

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

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended **March 31, 2023**

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	FFIC	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the exchange act.

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

The number of shares of the registrant's Common Stock outstanding as of April 30, 2023 was 29,488,818.

EXPLANATORY NOTE

This amended and restated Quarterly Report on Form 10-Q/A (this “Quarterly Report”) amends and restates in its entirety the Quarterly Report on Form 10-Q for the three months ended March 31, 2023, filed by Flushing Financial Corporation (the “Company”) with the Securities and Exchange Commission (the “SEC”) on May 10, 2023.

As disclosed in the Company’s Current Report on Form 8-K filed with the SEC on January 26, 2024, management and the Audit Committee of the Board of Directors of the Company determined that the Company’s consolidated financial statements for the three month period ended March 31, 2023, required restatement to correct the accounting treatment of employee retention credits (the “ERCs”) and disclosures, which ERCs were incorrectly recognized as income during such period. The change impacted net income by a decrease of \$1.1 million for the three-month period ended March 31, 2023.

In the course of preparing the Company’s consolidated financial statements for the fiscal year ended December 31, 2023, the Company determined that, notwithstanding reliance on its independent tax credit advisors, it is not able to treat the ultimate realization of the ERCs as “probable” under U.S. generally accepted accounting practices, therefore, requiring the restatement of the Company’s previously issued consolidated financial statements for the referenced period and amendments to the Company’s related previously filed quarterly report on Form 10-Q during such year.

Although the Company had engaged an independent national tax credit advisory firm that had advised the Company that it qualified for the ERCs as previously reported, the Company determined that it could no longer rely on such advice.

In connection with its evaluation of the restatements described above, management of the Company has concluded that a material weakness in the Company’s internal control over financial reporting existed as of March 31, 2023. Specifically, the Company did not maintain effective controls over the probability assessment associated with the recognition of income related to the ERCs. See additional discussion included in Part I – Item 4, “Controls and Procedures” of this Quarterly Report.

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PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Financial Condition
(Unaudited)

Item 1. Financial Statements

	March 31, 2023 (As Restated)	December 31, 2022
	<i>(Dollars in thousands, except per share data)</i>	
Assets		
Cash and due from banks	\$ 176,747	\$ 151,754
Securities held-to-maturity, net of allowance of \$1,087 and \$1,100, respectively, (assets pledged of \$4,647 and \$4,550, respectively; fair value of \$67,869 and \$62,550, respectively)	73,523	73,711
Securities available for sale, at fair value: (assets pledged of \$193,558 and \$172,235, respectively; \$13,192 and \$13,023 at fair value pursuant to the fair value option, respectively)	811,928	735,357
Loans, net of fees and costs	6,904,176	6,934,769
Less: Allowance for credit losses	(38,729)	(40,442)
Net loans	6,865,447	6,894,327
Interest and dividends receivable	46,836	45,048
Bank premises and equipment, net	21,567	21,750
Federal Home Loan Bank of New York stock, at cost	38,779	45,842
Bank owned life insurance	214,240	213,131
Goodwill	17,636	17,636
Core deposit intangibles	1,891	2,017
Right of use asset	42,268	43,289
Other assets	168,872	179,084
Total assets	<u>\$ 8,479,734</u>	<u>\$ 8,422,946</u>
Liabilities		
Due to depositors:		
Non-interest bearing	\$ 872,254	\$ 921,238
Interest-bearing	5,783,263	5,515,945
Total Due to depositors	6,655,517	6,437,183
Mortgagors' escrow deposits	78,573	48,159
Borrowed funds:		
Federal Home Loan Bank advances and other borrowings	652,262	815,501
Subordinated debentures	187,130	186,965
Junior subordinated debentures, at fair value	48,117	50,507
Total borrowed funds	887,509	1,052,973
Operating lease liability	45,353	46,125
Other liabilities	140,437	161,349
Total liabilities	<u>7,807,389</u>	<u>7,745,789</u>
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; 34,087,623 shares issued; 29,488,456 shares and 29,476,391 shares outstanding, respectively)	341	341
Additional paid-in capital	262,876	264,332
Treasury stock, at average cost (4,599,167 shares and 4,611,232 shares, respectively)	(97,760)	(98,535)
Retained earnings	544,672	547,507
Accumulated other comprehensive loss, net of taxes	(37,784)	(36,488)
Total stockholders' equity	<u>672,345</u>	<u>677,157</u>
Total liabilities and stockholders' equity	<u>\$ 8,479,734</u>	<u>\$ 8,422,946</u>

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	For the three months ended	
	March 31,	
	2023	2022
	(As Restated)	(In thousands, except per share data)
Interest and dividend income		
Interest and fees on loans	\$ 82,889	\$ 67,516
Interest and dividends on securities:		
Interest	7,240	3,745
Dividends	29	8
Other interest income	1,959	51
Total interest and dividend income	<u>92,117</u>	<u>71,320</u>
Interest expense		
Deposits	39,056	3,408
Other interest expense	7,799	4,433
Total interest expense	<u>46,855</u>	<u>7,841</u>
Net interest income	45,262	63,479
Provision for credit losses	7,508	1,358
Net interest income after provision for credit losses	<u>37,754</u>	<u>62,121</u>
Non-interest income		
Banking services fee income	1,411	1,374
Net gain on sale of loans	54	—
Net gain (loss) from fair value adjustments	2,619	(1,809)
Federal Home Loan Bank of New York stock dividends	697	397
Bank owned life insurance	1,109	1,114
Other income	967	237
Total non-interest income	<u>6,857</u>	<u>1,313</u>
Non-interest expense		
Salaries and employee benefits	22,562	23,649
Occupancy and equipment	3,793	3,604
Professional services	2,261	2,222
FDIC deposit insurance	977	420
Data processing	1,435	1,424
Depreciation and amortization of bank premises and equipment	1,510	1,460
Other real estate owned / foreclosure expense	165	84
Other operating expenses	6,453	5,931
Total non-interest expense	<u>39,156</u>	<u>38,794</u>
Income before income taxes	<u>5,455</u>	<u>24,640</u>
Provision for income taxes		
Federal	1,071	4,650
State and local	340	1,771
Total provision for income taxes	<u>1,411</u>	<u>6,421</u>
Net income	<u>\$ 4,044</u>	<u>\$ 18,219</u>
Basic earnings per common share	\$ 0.13	\$ 0.58
Diluted earnings per common share	\$ 0.13	\$ 0.58
Dividends per common share	\$ 0.22	\$ 0.22

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

	For the three months ended March 31,	
	2023	2022
	(As Restated)	
	(In thousands)	
Net income	\$ 4,044	\$ 18,219
Other comprehensive loss, net of tax:		
Amortization of actuarial gains, net of taxes of \$31 and \$2, respectively.	(69)	(4)
Amortization of prior service credits, net of taxes of \$2 for the three months ended March 31, 2022.	—	(5)
Change in net unrealized gains (losses) on securities available for sale, net of taxes of (\$1,883), and \$10,892, respectively.	3,987	(23,427)
Net unrealized (loss) gain on cash flow hedges, net of taxes of \$2,345, and (\$6,857), respectively.	(5,140)	14,751
Change in fair value of liabilities related to instrument-specific credit risk, net of taxes of \$33, and \$63, respectively.	(74)	(135)
Total other comprehensive loss, net of tax	(1,296)	(8,820)
Comprehensive net income	\$ 2,748	\$ 9,399

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	<u>For the three months ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
	<u>(As Restated)</u>	
	<i>(In thousands)</i>	
Operating Activities		
Net income	\$ 4,044	\$ 18,219
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	7,508	1,358
Depreciation and amortization of premises and equipment	1,510	1,460
Net gain on sales of loans	(54)	—
Net amortization (accretion) of premiums and discounts	1,234	(492)
Deferred income tax provision	1,136	—
Net (gain) loss from fair value adjustments	(2,619)	1,809
Net (gain) loss from fair value adjustments of qualifying hedges	(100)	129
Income from bank owned life insurance	(1,109)	(1,114)
Stock-based compensation expense	3,808	4,194
Deferred compensation	(1,707)	(2,545)
Amortization of core deposit intangibles	126	142
(Increase) decrease in other assets	(9,033)	3,570
(Decrease) increase in other liabilities	(15,162)	13,847
Net cash (used in) provided by operating activities	<u>(10,418)</u>	<u>40,577</u>
Investing Activities		
Purchases of premises and equipment	(1,327)	(874)
Purchases of Federal Home Loan Bank - NY shares	(55,017)	(388)
Redemptions of Federal Home Loan Bank - NY shares	62,080	2,434
Purchases of securities held-to-maturity	—	(16,476)
Proceeds from prepayments of securities held-to-maturity	200	—
Purchases of securities available for sale	(93,068)	(130,312)
Proceeds from maturities and prepayments of securities available for sale	21,087	32,177
Change in cash collateral	(6,180)	—
Net repayments of loans	75,496	72,080
Purchases of loans	(44,466)	(54,309)
Proceeds from sale of loans	2,575	—
Net cash used in investing activities	<u>(38,620)</u>	<u>(95,668)</u>

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Cash Flows (Contd.)
(Unaudited)

	For the three months ended March 31,	
	2023	2022
	(As Restated)	
	<i>(In thousands)</i>	
Financing Activities		
Net (decrease) increase in noninterest-bearing deposits	\$ (48,984)	\$ 73,406
Net increase in interest-bearing deposits	267,208	16,482
Net increase in mortgagors' escrow deposits	30,414	27,582
Net (repayments) proceeds from short-term borrowed funds	(235,000)	110,000
Proceeds (repayments) from long-term borrowing	71,761	(50,000)
Purchase of treasury shares and repurchase of shares to satisfy tax obligations	(4,709)	(10,845)
Cash dividends paid	(6,659)	(6,850)
Net cash provided by financing activities	74,031	159,775
Net increase in cash and cash equivalents, and restricted cash	24,993	104,684
Cash, cash equivalents, and restricted cash, beginning of period	151,754	81,723
Cash, cash equivalents, and restricted cash, end of period	\$ 176,747	\$ 186,407
Supplemental Cash Flow Disclosure		
Interest paid	\$ 48,889	\$ 6,846
Income taxes paid	1,993	214
Taxes paid if excess tax benefits on stock-based compensation were not tax deductible	1,948	384

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Shares		Common	Additional	Treasury	Retained	Accumulated Other
	Outstanding	Total	Stock	Paid-in	Stock	Earnings	Comprehensive
				Capital			Loss
Balance at December 31, 2022	29,476,391	\$ 677,157	\$ 341	\$ 264,332	\$ (98,535)	\$ 547,507	\$ (36,488)
Net income (As Restated)	—	4,044	—	—	—	4,044	—
Vesting of restricted stock unit awards	256,798	—	—	(5,264)	5,484	(220)	—
Purchase of treasury shares	(159,516)	(3,053)	—	—	(3,053)	—	—
Stock-based compensation expense	—	3,808	—	3,808	—	—	—
Repurchase of shares to satisfy tax obligation	(85,217)	(1,656)	—	—	(1,656)	—	—
Dividends on common stock (\$0.22 per share)	—	(6,659)	—	—	—	(6,659)	—
Other comprehensive loss	—	(1,296)	—	—	—	—	(1,296)
Balance at March 31, 2023 (As Restated)	<u>29,488,456</u>	<u>\$ 672,345</u>	<u>\$ 341</u>	<u>\$ 262,876</u>	<u>\$ (97,760)</u>	<u>\$ 544,672</u>	<u>\$ (37,784)</u>

<i>(Dollars in thousands, except per share data)</i>	Shares		Common	Additional	Treasury	Retained	Accumulated Other
	Outstanding	Total	Stock	Paid-in	Stock	Earnings	Comprehensive
				Capital			Loss
Balance at December 31, 2021	30,526,353	\$ 679,628	\$ 341	\$ 263,375	\$ (75,293)	\$ 497,889	\$ (6,684)
Net income	—	18,219	—	—	—	18,219	—
Award of common shares released from Employee Benefit Trust	—	287	—	287	—	—	—
Vesting of restricted stock unit awards	297,626	—	—	(6,019)	6,304	(285)	—
Purchase of treasury shares	(360,000)	(8,469)	—	—	(8,469)	—	—
Stock-based compensation expense	—	4,194	—	4,194	—	—	—
Repurchase of shares to satisfy tax obligation	(97,435)	(2,376)	—	—	(2,376)	—	—
Dividends on common stock (\$0.22 per share)	—	(6,850)	—	—	—	(6,850)	—
Other comprehensive loss	—	(8,820)	—	—	—	—	(8,820)
Balance at March 31, 2022	<u>30,366,544</u>	<u>\$ 675,813</u>	<u>\$ 341</u>	<u>\$ 261,837</u>	<u>\$ (79,834)</u>	<u>\$ 508,973</u>	<u>\$ (15,504)</u>

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 “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/A (“Quarterly Report”) include the collective results of the Company and its direct and indirect wholly owned subsidiaries, including the Bank, Flushing Service Corporation and FSB Properties Inc., which are collectively herein referred to as “we,” “us,” “our” and the “Company.”

