small Business Administration | 5,233 | 225 | 6,481 | 578 |
| Taxi Medallion ⁽³⁾ | - | 1,889 | - | 13,538 |
| Commercial business and other ⁽⁴⁾ | 63,704 | 48,542 | 127,211 | 143,498 |
| Total | \$196,883 | \$191,191 | \$503,405 | \$389,173 |

(1) Includes purchases of \$99.9 million for the six months ended June 30, 2015.

(2) Includes purchases of \$11.0 million for the six months ended June 30, 2015.

(3) Includes purchases of \$1.9 million and \$13.5 million for the three and six months ended June 30, 2014, respectively.

Includes purchases of \$14.8 million and \$2.0 million for the three months ended June 30, 2015 and 2014,

(4) respectively. Includes purchases of \$15.2 million and \$30.7 million for the six months ended June 30, 2015 and 2014, respectively.

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The Bank continues to maintain conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans originated during the second quarter of 2015 had an average loan-to-value ratio of 44.9% and an average debt coverage ratio of 221%.

The Bank’s non-performing assets totaled \$32.8 million at June 30, 2015, a decrease of \$7.7 million from \$40.5 million at December 31, 2014. Total non-performing assets as a percentage of total assets were 0.61% at June 30, 2015 compared to 0.80% at December 31, 2014. The ratio of allowance for loan losses to total non-performing loans was 80.8% at June 30, 2015 compared to 73.4% at December 31, 2014. See – “TROUBLED DEBT RESTRUCUTURED AND NON-PERFORMING ASSETS.”

During the six months ended June 30, 2015, mortgage-backed securities increased \$24.7 million, or 3.5%, to \$729.7 million from \$704.9 million at December 31, 2014. The increase in mortgage-backed securities during the six months ended June 30, 2015 was primarily due to purchases of \$79.2 million in mortgage-backed securities at an average yield of 2.64%, which was partially offset by principal repayments of \$52.8 million and a decrease of \$0.3 million in the fair value of mortgage-backed securities.

During the six months ended June 30, 2015, other securities, including securities held-to-maturity, increased \$46.7 million, or 17.4%, to \$315.0 million from \$268.4 million at December 31, 2014. The increase in other securities during the six months ended June 30, 2015 was primarily due to purchases of \$83.9 million at an average yield of 2.93%, which was partially offset by sales, maturities and a decrease in the fair value of other securities totaling \$25.0 million, \$9.0 million, and \$1.6 million, respectively. Other securities primarily consist of securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds, collateralized loan obligations and corporate bonds.

Liabilities. Total liabilities were \$4,897.8 million at June 30, 2015, an increase of \$277.1 million, or 6.0%, from \$4,620.8 million at December 31, 2014. During the six months ended June 30, 2015, due to depositors increased \$181.5 million, or 5.2%, to \$3,654.4 million, due to increases of \$111.8 million in core deposits and \$69.7 million in certificates of deposit. The increase in core deposits was due to increases of \$108.9 million, \$2.8 million and \$1.7 million in money market, savings, and demand accounts, respectively, partially offset by a decrease of \$1.6 million in NOW accounts. Borrowed funds increased \$58.9 million during the six months ended June 30, 2015. The increase in borrowed funds was primarily due to the addition of \$73.0 million in long-term borrowing at an average cost of 1.29%

and a net increase in short-term borrowings totaling \$35.0 million at an average cost of 0.34%, partially offset by the maturity of \$50.0 million in long-term borrowings at an average cost of 0.64%.

Equity. Total stockholders' equity increased \$5.9 million, or 1.3%, to \$462.1 million at June 30, 2015 from \$456.2 million at December 31, 2014. Stockholders' equity increased primarily due to net income of \$23.6 million, and an increase in additional paid in capital of \$1.9 million due to the issuance of 132,242 shares distributed to the profit sharing plan and defined contribution retirement plan during the six months ended June 30, 2015. These increases were partially offset by the purchase of 635,199 treasury shares totaling \$12.4 million, the declaration and payment of dividends on the Company's common stock of \$0.32 per common share totaling \$9.4 million and a decrease in comprehensive income of \$0.8 million primarily due to a decrease in the fair value of the securities portfolio. Book value per common share was \$15.98 at June 30, 2015 compared to \$15.52 at December 31, 2014.