The 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 that 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, 2022.

When necessary, certain reclassifications were made to prior-year amounts to conform to the current-year presentation. Such reclassifications had no effect on the prior period net income or shareholders’ equity and were insignificant amounts.

This Quarterly Report amends and restates in its entirety the Quarterly Report on Form 10-Q for the three months ended March 31, 2023, filed the SEC on May 10, 2023.

As disclosed in the Company’s Current Report on Form 8-K filed with the SEC on January 26, 2024, management and the Audit Committee of the Board of Directors of the Company determined that the Company’s consolidated financial statements for the three month period ended March 31, 2023, required restatement to correct the accounting treatment of employee retention credits (the “ERCs”) and disclosures, which ERCs were incorrectly recognized as income during such period. The change impacted net income by a decrease of \$1.1 million for the three-month period ended March 31, 2023.

In the course of preparing the Company’s consolidated financial statements for the fiscal year ended December 31, 2023, the Company determined that, notwithstanding reliance on its independent tax credit advisors, it is not able to treat the ultimate realization of the ERCs as “probable” under U.S. generally accepted accounting practices, therefore, requiring the restatement of the Company’s previously issued consolidated financial statements for the referenced periods and amendments to the Company’s related previously filed quarterly reports on Form 10-Q during such year.

Although the Company had engaged an independent national tax credit advisory firm that had advised the Company that it qualified for the ERCs as previously reported, the Company determined that it could no longer rely on such advice.

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following tables summarize the effects of the restatements on select consolidated financial statements as reported as of and for the periods stated and are unaudited:

Consolidated Statements of Financial Condition:

<i>(In thousands)</i>	As of March 31, 2023		
	As Reported	Adjustments	As Restated
Other assets	\$ 168,259	\$ 613	\$ 168,872
Total assets	8,479,121	613	8,479,734
Other liabilities	138,710	1,727	140,437
Total liabilities	7,805,662	1,727	7,807,389
Retained earnings	545,786	(1,114)	544,672
Total stockholders' equity	673,459	(1,114)	672,345
Total liabilities and stockholders' equity	8,479,121	613	8,479,734

Consolidated Statements of Income:

<i>(In thousands, except per share data)</i>	For the three months ended March 31, 2023		
	As Reported	Adjustments	As Restated
Other income	\$ 1,018	\$ (51)	\$ 967
Total non-interest income	6,908	(51)	6,857
Salaries and employee benefits	20,887	1,675	22,562
Professional services	2,483	(222)	2,261
Total non-interest expense	37,703	1,453	39,156
Income before income taxes	6,959	(1,504)	5,455
Federal income tax	1,367	(296)	1,071
State and local income tax	434	(94)	340
Total provision for income tax	1,801	(390)	1,411
Net income	5,158	(1,114)	4,044
Basic earnings per common share	0.17	(0.04)	0.13
Diluted earnings per common share	0.17	(0.04)	0.13

Consolidated Statements of Comprehensive Income:

<i>(In thousands)</i>	For the three months ended March 31, 2023		
	As Reported	Adjustments	As Restated
Net income	\$ 5,158	\$ (1,114)	\$ 4,044
Comprehensive net income	3,862	(1,114)	2,748

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Consolidated Statements of Cash Flows:

Operating Activities:

	For the three months March 31, 2023		
<i>(In thousands)</i>	As Reported	Adjustments	As Restated
Net income	\$ 5,158	\$ (1,114)	\$ 4,044
(Increase) decrease in other assets	(8,420)	(613)	(9,033)
(Decrease) increase in other liabilities	(16,889)	1,727	(15,162)

In addition, the following footnotes have been updated to reflect the restated amounts:

Note 3 – Earnings Per Share
Note 13 – Regulatory Capital

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 credit losses, the evaluation of goodwill for impairment, the review of the need for a valuation allowance of the Company's deferred tax assets, and the fair value of financial instruments. Management performed a qualitative review of goodwill at March 31, 2023, concluding no impairment was indicated.

3. Earnings Per Share

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

	For the three months ended March 31, 2023	
	<u>(As Restated)</u>	<u>2022</u>
	<i>(In thousands, except per share data)</i>	
Net income, as reported	\$ 4,044	\$ 18,219
Divided by:		
Weighted average common shares outstanding	30,265	31,524
Weighted average common stock equivalents ⁽¹⁾	—	—
Total weighted average common shares outstanding and common stock equivalents	30,265	31,524
Basic earnings per common share	\$ 0.13	\$ 0.58
Diluted earnings per common share	\$ 0.13	\$ 0.58
Dividend Payout ratio	169.2 %	37.9 %

(1) For the three months ended March 31, 2023, and 2022, there were no common stock equivalents that were anti-dilutive.

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

4. Securities

The following table summarizes the Company's portfolio of securities held-to-maturity on March 31, 2023:

	Amortized Cost	Fair Value	Gross Unrecognized Gains	Gross Unrecognized Losses
	<i>(In thousands)</i>			
Municipals	\$ 66,740	\$ 60,732	\$ —	\$ 6,008
Total municipals	<u>66,740</u>	<u>60,732</u>	<u>—</u>	<u>6,008</u>
FNMA	7,870	7,137	—	733
Total mortgage-backed securities	<u>7,870</u>	<u>7,137</u>	<u>—</u>	<u>733</u>
Allowance for credit losses	(1,087)	—	—	—
Total	<u>\$ 73,523</u>	<u>\$ 67,869</u>	<u>\$ —</u>	<u>\$ 6,741</u>

The following table summarizes the Company's portfolio of securities held-to-maturity on December 31, 2022:

	Amortized Cost	Fair Value	Gross Unrecognized Gains	Gross Unrecognized Losses
	<i>(In thousands)</i>			
Municipals	\$ 66,936	\$ 55,561	\$ —	\$ 11,375
Total municipals	<u>66,936</u>	<u>55,561</u>	<u>—</u>	<u>11,375</u>
FNMA	7,875	6,989	—	886
Total mortgage-backed securities	<u>7,875</u>	<u>6,989</u>	<u>—</u>	<u>886</u>
Allowance for credit losses	(1,100)	—	—	—
Total	<u>\$ 73,711</u>	<u>\$ 62,550</u>	<u>\$ —</u>	<u>\$ 12,261</u>

The following table summarizes the Company's portfolio of securities available for sale on March 31, 2023:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	<i>(In thousands)</i>			
U.S. government agencies	\$ 83,691	\$ 81,802	\$ 171	\$ 2,060
Corporate	173,052	156,581	—	16,471
Mutual funds	11,460	11,460	—	—
Collateralized loan obligations	184,773	180,530	—	4,243
Other	1,445	1,445	—	—
Total other securities	<u>454,421</u>	<u>431,818</u>	<u>171</u>	<u>22,774</u>
REMIC and CMO	172,001	146,318	—	25,683
GNMA	9,067	7,304	3	1,766
FNMA	168,689	146,633	1	22,057
FHLMC	<u>94,641</u>	<u>79,855</u>	<u>—</u>	<u>14,786</u>

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Total mortgage-backed securities	444,398	380,110	4	64,292
Total securities available for sale	<u>\$ 898,819</u>	<u>\$ 811,928</u>	<u>\$ 175</u>	<u>\$ 87,066</u>

The following table summarizes the Company's portfolio of securities available for sale on December 31, 2022:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
<i>(In thousands)</i>				
U.S. government agencies	\$ 83,720	\$ 81,103	\$ 2	\$ 2,619
Corporate	146,430	131,766	—	14,664
Mutual funds	11,211	11,211	—	—
Collateralized loan obligations	129,684	125,478	—	4,206
Other	1,516	1,516	—	—
Total other securities	372,561	351,074	2	21,489
REMIC and CMO	175,712	148,414	—	27,298
GNMA	9,193	7,317	3	1,879
FNMA	172,690	148,265	—	24,425
FHLMC	96,725	80,287	—	16,438
Total mortgage-backed securities	454,320	384,283	3	70,040
Total securities available for sale	<u>\$ 826,881</u>	<u>\$ 735,357</u>	<u>\$ 5</u>	<u>\$ 91,529</u>

The corporate securities held by the Company at March 31, 2023 and December 31, 2022, are issued by U.S. banking institutions. The CMOs held by the Company at March 31, 2023 and December 31, 2022, are either fully guaranteed or issued by a government sponsored enterprise.

The following tables detail the amortized cost and fair value of the Company's securities classified as held-to-maturity and available for sale at March 31, 2023, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities held-to-maturity:	Amortized Cost	Fair Value
<i>(In thousands)</i>		
Due after ten years	\$ 66,740	\$ 60,732
Total other securities	66,740	60,732
Mortgage-backed securities	7,870	7,137
	74,610	67,869
Allowance for credit losses	(1,087)	-
Total securities held-to-maturity	<u>\$ 73,523</u>	<u>\$ 67,869</u>

Securities available for sale:	Amortized Cost	Fair Value
<i>(In thousands)</i>		
Due in one year or less	\$ 59,843	\$ 58,258
Due after one year through five years	74,798	69,629
Due after five years through ten years	236,428	221,597
Due after ten years	71,892	70,874
Total other securities	442,961	420,358
Mutual funds	11,460	11,460

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Mortgage-backed securities	444,398	380,110
Total securities available for sale	<u>\$ 898,819</u>	<u>\$ 811,928</u>

The following tables show the Company's securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at the dates indicated:

	At March 31, 2023						
	Count	Total		Less than 12 months		12 months or more	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Dollars in thousands)</i>							
Held-to-maturity securities							
Municipals	3	\$ 60,732	\$ 6,008	\$ —	\$ —	\$ 60,732	\$ 6,008
Total other securities	3	60,732	6,008	—	—	60,732	6,008
FNMA	1	7,137	733	—	—	7,137	733
Total mortgage-backed securities	1	7,137	733	—	—	7,137	733
Total	<u>4</u>	<u>\$ 67,869</u>	<u>\$ 6,741</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 67,869</u>	<u>\$ 6,741</u>