Cash flow. During the six months ended June 30, 2015, funds provided by the Company's operating activities amounted to \$23.5 million. These funds combined with \$224.9 million provided from financing activities were utilized to fund net investing activities of \$246.0 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 six months ended June 30, 2015, the net total of loan originations and purchases less loan repayments and sales was \$201.5 million. During the six months ended June 30, 2015, the Company also purchased \$141.2 million in securities available for sale. During the six months ended June 30, 2015, funds were provided by net increases of \$189.2 million and \$35.0 million in total deposits and short-term borrowed funds, respectively, and \$73.0 million in long-term borrowings. Additionally, funds were provided by \$87.3 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 \$50.0 million, \$9.4 million and \$13.5 million for the repayment of long-term borrowed funds, dividend payments and purchases of treasury stock, respectively, during the six months ended June 30, 2015.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

INTEREST RATE RISK

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

The Company manages the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust its exposure to interest rate risk. On a quarterly basis, management prepares the “Earnings and Economic Exposure to Changes in Interest Rate” report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The Company’s regulators currently place focus on the net portfolio value, focusing on a rate shock up or down of 200 basis points. Net portfolio value is defined as the fair value of assets net of the fair value of liabilities. The fair 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 fair 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 June 30, 2015. Various estimates regarding prepayment assumptions are made at each level of rate shock. However, prepayment penalty income is excluded from this analysis. Actual results could differ significantly from these estimates. At June 30, 2015, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

The following table presents the Company’s interest rate shock as of June 30, 2015:

Projected
Percentage Change

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| | In | | | |
|-------------------------|----------|-----------|-----------|-------|
| | Net | Net | Net | |
| | Interest | Portfolio | Portfolio | |
| Change in Interest Rate | Income | Value | Value | Ratio |
| -200 Basis points | -2.56 % | 9.62 % | 12.10 % | |
| -100 Basis points | 0.63 | 7.36 | 12.04 | |
| Base interest rate | 0.00 | 0.00 | 11.50 | |
| +100 Basis points | -5.19 | -13.56 | 10.26 | |
| +200 Basis points | -10.86 | -30.26 | 8.58 | |

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

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following table sets forth certain information relating to the Company’s Consolidated Statements of Financial Condition and Consolidated Statements of Income for the three months ended June 30, 2015 and 2014, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

| | For the three months ended June 30, | | | | | |
|--|-------------------------------------|----------|----------------|--------------------|----------|----------------|
| | 2015 | | | 2014 | | |
| | Average Balance | Interest | Yield/ Cost | Average Balance | Interest | Yield/ Cost |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Mortgage loans, net ⁽¹⁾ | \$3,476,163 | \$39,737 | 4.57 % | \$3,039,477 | \$38,330 | 5.04 % |
| Other loans, net ⁽¹⁾ | 505,745 | 4,347 | 3.44 | 446,457 | 4,159 | 3.73 |
| Total loans, net | 3,981,908 | 44,084 | 4.43 | 3,485,934 | 42,489 | 4.88 |
| Taxable securities: | | | | | | |
| Mortgage-backed securities | 706,510 | 4,340 | 2.46 | 769,474 | 5,320 | 2.77 |
| Other securities | 148,244 | 877 | 2.47 | 155,801 | 1,742 | 2.34 |
| Total securities | 854,754 | 5,227 | 2.45 | 952,275 | 6,233 | 2.69 |
| Taxable securities: ⁽²⁾ | | | | | | |
| Other securities | 137,270 | 879 | 2.56 | 127,399 | 829 | 2.60 |
| Total tax-exempt securities | 137,270 | 879 | 2.56 | 127,399 | 829 | 2.60 |
| Interest-earning deposits and federal funds sold | 59,762 | 32 | 0.21 | 40,156 | 18 | 0.18 |
| Total interest-earning assets | 5,033,694 | 50,222 | 3.99 | 4,578,764 | 49,569 | 4.33 |
| Other assets | 275,769 | | | 254,274 | | |
| Total assets | \$5,309,463 | | | \$4,833,038 | | |

Liabilities and Equity

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Interest-bearing liabilities:

Deposits:

| | | | | | | |
|--|-------------|----------|--------|-------------|----------|--------|
| Savings accounts | \$268,791 | 291 | 0.43 | \$258,659 | 116 | 0.18 |
| NOW accounts | 1,475,574 | 1,651 | 0.45 | 1,458,612 | 1,586 | 0.43 |
| Money market accounts | 331,117 | 307 | 0.37 | 216,394 | 126 | 0.23 |
| Certificate of deposit accounts | 1,340,456 | 5,165 | 1.54 | 1,153,010 | 5,810 | 2.02 |
| Total due to depositors | 3,415,938 | 7,414 | 0.87 | 3,086,675 | 7,638 | 0.99 |
| Mortgagors' escrow accounts | 62,906 | 23 | 0.15 | 57,213 | 32 | 0.22 |
| Total deposits | 3,478,844 | 7,437 | 0.86 | 3,143,888 | 7,670 | 0.98 |
| Borrowed funds | 1,064,055 | 4,645 | 1.75 | 997,174 | 5,070 | 2.03 |
| Total interest-bearing liabilities | 4,542,899 | 12,082 | 1.06 | 4,141,062 | 12,740 | 1.23 |
| Non interest-bearing deposits | 242,732 | | | 202,809 | | |
| Other liabilities | 58,214 | | | 37,038 | | |
| Total liabilities | 4,843,845 | | | 4,380,909 | | |
| Equity | 465,618 | | | 452,129 | | |
| Total liabilities and equity | \$5,309,463 | | | \$4,833,038 | | |
| Net interest income / net interest rate spread | | \$38,140 | 2.93 % | | \$36,829 | 3.10 % |
| Net interest-earning assets / net interest margin | \$490,795 | | 3.03 % | \$437,702 | | 3.22 % |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 1.11 X | | | 1.11 X |

Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late (1) charges, and prepayment penalties) of approximately \$1.0 million and \$1.1 million for the three months ended June 30, 2015 and 2014, respectively.

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

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

The following table sets forth certain information relating to the Company’s Consolidated Statements of Financial Condition and Consolidated Statements of Income for the six months ended June 30, 2015 and 2014, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

| | For the six months ended June 30, 2015 | | | | 2014 | | |
|--|---|----------|----------------|---|--------------------|----------|----------------|
| | Average Balance | Interest | Yield/ Cost | % | Average Balance | Interest | Yield/ Cost |
| Assets | | | | | | | |
| Interest-earning assets: | | | | | | | |
| Mortgage loans, net ⁽¹⁾ | \$3,417,708 | \$79,177 | 4.63 | % | \$3,015,208 | \$76,912 | 5.10 % |
| Other loans, net ⁽¹⁾ | 497,477 | 8,441 | 3.39 | | 423,678 | 7,697 | 3.63 |
| Total loans, net | 3,915,185 | 87,618 | 4.48 | | 3,438,886 | 84,609 | 4.92 |
| Taxable securities: | | | | | | | |
| Mortgage-backed securities | 704,520 | 8,721 | 2.48 | | 769,693 | 10,710 | 2.78 |
| Other securities | 139,143 | 1,607 | 2.31 | | 149,639 | 1,763 | 2.36 |
| Total taxable securities | 843,663 | 10,328 | 2.45 | | 919,332 | 12,473 | 2.71 |
| Tax-exempt securities: ⁽²⁾ | | | | | | | |
| Other securities | 137,627 | 1,766 | 2.57 | | 127,024 | 1,653 | 2.60 |
| Total tax-exempt securities | 137,627 | 1,766 | 2.57 | | 127,024 | 1,653 | 2.60 |
| Interest-earning deposits and federal funds sold | 51,669 | 53 | 0.21 | | 47,316 | 45 | 0.19 |
| Total interest-earning assets | 4,948,144 | 99,765 | 4.03 | | 4,532,558 | 98,780 | 4.36 |
| Other assets | 273,555 | | | | 253,044 | | |
| Total assets | \$5,221,699 | | | | \$4,785,602 | | |
| Liabilities and Equity | | | | | | | |
| Interest-bearing liabilities: | | | | | | | |
| Deposits: | | | | | | | |
| Savings accounts | \$267,507 | 555 | 0.41 | | \$261,161 | 235 | 0.18 |
| NOW accounts | 1,463,576 | 3,201 | 0.44 | | 1,465,276 | 3,279 | 0.45 |
| Money market accounts | 317,962 | 560 | 0.35 | | 206,976 | 233 | 0.23 |
| Certificate of deposit accounts | 1,319,229 | 10,533 | 1.60 | | 1,131,494 | 11,596 | 2.05 |