Available for sale securities							
	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agencies & Treasury	8	\$ 73,930	\$ 2,060	\$ 5,506	\$ 20	\$ 68,424	\$ 2,040
Corporate	26	156,581	16,471	58,591	4,529	97,990	11,942
CLO	25	180,531	4,243	64,192	893	116,339	3,350
Total other securities	59	411,042	22,774	128,289	5,442	282,753	17,332
REMIC and CMO	47	146,030	25,683	3,315	101	142,715	25,582
GNMA	7	7,106	1,766	41	—	7,065	1,766
FNMA	45	146,490	22,057	7,598	312	138,892	21,745
FHLMC	18	79,855	14,786	10,875	621	68,980	14,165
Total mortgage-backed securities	117	379,481	64,292	21,829	1,034	357,652	63,258
Total	<u>176</u>	<u>\$ 790,523</u>	<u>\$ 87,066</u>	<u>\$ 150,118</u>	<u>\$ 6,476</u>	<u>\$ 640,405</u>	<u>\$ 80,590</u>

	At December 31, 2022						
	Count	Total		Less than 12 months		12 months or more	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Dollars in thousands)</i>							
Held-to-maturity securities							
Municipals	3	\$ 55,561	\$ 11,375	\$ 55,561	\$ 11,375	\$ —	\$ —
Total other securities	3	55,561	11,375	55,561	11,375	—	—
FNMA	1	6,989	886	6,989	886	—	—
Total mortgage-backed securities	1	6,989	886	6,989	886	—	—
Total	<u>4</u>	<u>\$ 62,550</u>	<u>\$ 12,261</u>	<u>\$ 62,550</u>	<u>\$ 12,261</u>	<u>\$ —</u>	<u>\$ —</u>

Available for sale securities							
	Count	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	7	\$ 77,856	\$ 2,619	\$ 77,059	\$ 2,517	\$ 797	\$ 102
Corporate	20	131,766	14,664	45,447	3,553	86,319	11,111
CLO	19	125,478	4,206	95,518	2,916	29,960	1,290
Total other securities	46	335,100	21,489	218,024	8,986	117,076	12,503
REMIC and CMO	47	148,120	27,298	40,911	3,457	107,209	23,841
GNMA	8	7,133	1,879	64	—	7,069	1,879
FNMA	47	148,229	24,425	38,296	3,871	109,933	20,554
FHLMC	18	80,287	16,438	24,838	2,397	55,449	14,041
Total mortgage-backed securities	120	383,769	70,040	104,109	9,725	279,660	60,315
Total	<u>166</u>	<u>\$ 718,869</u>	<u>\$ 91,529</u>	<u>\$ 322,133</u>	<u>\$ 18,711</u>	<u>\$ 396,736</u>	<u>\$ 72,818</u>

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The Company reviewed each available for sale security that had an unrealized loss at March 31, 2023, and December 31, 2022. 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. If the Company identifies any decline in the fair value due to credit loss factors and evaluation indicates that a credit loss exists, then the present value of cash flows that is expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. All of these securities are rated investment grade or above and have a long history of no credit losses. 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.

In determining the risk of loss for available for sale securities, the Company considered that mortgage-backed securities are either fully guaranteed or issued by a government sponsored enterprise, which has a credit rating and perceived credit risk comparable to the U.S. government, and that issuers of the collateralized loan obligations (“CLO”) and the issuer of Corporate securities are global systematically important banks. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. Based on this review, management believes that the unrealized losses have resulted from other factors not deemed credit-related and no allowance for credit loss was recorded.

The Company reviewed each held-to-maturity security at March 31, 2023, and December 31, 2022 as part of its quarterly Current Expected Credit Loss (“CECL”) process, resulting in an allowance for credit losses of \$1.1 million at each of March 31, 2023 and December 31, 2022.

It is the Company’s policy to exclude accrued interest receivable from the calculation of the allowance for credit losses on held-to-maturity and the valuation of available for sale securities. Accrued interest receivable on held-to-maturity securities totaled \$0.1 million each at March 31, 2023 and December 31, 2022 and accrued interest receivable on available for sale debt securities totaled \$4.6 million and \$3.7 million at March 31, 2023 and December 31, 2022, respectively.

The following table presents the activity in the allowance for credit losses for debt securities held-to-maturity.

	For the three months ended	
	March 31,	
	2023	2022
	<i>(In thousands)</i>	
Beginning balance	\$ 1,100	\$ 862
(Benefit) provision	(13)	124
Allowance for credit losses	<u>\$ 1,087</u>	<u>\$ 986</u>

Realized gains and losses on the sales of securities are determined using the specific identification method. The Company did not sell any securities during the three months ended March 31, 2023 and 2022.

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5. Loans

The following represents the composition of loans as of the dates indicated:

	March 31, 2023	December 31, 2022
	<i>(In thousands)</i>	
Multi-family residential	\$ 2,601,174	\$ 2,601,384
Commercial real estate	1,904,293	1,913,040
One-to-four family — mixed-use property	549,207	554,314
One-to-four family — residential	238,417	241,246
Construction	60,486	70,951
Small Business Administration ⁽¹⁾	22,860	23,275
Commercial business and other	1,518,756	1,521,548
Gross loans	6,895,193	6,925,758
Net unamortized premiums and unearned loan fees	8,983	9,011
Total loans, net of fees and costs	<u>\$ 6,904,176</u>	<u>\$ 6,934,769</u>

(1) Includes \$4.8 million, and \$5.2 million of SBA Payment Protection Program (“SBA PPP”) loans on March 31, 2023 and December 31, 2022, respectively.

Loans are reported at their outstanding principal balance net of any unearned income, charge-offs, deferred loan fees and costs on originated loans and unamortized premiums or discounts on purchased loans. 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.

Interest on loans is recognized on an accrual basis. Accrued interest receivable totaled \$35.1 million and \$34.5 million at March 31, 2023, and December 31, 2022, respectively, and was reported in “Interest and dividends receivable” on the Consolidated Statements of Financial Condition. The accrual of income on loans is generally discontinued when certain factors, such as contractual delinquency of 90 days or more, indicate reasonable doubt as to the timely collectability of such income. Uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. A non-accrual loan can be returned to accrual status when contractual delinquency returns to less than 90 days delinquent. Payments received on non-accrual loans that do not bring the loan to less than 90 days delinquent are recorded on a cash basis. Payments can also be applied first as a reduction of principal until all principal is recovered and then subsequently to interest, if in management’s opinion, it is evident that recovery of all principal due is likely to occur.

Allowance for credit losses

The allowance for credit losses (“ACL”) is an estimate that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial assets. Loans are charged off against that ACL when management believes that a loan balance is uncollectable based on quarterly analysis of credit risk.

The amount of the ACL is based upon a loss rate model that considers multiple factors which reflects management’s assessment of the credit quality of the loan portfolio. Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The factors are both quantitative and qualitative in nature including, but not limited to, historical losses, economic conditions, trends in delinquencies, value and adequacy of underlying collateral, volume and portfolio mix, and internal loan processes.

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The Company recorded a provision for credit losses on loans totaling \$7.5 million and \$1.2 million for the three months ended March 31, 2023 and 2022, respectively. The provision recorded during the three months ended March 31, 2023, was driven by a loan charge-off and increased reserves on two loans that were previously identified with one business credit relationship. During the three months ended March 31, 2023, the Company made no changes to either the reasonable and supportable forecast period or the reversion period. The ACL - loans totaled \$38.7 million on March 31, 2023 compared to \$40.4 million on December 31, 2022. On March 31, 2023, the ACL - loans represented 0.56% of gross loans and 182.9% of non-performing loans. On December 31, 2022, the ACL - loans represented 0.58% of gross loans and 124.9% of non-performing loans.

The Company may modify loans 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. When modifying a loan, an assessment of whether a borrower is experiencing financial difficulty is made on the date of modification. This modification may include reducing the loan interest rate extending the loan term, any other-than-insignificant payment delay, principal forgiveness or any combination of these types of modifications. When such modifications are performed, a change to the allowance for credit losses is generally not required as the methodologies used to estimate the allowance already capture the effect of borrowers experiencing financial difficulty. During the three months ended March 31, 2023, there were no loans modified to borrowers experiencing financial difficulties. On March 31, 2023, there were no commitments to lend additional funds to borrowers who have received a loan modification as a result of financial difficulty.

On January 1, 2023, the Company adopted ASU No. 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures” without material impact on the business operations or consolidated financial statements. See Note 14 (“New Authoritative Accounting Pronouncements”) of the Notes to the Consolidated Financial Statements.

The following table shows loans modified as Troubled Debt Restructured (“TDR”) during the period indicated:

<i>(Dollars in thousands)</i>	For the three months ended, March 31, 2022		Modification description
	Number	\$	
Small Business Administration	1	271	Loan amortization extension. One loan received a below market interest rate and one loan had an amortization extension.
Commercial business and other	2	2,768	
Total	3	\$ 3,039	

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

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

<i>(Dollars in thousands)</i>	December 31, 2022	
	Number of contracts	Amortized Cost
Multi-family residential	6	\$ 1,673
Commercial real estate	1	7,572
One-to-four family - mixed-use property	4	1,222
One-to-four family - residential	1	253
Small Business Administration	1	242
Commercial business and other	3	855
Total performing	16	\$ 11,817

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

<i>(Dollars in thousands)</i>	December 31, 2022	
	Number of contracts	Amortized Cost
Commercial business and other	2	\$ 3,263
Total troubled debt restructurings that subsequently defaulted	2	\$ 3,263

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The following tables show our non-accrual loans at amortized cost with no related allowance and interest income recognized for loans ninety days or more past due and still accruing for the periods shown below:

	At or for the three months ended March 31, 2023				
<i>(In thousands)</i>	Non- accrual amortized cost beginning of the reporting period	Non- accrual amortized cost end of the reporting period	Non- accrual with no related allowance	Interest income recognized	Loans ninety days or more past due and still accruing
Multi-family residential	\$ 3,547	\$ 3,975	\$ 3,975	\$ 2	\$ —
Commercial real estate	254	—	—	—	—
One-to-four family - mixed-use property	1,045	797	797	—	—
One-to-four family - residential	3,953	4,396	4,396	—	—
Small Business Administration	950	949	949	—	—
Commercial business and other	20,193	10,838	3,283	2	—
Total	<u>\$ 29,942</u>	<u>\$ 20,955</u>	<u>\$ 13,400</u>	<u>\$ 4</u>	<u>\$ —</u>

	At or for the year ended December 31, 2022				
<i>(In thousands)</i>	Non- accrual amortized cost beginning of the reporting period	Non- accrual amortized cost end of the reporting period	Non- accrual with no related allowance	Interest income recognized	Loans ninety days or more past due and still accruing
Multi-family residential	\$ 2,652	\$ 3,547	\$ 3,547	\$ —	\$ —
Commercial real estate	640	254	254	—	—
One-to-four family - mixed-use property ⁽¹⁾	1,582	1,045	1,045	—	—
One-to-four family - residential	7,483	3,953	3,953	—	—
Small Business Administration	952	950	950	—	—
Construction	—	—	—	—	2,600
Commercial business and other ⁽¹⁾	1,945	20,193	3,291	171	—
Total	<u>\$ 15,254</u>	<u>\$ 29,942</u>	<u>\$ 13,040</u>	<u>\$ 171</u>	<u>\$ 2,600</u>

(1) Included in the above analysis are non-accrual performing TDR one-to-four family – mixed-use property totaling \$0.3 million at December 31, 2022. Commercial business and other contains a non-accrual performing TDR totaling less than \$0.1 million at December 31, 2022.

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The following is a summary of interest foregone on non-accrual loans for the periods indicated.