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| | | | | | | |
|--|-------------|----------|--------|-------------|----------|--------|
| Total due to depositors | 3,368,274 | 14,849 | 0.88 | 3,064,907 | 15,343 | 1.00 |
| Mortgagors' escrow accounts | 55,415 | 46 | 0.17 | 50,293 | 45 | 0.18 |
| Total deposits | 3,423,689 | 14,895 | 0.87 | 3,115,200 | 15,388 | 0.99 |
| Borrowed funds | 1,043,104 | 9,176 | 1.76 | 990,557 | 10,076 | 2.03 |
| Total interest-bearing liabilities | 4,466,793 | 24,071 | 1.08 | 4,105,757 | 25,464 | 1.24 |
| Non interest-bearing deposits | 238,234 | | | 196,285 | | |
| Other liabilities | 53,795 | | | 37,250 | | |
| Total liabilities | 4,758,822 | | | 4,339,292 | | |
| Equity | 462,877 | | | 446,310 | | |
| Total liabilities and equity | \$5,221,699 | | | \$4,785,602 | | |
| Net interest income / net interest rate spread | | \$75,694 | 2.95 % | | \$73,316 | 3.12 % |
| Net interest-earning assets / net interest margin | \$481,351 | | 3.06 % | \$426,801 | | 3.24 % |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 1.11 X | | | 1.10 X |

Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late (1) charges, and prepayment penalties) of approximately \$1.7 million and \$2.2 million for the six months ended June 30, 2015 and 2014, respectively.

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

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

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

| (In thousands) | For the six months ended June 30, | |
|---|-----------------------------------|--------------|
| | 2015 | 2014 |
| Mortgage Loans | | |
| At beginning of period | \$ 3,321,501 | \$ 3,028,452 |
| Mortgage loans originated: | | |
| Multi-family residential | 77,286 | 165,009 |
| Commercial real estate | 132,758 | 31,621 |
| One-to-four family – mixed-use property | 24,897 | 18,428 |
| One-to-four family – residential | 22,078 | 15,504 |
| Co-operative apartments | 450 | - |
| Construction | 1,387 | 997 |
| Total mortgage loans originated | 258,856 | 231,559 |
| Mortgage loans purchased: | | |
| Multi-family residential | 99,889 | - |
| Commercial real estate | 10,968 | - |
| Total mortgage loans purchased | 110,857 | - |
| Less: | | |
| Principal and other reductions | 173,872 | 171,029 |
| Loans transferred to Available for Sale | 300 | - |
| Sales | 5,028 | 5,943 |
| At end of period | \$ 3,512,014 | \$ 3,083,039 |
| Non-Mortgage Loans | | |
| At beginning of period | \$ 477,153 | \$ 394,556 |

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| | | |
|--------------------------------|------------|------------|
| Other loans originated: | | |
| Small Business Administration | 6,481 | 578 |
| Commercial business | 110,448 | 111,526 |
| Taxi medallion | - | - |
| Other | 1,550 | 1,328 |
| Total other loans originated | 118,479 | 113,432 |
| Other loans purchased: | | |
| Taxi medallion | - | 13,539 |
| Commercial business | 15,213 | 30,643 |
| Total other loans purchased | 15,213 | 44,182 |
| Less: | | |
| Principal and other reductions | 104,968 | 113,483 |
| Sales | - | - |
| At end of period | \$ 505,877 | \$ 438,687 |

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

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

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

| | June 30, 2015 | March 31, 2015 | December 31, 2014 |
|--------------------------|---------------------|----------------------|-------------------------|
| (In thousands) | | | |
| Accrual Status: | | | |
| Multi-family residential | \$2,657 | \$2,669 | \$3,034 |
| Commercial real estate | 2,356 | 2,364 | 2,373 |

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| | | | |
|---|---------|----------|----------|
| One-to-four family - mixed-use property | 2,358 | 2,369 | 2,381 |
| One-to-four family - residential | 349 | 351 | 354 |
| Small business administration | 39 | 41 | - |
| Commercial business and other | 2,167 | 2,208 | 2,249 |
| Total performing troubled debt restructured | \$9,926 | \$10,002 | \$10,391 |

During the six months ended June 30, 2015, one multi-family TDR loan of \$0.4 million was transferred to non-performing status, which resulted in this loan being included in non-performing loans.

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

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

The following table shows non-performing assets, including loans held for sale, at the periods indicated:

| (In thousands) | June 30, 2015 | March 31, 2015 | December 31, 2014 |
|--|------------------|----------------------|-------------------------|
| Loans 90 days or more past due and still accruing: | | | |
| Multi-family residential | \$- | \$- | \$ 676 |
| Commercial real estate | 416 | 753 | 820 |
| One-to-four family - mixed-use property | 353 | 195 | 405 |
| One-to-four family - residential | 13 | 13 | 14 |
| Commercial business and other | 315 | 1,932 | 386 |
| Total | 1,097 | 2,893 | 2,301 |
| Non-accrual loans: | | | |
| Multi-family residential | 6,352 | 6,902 | 6,878 |
| Commercial real estate | 2,694 | 3,021 | 5,689 |
| One-to-four family - mixed-use property | 6,238 | 7,224 | 6,936 |
| One-to-four family - residential | 11,329 | 11,212 | 11,244 |
| Small business administration | 170 | 232 | - |
| Commercial business and other | 679 | 1,035 | 1,143 |
| Total | 27,462 | 29,626 | 31,890 |
| Total non-performing loans | 28,559 | 32,519 | 34,191 |
| Other non-performing assets: | | | |
| Real estate acquired through foreclosure | 4,255 | 5,252 | 6,326 |
| Total | 4,255 | 5,252 | 6,326 |
| Total non-performing assets | \$32,814 | \$37,771 | \$ 40,517 |

Included in loans over 90 days past due and still accruing were eight loans totaling \$1.1 million, nine loans totaling \$2.9 million and 10 loans totaling \$2.3 million at June 30, 2015, March 31, 2015 and December 31, 2014, respectively. These loans are all past their respective maturity dates and are still remitting payments. The Bank is actively working with these borrowers to extend the maturity of or repay these loans.

Included in non-performing loans were two loans totaling \$0.5 million at June 30, 2015 and March 31, 2015 which were restructured as TDR and not performing in accordance with their restructured terms, compared to two loans totaling \$2.4 million at December 31, 2014.

The Bank's non-performing assets totaled \$32.8 million at June 30, 2015, a decrease of \$5.0 million from \$37.8 million at March 31, 2015, and a decrease of \$7.7 million from \$40.5 million at December 31, 2014. Total non-performing assets as a percentage of total assets were 0.61% at June 30, 2015, compared to 0.72% at March 31, 2015 and 0.80% at December 31, 2014. The ratio of allowance for loan losses to total non-performing loans was 80.8% at June 30, 2015, compared to 74.1% at March 31, 2015 and 73.4% at December 31, 2014.

During the three months ended June 30, 2015, 14 loans totaling \$2.5 million were added to non-accrual loans, seven loans totaling \$0.6 million were returned to performing status, seven loans totaling \$1.4 million were paid in full, five loans totaling \$1.5 million were sold, and one loan totaling \$0.2 million was transferred to other real estate owned.