<i>(In thousands)</i>	For the year ended March 31	
	2023	2022
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$ 506	\$ 371 ⁽¹⁾
Less: Interest income included in the results of operations	4	155 ⁽²⁾
Total foregone interest	\$ 502	\$ 216

(1) For the three months ended March 31, 2022, \$192 thousand is related to loans classified as TDR.

(2) For the three months ended March 31, 2022, \$151 thousand is related to loans classified as TDR.

The following tables show the aging analysis of the amortized cost basis of loans at the period indicated by class of loans:

<i>(In thousands)</i>	March 31, 2023					
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	\$ 3,464	\$ —	\$ 3,975	\$ 7,439	\$ 2,596,735	\$ 2,604,174
Commercial real estate	—	179	—	179	1,905,528	1,905,707
One-to-four family - mixed-use property	2,562	381	797	3,740	548,231	551,971
One-to-four family - residential	2,382	68	4,396	6,846	232,739	239,585
Construction	—	—	—	—	60,373	60,373
Small Business Administration	142	1,679	949	2,770	19,990	22,760
Commercial business and other	33	20	7,829	7,882	1,511,724	1,519,606
Total	\$ 8,583	\$ 2,327	\$ 17,946	\$ 28,856	\$ 6,875,320	\$ 6,904,176

<i>(In thousands)</i>	December 31, 2022					
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	\$ 1,475	\$ 1,787	\$ 3,547	\$ 6,809	\$ 2,598,363	\$ 2,605,172
Commercial real estate	2,561	—	254	2,815	1,912,083	1,914,898
One-to-four family - mixed-use property	3,721	—	797	4,518	552,777	557,295
One-to-four family - residential	2,734	—	3,953	6,687	235,793	242,480
Construction	—	—	2,600	2,600	68,224	70,824
Small Business Administration	329	—	950	1,279	21,914	23,193
Commercial business and other	7,636	16	10,324	17,976	1,502,931	1,520,907
Total	\$ 18,456	\$ 1,803	\$ 22,425	\$ 42,684	\$ 6,892,085	\$ 6,934,769

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The following tables show the activity in the ACL on loans for the three-month periods indicated:

		March 31, 2023							
		Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Commercial business and other	Total
<i>(In thousands)</i>									
Beginning balance		\$ 9,552	\$ 8,184	\$ 1,875	\$ 901	\$ 261	\$ 2,198	\$ 17,471	\$ 40,442
Charge-offs		—	—	—	(6)	—	(6)	(9,286)	(9,298)
Recoveries		1	—	—	42	—	12	9	64
Provision (benefit)		(512)	(513)	(165)	(210)	(109)	(35)	9,065	7,521
Ending balance		<u>\$ 9,041</u>	<u>\$ 7,671</u>	<u>\$ 1,710</u>	<u>\$ 727</u>	<u>\$ 152</u>	<u>\$ 2,169</u>	<u>\$ 17,259</u>	<u>\$ 38,729</u>

		March 31, 2022							
		Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Commercial business and other	Total
<i>(In thousands)</i>									
Beginning balance		\$ 8,185	\$ 7,158	\$ 1,755	\$ 784	\$ 186	\$ 1,209	\$ 17,858	\$ 37,135
Charge-offs		—	—	—	—	—	(1,028)	(8)	(1,036)
Recoveries		—	—	—	2	—	13	74	101
Provision (benefit)		376	558	109	(20)	82	1,643	(1,503)	1,233
Ending balance		<u>\$ 8,561</u>	<u>\$ 7,716</u>	<u>\$ 1,864</u>	<u>\$ 766</u>	<u>\$ 268</u>	<u>\$ 1,837</u>	<u>\$ 16,421</u>	<u>\$ 37,433</u>

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 previously mentioned categories and management believes weakness is evident then we designate the loan as “Watch;” all other loans would be considered “Pass.” Loans that are non-accrual are designated as Substandard, Doubtful or Loss. These loan designations are updated quarterly. We designate a loan as Substandard when a well-defined weakness is identified that may jeopardize the orderly liquidation of the debt. We designate a loan as 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 Credit Losses. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications but does contain a potential weakness that deserves closer attention.

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The following table summarizes the various risk categories of mortgage and non-mortgage loans by loan portfolio segments and by class of loans by year of origination at March 31, 2023:

<i>(In thousands)</i>	For the year ended						Revolving Loans Amortized Cost Basis	Revolving Loans converted to term loans	Total
	2023	2022	2021	2020	2019	Prior			
Multi-family									
Pass	\$ 48,865	\$ 480,178	\$ 285,357	\$ 222,748	\$ 310,618	\$ 1,215,855	\$ 4,601	\$ —	\$ 2,568,222
Watch	—	902	—	2,346	—	26,616	—	—	29,864
Special Mention	—	—	—	—	—	1,326	—	—	1,326
Substandard	—	—	—	—	—	4,762	—	—	4,762
Total Multi-family	<u>\$ 48,865</u>	<u>\$ 481,080</u>	<u>\$ 285,357</u>	<u>\$ 225,094</u>	<u>\$ 310,618</u>	<u>\$ 1,248,559</u>	<u>\$ 4,601</u>	<u>\$ —</u>	<u>\$ 2,604,174</u>
Commercial Real Estate									
Pass	\$ 18,305	\$ 327,129	\$ 181,002	\$ 151,568	\$ 223,378	\$ 969,174	\$ —	\$ —	\$ 1,870,556
Watch	—	1,965	1,525	—	9,570	21,899	—	—	34,959
Special Mention	—	—	—	—	—	183	—	—	183
Substandard	—	—	—	—	—	9	—	—	9
Total Commercial Real Estate	<u>\$ 18,305</u>	<u>\$ 329,094</u>	<u>\$ 182,527</u>	<u>\$ 151,568</u>	<u>\$ 232,948</u>	<u>\$ 991,265</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,905,707</u>
1-4 Family Mixed-Use									
Pass	\$ 5,519	\$ 44,641	\$ 42,764	\$ 32,360	\$ 63,079	\$ 353,651	\$ —	\$ —	\$ 542,014
Watch	—	—	—	878	727	6,541	—	—	8,146
Special Mention	—	—	—	—	—	840	—	—	840
Substandard	—	—	—	—	—	971	—	—	971
Total 1-4 Family Mixed-Use	<u>\$ 5,519</u>	<u>\$ 44,641</u>	<u>\$ 42,764</u>	<u>\$ 33,238</u>	<u>\$ 63,806</u>	<u>\$ 362,003</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 551,971</u>
1-4 Family Residential									
Pass	\$ 4,146	\$ 23,573	\$ 8,640	\$ 18,034	\$ 41,567	\$ 114,894	\$ 7,905	\$ 11,827	\$ 230,586
Watch	—	515	282	—	736	1,374	63	1,228	4,198
Substandard	—	—	—	—	—	4,358	—	443	4,801
Total 1-4 Family Residential	<u>\$ 4,146</u>	<u>\$ 24,088</u>	<u>\$ 8,922</u>	<u>\$ 18,034</u>	<u>\$ 42,303</u>	<u>\$ 120,626</u>	<u>\$ 7,968</u>	<u>\$ 13,498</u>	<u>\$ 239,585</u>
Gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ 6
Construction									
Pass	\$ 3,089	\$ 1,899	\$ 17,660	\$ —	\$ —	\$ —	\$ 35,125	\$ —	\$ 57,773
Substandard	—	—	—	—	—	2,600	—	—	2,600
Total Construction	<u>\$ 3,089</u>	<u>\$ 1,899</u>	<u>\$ 17,660</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,600</u>	<u>\$ 35,125</u>	<u>\$ —</u>	<u>\$ 60,373</u>
Small Business Administration									
Pass	\$ —	\$ 3,335	\$ 3,348	\$ 3,977	\$ 666	\$ 2,736	\$ —	\$ —	\$ 14,062
Watch	—	—	593	—	50	5,162	—	—	5,805
Special Mention	—	—	1,679	—	—	37	—	—	1,716
Substandard	—	—	—	—	—	1,177	—	—	1,177
Total Small Business Administration	<u>\$ —</u>	<u>\$ 3,335</u>	<u>\$ 5,620</u>	<u>\$ 3,977</u>	<u>\$ 716</u>	<u>\$ 9,112</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,760</u>
Gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ 6
Commercial Business									
Pass	\$ 28,793	\$ 160,797	\$ 81,582	\$ 39,877	\$ 39,603	\$ 71,738	\$ 273,682	\$ —	\$ 696,072
Watch	—	415	8,583	—	16,492	31,837	1,209	—	58,536
Special Mention	—	—	—	4,759	33	3,943	—	—	8,735
Substandard	—	2,373	2,444	—	47	1,762	3,079	—	9,705
Doubtful	—	—	—	—	—	—	4,702	—	4,702
Total Commercial Business	<u>\$ 28,793</u>	<u>\$ 163,585</u>	<u>\$ 92,609</u>	<u>\$ 44,636</u>	<u>\$ 56,175</u>	<u>\$ 109,280</u>	<u>\$ 282,672</u>	<u>\$ —</u>	<u>\$ 777,750</u>
Gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,267	\$ —	\$ 9,267
Commercial Business - Secured by RE									
Pass	\$ 13,955	\$ 181,634	\$ 138,718	\$ 108,771	\$ 41,827	\$ 153,310	\$ —	\$ —	\$ 638,215
Watch	—	—	—	—	26,220	59,250	—	—	85,470
Special Mention	—	—	—	—	15,198	—	—	—	15,198
Substandard	—	2,853	—	—	—	—	—	—	2,853
Total Commercial Business - Secured by RE	<u>\$ 13,955</u>	<u>\$ 184,487</u>	<u>\$ 138,718</u>	<u>\$ 108,771</u>	<u>\$ 83,245</u>	<u>\$ 212,560</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 741,736</u>
Other									
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 50	\$ 70	\$ —	\$ 120
Total Other	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50</u>	<u>\$ 70</u>	<u>\$ —</u>	<u>\$ 120</u>
Gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 19	\$ —	\$ —	\$ 19
Total by Loan Type									
Total Pass	\$ 122,672	\$ 1,223,186	\$ 759,071	\$ 577,335	\$ 720,738	\$ 2,881,408	\$ 321,383	\$ 11,827	\$ 6,617,620
Total Watch	—	3,797	10,983	3,224	53,795	152,679	1,272	1,228	226,978
Total Special Mention	—	—	1,679	4,759	15,231	6,329	—	—	27,998
Total Substandard	—	5,226	2,444	—	47	15,639	3,079	443	26,878
Total Doubtful	—	—	—	—	—	—	4,702	—	4,702
Total Loans	<u>\$ 122,672</u>	<u>\$ 1,232,209</u>	<u>\$ 774,177</u>	<u>\$ 585,318</u>	<u>\$ 789,811</u>	<u>\$ 3,056,055</u>	<u>\$ 330,436</u>	<u>\$ 13,498</u>	<u>\$ 6,904,176</u>
Total Gross charge-offs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 31</u>	<u>\$ 9,267</u>	<u>\$ —</u>	<u>\$ 9,298</u>

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Included within net loans were \$5.2 million each at March 31, 2023 and December 31, 2022, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

A loan is considered collateral dependent when the borrower is experiencing financial difficulties and repayment is expected to be substantially provided by the operation or sale of the collateral. The following table presents types of collateral-dependent loans by class of loans as of the periods indicated:

<i>(In thousands)</i>	Collateral Type			
	March 31, 2023		December 31, 2022	
	Real Estate	Business Assets	Real Estate	Business Assets
Multi-family residential	\$ 3,975	\$ —	\$ 3,547	\$ —
Commercial real estate	—	—	254	—
One-to-four family - mixed-use property	797	—	1,045	—
One-to-four family - residential	4,396	—	3,953	—
Small Business Administration	—	949	—	950
Commercial business and other	2,853	7,985	2,853	17,340
Total	<u>\$ 12,021</u>	<u>\$ 8,934</u>	<u>\$ 11,652</u>	<u>\$ 18,290</u>

Off-Balance Sheet Credit Losses

Also included within scope of the CECL standard are off-balance sheet loan commitments, which includes the unfunded portion of committed lines of credit and commitments “in-process”. Commitments “in-process” reflect loans not in the Company’s books but rather negotiated loan / line of credit terms and rates that the Company has offered to customers and is committed to honoring. In reference to “in-process” credits, the Company defines an unfunded commitment as a credit that has been offered to and accepted by a borrower, which has not closed and by which the obligation is not unconditionally cancellable.