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

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

| | June 30, 2015 | | December 31, 2014 | |
|---|----------------|--------------|-------------------|--------------|
| | 60 - 89 days | 30 - 59 days | 60 - 89 days | 30 - 59 days |
| | (In thousands) | | | |
| Multi-family residential | \$- | \$7,289 | \$1,729 | \$7,721 |
| Commercial real estate | 417 | 862 | 1,345 | 2,171 |
| One-to-four family - mixed-use property | 588 | 8,019 | 1,153 | 10,408 |
| One-to-four family - residential | 151 | 524 | 2,038 | 1,751 |
| Co-operative apartments | - | - | - | - |
| Construction loans | - | - | - | 3,000 |
| Small Business Administration | - | 128 | - | 90 |
| Taxi medallion | - | - | - | - |
| Commercial business and other | 466 | 5 | 1,585 | 6 |
| Total delinquent loans | \$1,622 | \$16,827 | \$7,850 | \$25,147 |

CRITICIZED AND CLASSIFIED ASSETS

Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as “Special Mention,” which is considered a “Criticized Asset,” and “Substandard,” “Doubtful,” or “Loss” which are considered “Classified Assets,” as deemed necessary. These loan designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on

the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard or Doubtful. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were \$60.1 million at June 30, 2015, a decrease of \$16.3 million from \$76.5 million at December 31, 2014.

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

The following table sets forth the Bank’s assets designated as Criticized and Classified at June 30, 2015:

| (In thousands) | Special Mention | Substandard | Doubtful | Loss | Total |
|---|-----------------|-------------|----------|------|----------|
| Loans: | | | | | |
| Multi-family residential | \$ 3,859 | \$ 9,204 | \$ - | \$ - | \$13,063 |
| Commercial real estate | 2,697 | 3,347 | - | - | 6,044 |
| One-to-four family - mixed-use property | 4,944 | 10,863 | - | - | 15,807 |
| One-to-four family - residential | 997 | 13,313 | - | - | 14,310 |
| Co-operative apartments | - | 613 | - | - | 613 |
| Construction loans | - | - | - | - | - |
| Small Business Administration | 241 | 243 | - | - | 484 |
| Commercial business and other | 1,690 | 3,879 | - | - | 5,569 |
| Total loans | 14,428 | 41,462 | - | - | 55,890 |
| Other Real Estate Owned | - | 4,255 | - | - | 4,255 |
| Total | \$ 14,428 | \$ 45,717 | \$ - | \$ - | \$60,145 |

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 |
| 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 |
| Other Real Estate Owned | - | 6,326 | - | - | 6,326 |

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| | | | | | |
|-------|-----------|-----------|------|------|----------|
| Total | \$ 23,496 | \$ 52,986 | \$ - | \$ - | \$76,482 |
|-------|-----------|-----------|------|------|----------|

On a quarterly basis all collateral dependent loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At June 30, 2015, the current average loan-to-value ratio on our collateral dependent loans reviewed for impairment was 47.0%.

We classify investment securities as Substandard when, based on an internal review, collection of principal is envisioned, but there may be a partial loss of interest or dividends. There were no securities classified as Substandard at June 30, 2015 and December 31, 2014.

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PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

ALLOWANCE FOR LOAN LOSSES

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

In assessing the adequacy of the allowance for loan losses, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four

family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. During the three months ended June 30, 2015, we incurred total net charge-offs of \$0.5 million, compared to net recoveries of \$0.1 million for the comparable prior year period. Non-performing loans totaled \$28.6 million and \$45.8 million at June 30, 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 June 30, 2015, the average loan-to-value ratio for our non-performing loans collateralized by real estate was 47.0%. A benefit for loan losses of \$0.5 million and \$1.1 million was recorded for the three months ended June 30, 2015 and 2014, respectively. Management has concluded, and the Board of Directors has concurred, that at June 30, 2015, the allowance for loan losses was sufficient to absorb losses inherent in our loan portfolio.

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

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

| (Dollars in thousands) | For the six months ended June 30, | | | |
|---|-----------------------------------|---|-----------|---|
| | 2015 | | 2014 | |
| Balance at beginning of period | \$ 25,096 | | \$ 31,776 | |
| Provision (benefit) for loan losses | (1,250 |) | (2,211 |) |
| Loans charged-off: | | | | |
| Multi-family residential | (400 |) | (674 |) |
| Commercial real estate | (32 |) | (86 |) |
| One-to-four family – mixed-use property | (472 |) | (258 |) |
| One-to-four family – residential | (244 |) | (79 |) |
| Small Business Administration | - | | (49 |) |
| Commercial business and other | (52 |) | (125 |) |
| Total loans charged-off | (1,200 |) | (1,271 |) |
| Recoveries: | | | | |
| Multi-family residential | 214 | | 141 | |
| Commercial real estate | 68 | | 382 | |
| One-to-four family – mixed-use property | 47 | | 135 | |
| One-to-four family – residential | 74 | | 165 | |
| Co-operative apartments | - | | 7 | |
| Small Business Administration | 27 | | 61 | |
| Commercial business and other | 8 | | 50 | |
| Total recoveries | 438 | | 941 | |
| Net charge-offs | (762 |) | (330 |) |
| Balance at end of period | \$ 23,084 | | \$ 29,235 | |
| Ratio of net charge-offs during the period to average loans outstanding during the period | 0.04 | % | 0.02 | % |
| Ratio of allowance for loan losses to gross loans at end of period | 0.57 | % | 0.83 | % |
| Ratio of allowance for loan losses to non-performing assets at end of period | 70.35 | % | 62.02 | % |
| Ratio of allowance for loan losses to non-performing loans at end of period | 80.83 | % | 63.84 | % |

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2015, the design and operation of these disclosure controls and procedures were effective. During the period covered by this Quarterly Report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended June 30, 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 |
|---------------------------|---|---------------------------------------|---|---|
| April 1 to April 30, 2015 | - | \$- | - | 492,884 |

| | | | | |
|-------------------------|---------|---------|---------|-----------|
| May 1 to May 31, 2015 | 317,700 | 19.42 | 317,700 | 175,184 |
| June 1 to June 30, 2015 | 175,184 | 19.66 | 175,184 | 1,000,000 |
| Total | 492,884 | \$19.50 | 492,884 | |

During the three months ended June 30, 2015, the Company completed the common stock repurchase program that was approved by the Company's Board of Directors on August 19, 2014 by repurchasing 492,884 shares of the Company's common stock at an average cost of \$19.50 per share. 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. At June 30, 2015, 1,000,000 shares remain to be repurchased under the current stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions subject to market conditions and at the discretion of the management of the Company. There is no expiration or maximum dollar amount under this authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

PART II – OTHER INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

ITEM 6. EXHIBITS

| Exhibit No. | Description |
|----------------|---|
| 3.1 | Certificate of Incorporation of Flushing Financial Corporation (1) |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3) |
| 3.3 | Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (6) |
| 3.4 | Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4) |
| 3.5 | Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2) |
| 3.6 | Amended and Restated By-Laws of Flushing Financial Corporation (7) |
| 4.1 | Rights Agreement, dated as of September 8, 2006, between Flushing Financial Corporation and Computershare Trust Company N.A., as Rights Agent, which includes the form of Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (5) |
| 4.2 | Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request. |
| 10.1 | Flushing Bank Specified Officer Change in Control Severance Policy (as Amended Effective July 28, 2015) (filed herewith) |
| 10.2 | Employee Severance Compensation Plan for Vice Presidents and Assistant Vice Presidents of Flushing Bank (Effective as of July 28, 2015) (filed herewith) |
| 10.3 | Employee Severance Compensation Plan of Flushing Bank (Amended and Restated Effective as of July 28, 2015) (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) |

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

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

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

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

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

SIGNATURES

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

Flushing Financial Corporation,

By: /s/John R. Buran

Dated: August 7, 2015 John R. Buran

President and Chief Executive Officer

By: /s/David Fry

David Fry

Dated: August 7, 2015

Senior Executive Vice President, Treasurer and

Chief Financial Officer

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

EXHIBIT INDEX

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