Commitments to extend credit (principally real estate mortgage loans) and lines of credit (principally home equity lines of credit and business lines of credit) totaled \$427.0 million and \$438.5 million on March 31, 2023, and December 31, 2022, respectively.

The following table presents the activity in the allowance for off balance sheet credit losses for the three months ended March 31, 2023, and 2022.

	For the three months ended	
	March 31,	
	2023	2022
	<i>(In thousands)</i>	
Balance at beginning of period	\$ 970	\$ 1,209
(Benefit) provision	(85)	380
Allowance for Off-Balance Sheet - Credit losses ⁽¹⁾	<u>\$ 885</u>	<u>\$ 1,589</u>

⁽¹⁾ Included in “Other liabilities” on the Consolidated Statements of Financial Condition.

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6. Loans held for sale

Loans held for sale are carried at the lower of cost or estimated fair value. At March 31, 2023 and December 31, 2022, the Bank did not have any loans held for sale. There were no loans sold during the three months ended March 31, 2022.

The following table shows loans sold during the periods indicated:

	For the three months ended March 31, 2023			
	Loans sold	Proceeds	Net charge-offs	Net gain
<u>Delinquent and non-performing loans</u>		<i>(Dollars in thousands)</i>		
Multi-family residential	5	\$ 1,548	\$ —	\$ 54
Commercial	2	840	—	—
One-to-four family - mixed-use property	1	187	—	—
Total	8	\$ 2,575	\$ —	\$ 54

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7. Leases

The Company has 31 operating leases for branches (including headquarters) and office spaces, 10 operating leases for vehicles, and one operating lease for equipment. Our leases have remaining lease terms ranging from three months to approximately 13 years, none of which has a renewal option reasonably certain of exercise, which has been reflected in the Company’s calculation of the lease term.

The Company has elected the short-term lease recognition exemption such that the Company will not recognize Right of Use (“ROU”) assets or lease liabilities for leases with a term of less than 12 months from the commencement date. The Company has three agreements in 2023 and two agreements in 2022 that qualified as short-term leases.

Certain leases have escalation clauses for operating expenses and real estate taxes. The Company’s non-cancelable operating lease agreements expire through 2036.

Supplemental balance sheet information related to leases are as follows:

<i>(Dollars in thousands)</i>	March 31, 2023	December 31, 2022
Operating lease ROU asset	\$ 42,268	\$ 43,289
Operating lease liability	\$ 45,353	\$ 46,125
Weighted-average remaining lease term-operating leases	6.6 years	6.6 years
Weighted average discount rate-operating leases	3.1 %	2.9 %

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The components of lease expense and cash flow information related to leases were as follows:

<i>(Dollars in thousands)</i>	Line Item Presented	For the three months ended,	
		March 31, 2023	March 31, 2022
Lease Cost			
Operating lease cost	Occupancy and equipment	\$ 2,299	\$ 2,097
Operating lease cost	Other operating expenses	23	24
Short-term lease cost	Professional services and occupancy and equipment	56	61
Variable lease cost	Occupancy and equipment	281	200
Total lease cost		\$ 2,659	\$ 2,382

Other information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 2,394	\$ 2,426
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 846	\$ 47

The Company's minimum annual rental payments for Bank facilities due under non-cancelable leases are as follows as of March 31, 2023:

	Minimum Rental <i>(In thousands)</i>	
Years ended December 31:		
2023	\$	7,636
2024		9,379
2025		8,705
2026		7,806
2027		3,711
Thereafter		12,814
Total minimum payments required		50,051
Less: implied interest		4,698
Total lease obligations	\$	45,353

8. Stock-Based Compensation

The Company has a long-term incentive compensation program for certain Company executive officers that includes grants of performance-based restricted stock units ("PRSU") in addition to time-based restricted stock units ("RSU"). Under the terms of the PRSU Agreement, the number of PRSUs that may be earned depends on the extent to which performance goals for the award are achieved over a three-year performance period, as determined by the Compensation Committee of the Board. As of March 31, 2023, PRSUs granted in 2023 and 2022 are being accrued at target and PRSUs granted in 2021 are being accrued above target. The different levels of accrual are commensurate with the projected performance of the respective grant.

On May 18, 2021, stockholders approved an amendment to the 2014 Omnibus Plan (the "Amendment") authorizing an additional 1,100,000 shares available for future issuance. Including the additional shares authorized from the Amendment, 743,981 shares were available for future issuance under the 2014 Omnibus Plan at March 31, 2023.

For the three months ended March 31, 2023 and 2022, the Company's net income, as reported, included \$3.1 million and \$3.9 million, respectively, of stock-based compensation costs, including the benefit or expense of phantom stock awards, and \$0.8 million and \$1.0 million of income tax benefit respectively, related to the stock-based compensation plans.

During the three months ended March 31, 2023 and 2022, the Company granted 235,850 and 212,811 RSU awards and 79,050 and 63,250 PRSU awards, respectively.

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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. Forfeitures are recorded in the period they occur.

The following table summarizes the Company's RSU and PRSU awards under the 2014 Omnibus Plan for the three months ended March 31, 2023:

	RSU Awards		PRSU Awards	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Non-vested awards at December 31, 2022	275,588	\$ 22.30	68,800	\$ 20.90
Granted	235,850	19.84	79,050	19.99
Vested	(201,324)	21.20	(53,430)	19.94
Forfeited	(2,840)	22.14	—	—
Non-vested at December 31, 2022	<u>307,274</u>	<u>\$ 21.13</u>	<u>94,420</u>	<u>\$ 20.68</u>
Vested but unissued at March 31, 2023	<u>239,155</u>	<u>\$ 20.78</u>	<u>142,065</u>	<u>\$ 20.80</u>

As of March 31, 2023, there was \$6.7 million of total unrecognized compensation cost related to RSU and PRSU awards granted. That cost is expected to be recognized over a weighted-average period of 2.8 years. The total fair value of awards vested for the three months ended March 31, 2023 and 2022, was \$5.0 million, and \$6.6 million, respectively. The vested but unissued RSU and PRSU 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.

Phantom Stock Plan: The Company maintains a non-qualified phantom stock plan as a supplement to its profit-sharing plan for officers who have achieved the designated level and completed one year of service. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

The following table summarizes the Phantom Stock Plan at or for the three months ended March 31, 2023:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2022	158,410	\$ 19.38
Granted	15,510	19.04
Distributions	(765)	19.35
Outstanding at March 31, 2023	<u>173,155</u>	<u>\$ 14.89</u>
Vested at March 31, 2023	<u>173,021</u>	<u>\$ 14.89</u>

The Company recorded stock-based compensation benefit for the Phantom Stock Plan of \$0.7 million and \$0.3 million for the three months ended March 31, 2023 and 2022, respectively. The total fair value of the distributions from the Phantom Stock Plan was \$15,000 and \$16,000 for each of the three months ended March 31, 2023 and 2022, respectively.

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9. Pension and Other Postretirement Benefit Plans

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

<i>(In thousands)</i>	Three months ended March 31,	
	2023	2022
Employee Pension Plan:		
Interest cost	\$ 203	\$ 138
Amortization of unrecognized loss	—	1
Expected return on plan assets	(277)	(257)
Net employee pension benefit	<u>\$ (74)</u>	<u>\$ (118)</u>
Outside Director Pension Plan:		
Service cost	\$ 2	\$ 3
Interest cost	15	11
Amortization of unrecognized gain	(40)	(7)
Net outside director pension expense	<u>\$ (23)</u>	<u>\$ 7</u>
Other Postretirement Benefit Plans:		
Service cost	\$ 40	\$ 67
Interest cost	95	70
Amortization of unrecognized gain	(60)	—
Amortization of past service credit	—	(7)
Net other postretirement expense	<u>\$ 75</u>	<u>\$ 130</u>

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2022 that it expects to contribute \$0.2 million to the Outside Director Pension Plan (the “Outside Director Pension Plan”) and \$0.3 million to the other postretirement benefit plans (the “Other Postretirement Benefit Plans”), during the year ending December 31, 2023. The Company does not expect to make a contribution to the Employee Pension Plan. As of March 31, 2023, the Company had contributed \$32,000 to the Outside Director Pension Plan and \$15,000 to the Other Postretirement Benefit Plans. As of March 31, 2023, the Company has not revised its expected contributions for the year ending December 31, 2023.

10. 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. GAAP permits entities to choose to measure many financial instruments and certain other items at fair value. At March 31, 2023, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$13.2 million and \$48.1 million, respectively. At December 31, 2022, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$13.0 million and \$50.5 million, respectively. The Company did not elect to carry any additional financial assets or financial liabilities under the fair value option during the three months ended March 31, 2023 and 2022.

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

Description	Fair Value Measurements at March 31, 2023	Fair Value Measurements at December 31, 2022	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option	
			For the three months ended March 31,	
			2023	2022
<i>(In thousands)</i>				
Mortgage-backed securities	\$ 288	\$ 295	\$ 1	\$ (4)
Other securities	12,904	12,728	109	(536)
Borrowed funds	48,117	50,507	2,509	(1,269)
Net gain (loss) from fair value adjustments			<u>\$ 2,619</u>	<u>\$ (1,809)</u>

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

The borrowed funds had a contractual principal amount of \$61.9 million at both March 31, 2023 and December 31, 2022. The fair value of borrowed funds includes accrued interest payable of \$0.4 million at both March 31, 2023 and December 31, 2022.

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

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

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

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

Level 1 – when quoted market prices are available in an active market. At March 31, 2023 and December 31, 2022, Level 1 included one mutual fund.

Level 2 – when quoted market prices are not available, fair value is estimated using quoted market prices for similar financial instruments and adjusted for differences between the quoted instrument and the instrument being valued. Fair value can also be estimated by using pricing models, or discounted cash flows. Pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices and credit spreads. In addition to observable market information, models also incorporate maturity and cash flow assumptions. At March 31, 2023 and December 31, 2022, Level 2 included mortgage-backed securities, CLOs, corporate debt, municipals, and interest rate swaps.

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Level 3 – when there is limited activity or less transparency around inputs to the valuation, financial instruments are classified as Level 3. At March 31, 2023 and December 31, 2022, Level 3 included trust preferred securities owned, 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 Company’s assets and liabilities that are carried at fair value on a recurring basis, including those reported at fair value under the fair value option, and the level that was used to determine their fair value, at March 31, 2023 and December 31, 2022:

	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	
	2023	2022	2023	2022	2023	2022	2023	2022
	<i>(In thousands)</i>							
Assets:								
Securities available for sale:								
Mortgage-backed securities	\$ —	\$ —	\$ 380,110	\$ 384,283	\$ —	\$ —	\$ 380,110	\$ 384,283
Other securities	11,460	11,211	418,913	338,347	1,445	1,516	431,818	351,074
Interest rate swaps	—	—	65,072	74,586	—	—	65,072	74,586
Total assets	\$ 11,460	\$ 11,211	\$ 864,095	\$ 797,216	\$ 1,445	\$ 1,516	\$ 877,000	\$ 809,943
Liabilities:								
Borrowings	\$ —	\$ —	\$ —	\$ —	\$ 48,117	\$ 50,507	\$ 48,117	\$ 50,507
Interest rate swaps	—	—	18,729	18,407	—	—	18,729	18,407
Total liabilities	\$ —	\$ —	\$ 18,729	\$ 18,407	\$ 48,117	\$ 50,507	\$ 66,846	\$ 68,914

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

	For the three months ended			
	March 31, 2023		March 31, 2022	
	Trust preferred securities	Junior subordinated debentures	Trust preferred securities	Junior subordinated debentures
	<i>(In thousands)</i>			
Beginning balance	\$ 1,516	\$ 50,507	\$ 1,695	\$ 56,472
Net (loss) gain from fair value adjustment of financial assets ⁽¹⁾	(71)	—	45	—
Net (gain) loss from fair value adjustment of financial liabilities ⁽¹⁾	—	(2,509)	—	1,269
Increase (decrease) in accrued interest	—	12	—	16
Change in unrealized (gains) losses included in other comprehensive loss	—	107	—	198
Ending balance	\$ 1,445	\$ 48,117	\$ 1,740	\$ 57,955
Changes in unrealized gains held at period end	\$ —	\$ 2,078	\$ —	\$ 3,136

⁽¹⁾ Presented in the Consolidated Statements of Income under net gain (loss) from fair value adjustments.

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

	March 31, 2023				
	Fair Value	Valuation Technique	Input Unobservable	Range	Weighted Average
	<i>(Dollars in thousands)</i>				
Assets:					
Trust preferred securities	\$ 1,445	Discounted cash flows	Spread over 3-month Libor	n/a	4.1 %

Liabilities:					
Junior subordinated debentures	\$ 48,117	Discounted cash flows	Spread over 3-month Libor	n/a	4.1 %

	December 31, 2022				
	Fair Value	Valuation Technique	Input Unobservable	Range	Weighted Average
	<i>(Dollars in thousands)</i>				
Assets:					
Trust preferred securities	\$ 1,516	Discounted cash flows	Spread over 3-month Libor	n/a	3.6 %

Liabilities:					
Junior subordinated debentures	\$ 50,507	Discounted cash flows	Spread over 3-month Libor	n/a	3.6 %

The significant unobservable inputs used in the fair value measurement of the Company’s trust preferred securities and junior subordinated debentures valued under Level 3 at March 31, 2023 and December 31, 2022, are the effective yields used in the cash flow models. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

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The following table sets forth the Company’s assets and liabilities that are carried at fair value on a non-recurring basis and the level that was used to determine their fair value at March 31, 2023 and December 31, 2022:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a non-recurring basis	
	2023	2022	2023	2022	2023	2022	2023	2022
	<i>(In thousands)</i>							
Assets:								
Certain delinquent loans	\$ —	\$ —	\$ —	\$ —	\$ 8,535	\$ 18,330	\$ 8,535	\$ 18,330
Total assets	\$ —	\$ —	\$ —	\$ —	\$ 8,535	\$ 18,330	\$ 8,535	\$ 18,330

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

	Fair Value	Valuation Technique	At March 31, 2023		
			Unobservable Input	Range	Weighted Average
			<i>(Dollars in thousands)</i>		
Assets:					
Certain delinquent loans	\$ 8,474	Sales approach	Adjustment to sales comparison value	-16.9% to 0.0 %	-1.5%
			Reduction for planned expedited disposal	7.5% to 15.0 %	9.9%
Certain delinquent loans	\$ 61	Discounted Cashflow	Discount Rate	4.3 %	4.3 %
			Probability of Default	35.0 %	35.0 %

	Fair Value	Valuation Technique	At December 31, 2022		
			Unobservable Input	Range	Weighted Average
			<i>(Dollars in thousands)</i>		
Assets:					
Certain delinquent loans	\$ 18,189	Sales approach	Adjustment to sales comparison value	-20.0% to 0.0 %	-1.3%
			Reduction for planned expedited disposal	10.0% to 15.0 %	13.6%
Certain delinquent loans	\$ 141	Discounted Cashflow	Discount Rate	4.3 %	4.3 %
			Probability of Default	35.0 %	35.0 %

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at March 31, 2023 and December 31, 2022.

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The methods and assumptions used to estimate fair value at March 31, 2023 and December 31, 2022 are as follows:

Securities:

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

Certain Delinquent Loans:

For certain delinquent 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. See Note 5 (“Loans”) of the Notes to the Consolidated Financial Statements.

Junior Subordinated Debentures:

The fair value of the junior subordinated debentures was developed using a credit spread based on stated spreads for recently issued subordinated debt instruments for issuers of similar asset size and credit quality of the Company and with similar durations adjusting for differences in the junior subordinated debt’s credit rating, liquidity, and time to maturity. The unrealized net gain/loss attributable to changes in our own credit risk was determined by adjusting the fair value as determined in the proceeding sentence by the average rate of default on debt instruments with a similar debt rating as our junior subordinated debentures, with the difference from the original calculation and this calculation resulting in the instrument-specific unrealized gain/loss.

Interest Rate Swaps:

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

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

	March 31, 2023				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	<i>(In thousands)</i>				
Assets:					
Cash and due from banks	\$ 176,747	\$ 176,747	\$ 176,747	\$ —	\$ —
Securities held-to-maturity					
Mortgage-backed securities	7,870	7,137	—	7,137	—
Other securities	65,653	60,732	—	—	60,732
Securities available for sale					
Mortgage-backed securities	380,110	380,110	—	380,110	—
Other securities	431,818	431,818	11,460	418,913	1,445
Loans	6,904,176	6,580,759	—	—	6,580,759
FHLB-NY stock	38,779	38,779	—	38,779	—
Accrued interest receivable	46,836	46,836	—	4,774	42,062
Interest rate swaps	65,072	65,072	—	65,072	—
Liabilities:					
Deposits	\$ 6,734,090	\$ 6,702,840	\$ 4,853,830	\$ 1,849,010	\$ —
Borrowed Funds	887,509	861,879	—	813,762	48,117
Accrued interest payable	7,520	7,520	—	7,520	—
Interest rate swaps	18,729	18,729	—	18,729	—

	December 31, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	<i>(In thousands)</i>				
Assets:					
Cash and due from banks	\$ 151,754	\$ 151,754	\$ 151,754	\$ —	\$ —
Securities held-to-maturity					
Mortgage-backed securities	7,875	6,989	—	6,989	—
Other securities	65,836	55,561	—	—	55,561
Securities available for sale					
Mortgage-backed securities	384,283	384,283	—	384,283	—
Other securities	351,074	351,074	11,211	338,347	1,516
Loans	6,934,769	6,651,795	—	—	6,651,795
FHLB-NY stock	45,842	45,842	—	45,842	—
Accrued interest receivable	45,048	45,048	—	3,819	41,229
Interest rate swaps	74,856	74,856	—	74,856	—
Liabilities:					
Deposits	\$ 6,485,342	\$ 6,453,978	\$ 4,959,004	\$ 1,494,974	\$ —
Borrowed Funds	1,052,973	1,027,370	—	976,863	50,507
Accrued interest payable	10,034	10,034	—	10,034	—
Interest rate swaps	18,407	18,407	—	18,407	—

11. Derivative Financial Instruments

At March 31, 2023 and December 31, 2022, the Company's derivative financial instruments consisted of interest rate swaps. The Company's interest rate swaps are used for three purposes: 1) to mitigate the Company's exposure to rising interest rates on certain fixed rate loans and securities totaling \$471.5 million and \$273.6 million at March 31, 2023 and December 31, 2022, respectively; 2) to facilitate risk management strategies for our loan customers with \$219.5 million of swaps outstanding, which include \$109.7 million each with customers and with bank counterparties at March 31, 2023

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and \$221.2 million of swaps outstanding, which include \$110.6 million each with customers and bank counterparties at December 31, 2022; 3) to mitigate exposure to rising interest rates on certain short-term advances and brokered deposits totaling \$921.5 million at March 31, 2023, and \$871.5 at December 31, 2022.

At March 31, 2023 and December 31, 2022, we held derivatives designated as cash flow hedges, fair value hedges and certain derivatives not designated as hedges.

The Company’s derivative instruments are carried at fair value in the Company’s financial statements as part of Other Assets for derivatives with positive fair values and Other Liabilities for derivatives with negative fair values. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it qualifies and has been designated as a hedge for accounting purposes, and further, by the type of hedging relationship.

At March 31, 2023 and December 31, 2022, derivatives with a combined notional amount of \$219.5 million and \$221.2 million, respectively, were not designated as hedges. At March 31, 2023 and December 31, 2022, derivatives with a combined notional amount of \$471.5 million and \$273.6 million, respectively, were designated as fair value hedges. At March 31, 2023 and December 31, 2022, derivatives with a combined notional amount of \$921.5 million and \$871.5 million, respectively, were designated as cash flow hedges.

For cash flow hedges, the changes in the fair value of the derivatives are reported in accumulated other comprehensive income (loss), net of tax. Amounts in accumulated other comprehensive loss are reclassified into earnings in the same period during which the hedged forecasted transaction effects earnings. During the three months ended March 31, 2023 and 2022, \$4.3 million in reduced expense and \$2.7 million in additional expense, respectively, was reclassified from accumulated other comprehensive loss to interest expense. The estimated amount to be reclassified in the next 12 months out of accumulated other comprehensive loss is \$15.5 million in reduced expense.

Changes in the fair value of interest rate swaps not designated as hedges are reflected in “Net gain (loss) from fair value adjustments” in the Consolidated Statements of Income.

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

	Assets		Liabilities	
	Notional Amount	Fair Value ⁽¹⁾	Notional Amount	Fair Value ⁽¹⁾
<i>(In thousands)</i>				
March 31, 2023				
Cash flow hedges:				
Interest rate swaps (borrowings and deposits)	\$ 650,750	\$ 28,653	\$ 270,750	\$ 3,277
Fair value hedges:				
Interest rate swaps (loans and securities)	471,520	20,967	-	-
Non hedge:				
Interest rate swaps (loans)	109,749	15,452	109,749	15,452
Total	\$ 1,232,019	\$ 65,072	\$ 380,499	\$ 18,729
December 31, 2022				
Cash flow hedges:				
Interest rate swaps (borrowings and deposits)	\$ 700,750	\$ 31,716	\$ 170,750	\$ 210
Fair value hedges:				
Interest rate swaps (loans)	273,607	24,673	-	-
Non hedge:				
Interest rate swaps (loans)	110,598	18,197	110,598	18,197
Total	\$ 1,084,955	\$ 74,586	\$ 281,348	\$ 18,407

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

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The following table presents information regarding the Company's fair value hedged items for the periods indicated:

Line Item in the Consolidated Statement of Financial Condition in Which the Hedged Item is Included <i>(In thousands)</i>	Carrying Amount of the Hedged Assets Assets/(Liabilities)		Cumulative Amount of the Fair Hedging Adjustment Included in the Carrying Amount of the Hedged Assets Assets/(Liabilities)	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
	Loans:			
Multi-family residential	\$ 84,384	\$ 82,613	\$ (8,081)	\$ (10,480)
Commercial real estate	168,311	167,353	(12,797)	(15,442)
Total	\$ 252,695	\$ 249,966	\$ (20,878)	\$ (25,922)
Securities available for sale:				
Mortgage-backed securities	\$ 306,425	\$ —	\$ (1,238)	\$ —
Total	\$ 306,425	\$ —	\$ (1,238)	\$ —

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

<i>(In thousands)</i>	Affected Line Item in the Statements Where Net Income is Presented	For the three months ended	
		March 31,	
		2023	2022
Financial Derivatives:			
Interest rate swaps - fair value hedge (loans)	Interest and fees on loans	\$ 1,897	\$ (1,435)
Interest rate swaps - fair value hedge (securities)	Interest and dividends on securities	58	—
Interest rate swaps - cash flow hedge (borrowings)	Other interest expense	1,421	(2,465)
Interest rate swaps - cash flow hedge (deposits)	Deposits	2,867	(55)
Total net income (loss) from the effects of derivative instruments		\$ 6,243	\$ (3,955)

The Company's interest rate swaps are subject to master netting arrangements between the Company and its designated counterparties. The Company has not made a policy election to offset its derivative positions.

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

<i>(In thousands)</i>	Gross Amounts Recognized	Gross Amount Offset in Statement of Financial Condition	Net Amount Presented in Statement of Financial Condition	Financial Instruments	Cash Collateral	Net Amount
March 31, 2023						
Assets:						
Interest rate swaps	\$ 65,072	\$ —	\$ 65,072	\$ —	\$ (64,445)	\$ 627
Liabilities:						
Interest rate swaps	18,729	—	18,729	—	—	18,729
December 31, 2022						
Assets:						
Interest rate swaps	\$ 74,586	\$ —	\$ 74,586	\$ —	\$ (72,185)	\$ 2,401
Liabilities:						
Interest rate swaps	18,407	—	18,407	—	—	18,407

12. Accumulated Other Comprehensive Income (Loss):

The following tables set forth the changes in accumulated other comprehensive income (loss) by component for the periods indicated:

	For the three months ended March 31, 2023				
	Unrealized Gains (Losses) on		Fair Value		Total
	Available for Sale Securities	Cash flow Hedges	Defined Benefit Pension Items	Option Elected on Liabilities	
	<i>(In thousands)</i>				
Beginning balance, net of tax	\$ (63,106)	\$ 25,380	\$ (275)	\$ 1,513	\$ (36,488)
Other comprehensive income before reclassifications, net of tax	3,133	(2,192)	—	(74)	867
Amounts reclassified from accumulated other comprehensive income, net of tax	854	(2,948)	(69)	—	(2,163)
Net current period other comprehensive income, net of tax	3,987	(5,140)	(69)	(74)	(1,296)
Ending balance, net of tax	<u>\$ (59,119)</u>	<u>\$ 20,240</u>	<u>\$ (344)</u>	<u>\$ 1,439</u>	<u>\$ (37,784)</u>

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	For the three months ended March 31, 2022				
	Unrealized Gains (Losses) on Available for Sale Securities	Cash flow Hedges	Defined Benefit Pension Items	Fair Value Option Elected on Liabilities	Total
	<i>(In thousands)</i>				
Beginning balance, net of tax	\$ (6,272)	\$ (1,406)	\$ (1,282)	\$ 2,276	\$ (6,684)
Other comprehensive income before reclassifications, net of tax	<u>(23,427)</u>	<u>12,941</u>	<u>—</u>	<u>(135)</u>	<u>(10,621)</u>
Amounts reclassified from accumulated other comprehensive income, net of tax	<u>—</u>	<u>1,810</u>	<u>(9)</u>	<u>—</u>	<u>1,801</u>
Net current period other comprehensive income (loss), net of tax	(23,427)	14,751	(9)	(135)	(8,820)
Ending balance, net of tax	<u>\$ (29,699)</u>	<u>\$ 13,345</u>	<u>\$ (1,291)</u>	<u>\$ 2,141</u>	<u>\$ (15,504)</u>

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

For the three months ended March 31, 2023		
Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
<i>(In thousands)</i>		
Fair Value hedges:		
Interest rate swaps benefit (expense)	\$ (1,238)	Interest and dividend income
	384	Provision for income taxes
	<u>\$ (854)</u>	
Cash flow hedges:		
Interest rate swaps benefit (expense)	\$ 4,255	Interest expense
	(1,307)	Provision for income taxes
	<u>\$ 2,948</u>	
Amortization of defined benefit pension items:		
Actuarial losses benefit (expense)	\$ 100 ⁽¹⁾	Other operating expenses
	(31)	Provision for income taxes
	<u>\$ 69</u>	

(1) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 9 (“Pension and Other Postretirement Benefit Plans”) for additional information

For the three months ended March 31, 2022		
Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
<i>(In thousands)</i>		
Cash flow hedges:		
Interest rate swaps benefit (expense)	\$ (2,650)	Interest expense
	840	Provision for income taxes
	<u>\$ (1,810)</u>	
Amortization of defined benefit pension items:		
Actuarial losses benefit (expense)	\$ 6 ⁽¹⁾	Other operating expenses
Prior service credits benefit (expense)	7 ⁽¹⁾	Other operating expenses
	13	Total before tax
	<u>\$ (4)</u>	Provision for income taxes
	<u>\$ 9</u>	

(1) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 9 (“Pension and Other Postretirement Benefit Plans”) for additional information

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13. Regulatory Capital

Under current capital regulations, the Bank is required to comply with four separate capital adequacy standards and a Capital Conservation Buffer (“CCB”). As of March 31, 2023, the Bank continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements. The CCB for the Bank was 6.16% and 6.37% at March 31, 2023 and December 31, 2022, respectively.

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

	March 31, 2023 (As Restated)		December 31, 2022	
	Amount	Percent of Assets	Amount	Percent of Assets
<i>(Dollars in thousands)</i>				
Tier I (leverage) capital:				
Capital level	\$ 905,323	10.53 %	\$ 915,628	10.56 %
Requirement to be well-capitalized	429,793	5.00	433,667	5.00
Excess	475,530	5.53	481,961	5.56
Common Equity Tier I risk-based capital:				
Capital level	\$ 905,323	13.59 %	\$ 915,628	13.79 %
Requirement to be well-capitalized	433,057	6.50	431,734	6.50
Excess	472,266	7.09	483,894	7.29
Tier I risk-based capital:				
Capital level	\$ 905,323	13.59 %	\$ 915,628	13.79 %
Requirement to be well-capitalized	532,993	8.00	531,365	8.00
Excess	372,330	5.59	384,263	5.79
Total risk-based capital:				
Capital level	\$ 943,569	14.16 %	\$ 954,457	14.37 %
Requirement to be well-capitalized	666,242	10.00	664,206	10.00
Excess	277,327	4.16	290,251	4.37

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The Company is subject to the same regulatory capital requirements as the Bank. As of March 31, 2023, the Company continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements. The CCB for the Company at March 31, 2023 and December 31, 2022 was 5.05% and 5.25%, respectively.

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

	March 31, 2023 (As Restated)		December 31, 2022	
	Amount	Percent of Assets	Amount	Percent of Assets
<i>(Dollars in thousands)</i>				
Tier I (leverage) capital:				
Capital level	\$ 736,024	8.56 %	\$ 746,880	8.61 %
Requirement to be well-capitalized	429,762	5.00	433,607	5.00
Excess	306,622	3.56	313,273	3.61
Common Equity Tier I risk-based capital:				
Capital level	\$ 689,732	10.36 %	\$ 698,258	10.52 %
Requirement to be well-capitalized	432,909	6.50	431,635	6.50
Excess	256,823	3.86	266,623	4.02
Tier I risk-based capital:				
Capital level	\$ 736,024	11.05 %	\$ 746,880	11.25 %
Requirement to be well-capitalized	532,812	8.00	531,243	8.00
Excess	203,212	3.05	215,637	3.25
Total risk-based capital:				
Capital level	\$ 964,270	14.48 %	\$ 975,709	14.69 %
Requirement to be well-capitalized	666,015	10.00	664,054	10.00
Excess	298,255	4.48	311,655	4.69

14. New Authoritative Accounting Pronouncements

Accounting Standards Adopted in 2023:

In March 2022, FASB issued ASU No. 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures” (Topic 326), which replaces the recognition and measurement guidance related to TDRs for creditors that have adopted ASC Topic 326 (commonly referred to as “CECL”) with the recognition and measurement guidance contained in Accounting Standards Codification (“ASC”) 310-20, to determine whether a modification results in a new loan or a continuation of an existing loan. This ASU also enhances disclosures about loan modifications for borrowers who are experiencing financial difficulty. The guidance also requires public business entities to present gross write-offs by year of origination in their vintage disclosures. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments in this ASU should be applied on a prospective basis; however, institutions have the option to apply a modified retrospective transition method as it relates to the recognition and measurement of TDRs, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The ASU was adopted on January 1, 2023 without material impact on our business operations or to our consolidated financial statements.

Accounting Standards Pending Adoption:

In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which extends the sunset (or expiration) date of Accounting Standards Codification (ASC) Topic 848 to December 31, 2024. This gives reporting entities two additional years to apply the accounting relief provided under

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ASC Topic 848 for matters related to reference rate reform. ASU 2022-06 is effective for all reporting entities immediately upon issuance and must be applied on a prospective basis. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In January 2021, the FASB issued ASU No. 2021-01, "Reference Rate Reform" (Topic 848), which clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform" (Topic 848), which provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered "minor" so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or re-measurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity could elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the Codification, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. We anticipate this ASU will simplify any modifications we execute between the selected start date (yet to be determined) and December 31, 2022 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees/costs. We are evaluating the impacts of this ASU and have not yet determined whether LIBOR transition and this ASU will have material effects on our business operations and consolidated financial statements. The amendments in this update apply to contract modifications that replace a reference rate reform and contemporaneous modifications of other terms related to the replacement of the reference rate.

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Management’s Discussions 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, 2022. 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 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, 2022. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecasts,” “goals,” “potential” or “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.

The Management’s Discussion and Analysis of Financial Condition and Results of Operations that follow have been amended where appropriate to reflect the changes resulting from the restatement as discussed in the Explanatory Note above. The following sections have been updated to reflect this restatement: “Executive Summary”, “Comparison of Operating Results for the Three Months Ended March 31, 2023 and 2022”, “Financial Condition”, “Average Balances”, “Item 4 - Controls and Procedures” and “Item 1A – Risk Factors”. The remaining sections were not impacted by the restatement and therefore were not updated.

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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. Today the Bank operates as a full-service New York State-chartered commercial bank. The Bank’s primary regulator is the New York State Department of Financial Services, and its primary federal regulator is the Federal Deposit Insurance Corporation (“FDIC”). Deposits are insured to the maximum allowable amount by the FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank system. The primary business of Flushing Financial Corporation has been the operation of the Bank. At March 31, 2023, the Bank owns two subsidiaries: Flushing Service Corporation, and FSB Properties Inc. The Bank also operates an internet branch, which operates under the brands of iGObanking.com® and BankPurely® (the “Internet Branch”). The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Bank, issuances of subordinated debt, 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) Small Business Administration (“SBA”) loans and other small business loans; (3) construction 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 our interest-earning assets and the cost of our interest-bearing liabilities. Net interest income is the result of our net 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 primarily from loan fees, service charges on deposit accounts, and other fees, income earned on Bank Owned Life Insurance (“BOLI”), dividends on Federal Home Loan 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 can also be significantly affected by changes in the fair value of financial assets and financial liabilities for which changes in value are recorded through earnings and our periodic provision for credit losses.

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.

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

For the three months ended March 31, 2023 we reported net income of \$4.0 million, or \$0.13 per diluted common share, a decrease of \$14.2 million, or 77.8% from net income of \$18.2 million, or \$0.58 per diluted common share earned in the comparable prior year period. The decrease in net income was primarily driven by an increase of 230 basis points in the cost of interest-bearing liabilities, which resulted in the net interest margin declining 109 basis points to 2.27% for the three months ended March 31, 2023, compared to 3.36% for the three months ended March 31, 2022.

During the three months ended March 31, 2023, the yield on interest-earning assets increased 17 basis points, while the cost of interest-bearing liabilities increased 69 basis points from the three months ended December 31, 2022, which resulted in a decrease of 43 basis points in net interest margin to 2.27% from 2.70%. Excluding net gains (losses) from qualifying hedges and purchase accounting adjustments, the net interest margin decreased 38 basis points to 2.25% for the three months ended March 31, 2023, from 2.63% for the three months ended December 31, 2022.

Our loan portfolio is greater than 88% collateralized by real estate with an average loan to value of less than 37%. We have a long history and foundation built upon disciplined underwriting, strong credit quality, and a resilient seasoned loan portfolio with solid asset protection. At March 31, 2023, our allowance for credit losses (“ACL”) - loans stood at 56 basis points of gross loans and 182.9% of non-performing loans. Non-performing assets at the end of the quarter were 50 basis points of total assets.

Goodwill is presumed to have an indefinite life and is tested for impairment, rather than amortized, on at least an annual basis. Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measurement, when available. If the fair value of the reporting unit exceeds its carrying amount, there is no impairment of goodwill. At March 31, 2023, the fair value of our reporting unit did not exceed its carrying value, however the fair value of our reporting unit is not driven solely by the market price of our stock. For the purpose of goodwill impairment testing, management has concluded that the Company has one reporting unit. We performed our annual impairment tests of goodwill during the fourth quarter 2022 using a quantitative assessment and concluded that the fair value of the reporting unit exceeded its carrying value by \$152.0 million, or 22.5%. At March 31, 2023, we reviewed goodwill again through a qualitative assessment concluding no impairment was indicated. We monitor goodwill for potential impairment triggers on a quarterly basis. Given the inherent uncertainties resulting from global macroeconomic conditions, actual results may differ from management’s current estimates and could have an adverse impact on one or more of the assumptions used in our quantitative model prepared for the reporting unit, which could result in impairment charges in subsequent periods.

The Bank and Company remain well-capitalized under current capital regulations and are subject to the same regulatory capital requirements. See Note 13 (“Regulatory Capital”) of the Notes to the Consolidated Financial Statements.

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The following table presents quarterly operating data highlights at the periods indicated:

	For the three months ended	
	March 31,	
	2023 (As Restated)	2022
<i>(In thousands except per share data)</i>		
Quarterly operating data:		
Interest income	\$ 92,117	\$ 71,320
Interest expense	46,855	7,841
Net interest income	45,262	63,479
Provision for credit losses	7,508	1,358
Noninterest income	6,857	1,313
Noninterest expense	39,156	38,794
Income before income tax expense	5,455	24,640
Income tax expense	1,411	6,421
Net income	\$ 4,044	\$ 18,219
Basic earnings per common share	\$ 0.13	\$ 0.58
Dividends per common share	0.13	0.58
Average diluted shares	30,265	31,254

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

General. Net income for the three months ended March 31, 2023 was \$4.0 million, a decrease of \$14.2 million, or 77.8%, from \$18.2 million for the three months ended March 31, 2022. Diluted earnings per common share were \$0.13 for the three months ended March 31, 2023, a decrease of \$0.45 or 77.6%, from \$0.58 for the three months ended March 31, 2022. The decrease in net income was primarily due to a decline in the net interest margin which decreased 109 basis points to 2.27% for the three months ended March 31, 2023 from 3.36% for the comparable prior year period. The decline in the net interest margin was driven by our liability sensitive balance sheet as our interest-bearing liabilities repriced quicker than our interest-earning assets.

Return on average equity was 2.37% for the three months ended March 31, 2023 compared to 10.83% for the three months ended March 31, 2022. Return on average assets was 0.19% for the three months ended March 31, 2023 compared to 0.91% for the three months ended March 31, 2022.

Interest Income. Interest and dividend income increased \$20.8 million, or 29.2%, to \$92.1 million for the three months ended March 31, 2023 from \$71.3 million for the three months ended March 31, 2022. The increase in interest income was primarily attributable to the 84 basis point increase in the yield on interest-earning assets to 4.61% for the three months ended March 31, 2023 compared to 3.77% for the comparable prior year period. Excluding prepayment penalty income from loans, net recoveries/reversals of interest from non-accrual loans, net gains (losses) from fair value adjustments on qualifying hedges, and purchase accounting adjustments, the yield on total loans, net, increased 82 basis points to 4.76% for the three months ended March 31, 2023 from 3.94% for the three months ended March 31, 2022.

Interest Expense. Interest expense increased \$39.0 million, or 497.6%, to \$46.9 million for the three months ended March 31, 2023 from \$7.8 million for the three months ended March 31, 2022. The growth in interest expense was primarily due to an increase of 230 basis points in the average cost of interest-bearing liabilities to 2.80% for the three months ended March 31, 2023 from 0.50% for the three months ended March 31, 2022 and the increase of \$483.0 million in the average balance of interest-bearing liabilities to \$6,703.6 million for the three months ended March 31, 2023 from \$6,220.5 million for the comparable prior year period. Rising rates have driven the increase in our cost of funds as the Federal Reserve increased rates by 450 basis points over the past year.

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Net Interest Income. Net interest income for the three months ended March 31, 2023 was \$45.3 million, a decrease of \$18.2 million, or 28.7%, from \$63.5 million for the three months ended March 31, 2022. In addition, net interest-earning assets declined \$51.0 million year over year to \$1,298.8 million for the quarter ended March 31, 2023. The net interest margin decreased 109 basis points to 2.27% from March 31, 2022. The decrease in net interest income was primarily due to the cost of interest-bearing liabilities rising faster than the yield on interest-earning assets. The average cost of interest-bearing liabilities increased 230 basis points to 2.80% for the three months ended March 31, 2023 from 0.50% for the three months ended March 31, 2022 compared to 84 basis points to 4.61% for the interest-earning assets from 3.77% for the same period. After a lag, the net interest margin is expected to expand when the Fed stops raising rates. Included in net interest income for the three months ended March 31, 2023 and 2022, was prepayment penalty income, net reversals and recovered interest from non-accrual loans totaling \$0.7 million and \$1.7 million, respectively, net gains (losses) from fair value adjustments on qualifying hedges totaling \$0.1 million and (\$0.1) million for the three months ended March 31, 2023 and 2022, respectively, and purchase accounting income adjustments of \$0.3 million and \$1.1 million, respectively. Excluding all of these items, the net interest margin for the three months ended March 31, 2023 was 2.21%, a decrease of 101 basis points, from 3.22% for the three months ended March 31, 2022.

Provision for Credit Losses. During the three months ended March 31, 2023, the provision for credit losses was \$7.5 million compared to \$1.4 million for the three months ended March 31, 2022. The provision recorded during the three months ended March 31, 2023 was primarily due to a charge-off and increased reserves on two previously identified credits. The current average loan-to-value ratio for our non-performing assets collateralized by real estate was 50.7% at March 31, 2023. The Bank continues to maintain conservative underwriting standards.

Non-Interest Income. Non-interest income for the three months ended March 31, 2023 was \$6.9 million, an increase of \$5.5 million from \$1.3 million in the prior year comparable period. The increase was primarily due to the prior year period inclusion of net losses from fair value adjustments totaling \$1.8 million compared to net gains totaling \$2.6 million recorded during the current year period.

Non-Interest Expense. Non-interest expense for the three months ended March 31, 2023 was \$39.2 million, an increase of \$0.4 million, or 0.9%, from \$38.8 million for the three months ended March 31, 2022. The increase was primarily due to increases in FDIC insurance assessment rates and other operating expenses, partially offset by a decrease in salary related expense accruals in the first quarter of 2023 and the effects of the decreased stock price on the attendant benefits plans. In addition, during the first quarter of 2023, the Company recognized seasonal expenses totaling \$4.1 million compared to \$4.3 million in the first quarter of 2022.

Income before Income Taxes. Income before income taxes for the three months ended March 31, 2023 was \$5.5 million, a decrease of \$19.2 million, or 77.9%, from \$24.6 million for the three months ended March 31, 2022 for the reasons discussed above.

Provision for Income Taxes. The provision for income taxes was \$1.4 million for the three months ended March 31, 2023, a decrease of \$5.0 million, or 78.0%, from \$6.4 million for the three months ended March 31, 2022. The decrease was primarily due to the decline in income before taxes and a decrease in the effective tax rate. The effective tax rate for three months ended March 31, 2023 was 25.9% compared to 26.1% for the three months ended March 31, 2022.

FINANCIAL CONDITION

Assets. Total assets at March 31, 2023 were \$8,479.7 million, an increase of \$56.8 million, or 0.7%, from \$8,422.9 million at December 31, 2022. Total net loans decreased \$28.9 million, or 0.4%, during the three months ended March 31, 2023, to \$6,865.4 million from \$6,894.3 million at December 31, 2022. Loan originations and purchases were \$173.5 million for the three months ended March 31, 2023, a decrease of \$155.8 million, or 47.3%, from \$329.3 million for the three months ended March 31, 2022. We continue to focus on the origination of multi-family residential, commercial real estate and commercial business loans with a full banking relationship. The loan pipeline was \$266.1 million at March 31, 2023, compared to \$252.2 million at December 31, 2022.

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

<i>(In thousands)</i>	For the three months ended March 31,	
	2023	2022
Multi-family residential	\$ 42,164	\$ 98,180
Commercial real estate	15,570	45,102
One-to-four family – mixed-use property	4,938	8,498
One-to-four family – residential	4,296	9,261
Construction ⁽¹⁾	10,592	8,802
Small Business Administration	318	—
Commercial business and other ⁽²⁾	95,668	159,476
Total	\$ 173,546	\$ 329,319

(1) Includes purchases of \$0.1 million and \$0.7 million for the three months ended March 31, 2023 and 2022, respectively.

(2) Includes purchases of \$44.3 million and \$53.6 million for the three months ended March 31, 2023 and 2022, respectively.

The Bank maintains its conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential (excluding underlying co-operative mortgages), commercial real estate and one-to-four family mixed-use property mortgage loans originated and purchased during the three months ended March 31, 2023 had an average loan-to-value ratio of 46.7% and an average debt coverage ratio of 167.0%.

The Bank’s non-performing assets totaled \$42.2 million at March 31, 2023, a decrease of \$11.2 million, or 21.0% from December 31, 2022. Total non-performing assets as a percentage of total assets were 0.50% at March 31, 2023 and 0.63% at December 31, 2022. The ratio of ACL - loans to total non-performing loans was 182.9% at March 31, 2023 and 124.9% at December 31, 2022.

During the three months ended March 31, 2023 mortgage-backed securities decreased \$4.2 million, or 1.1%, to \$388.0 million from \$392.2 million at December 31, 2022. The decrease in mortgage-backed securities during the three months ended March 31, 2023 was primarily due to the principal repayment of securities totaling \$9.7 million partially offset by an increase in the fair value of the securities totaling \$5.8 million.

During the three months ended March 31, 2023, other securities increased \$80.6 million, or 19.3%, to \$497.5 million from \$416.9 million at December 31, 2022. The increase in other securities during the three months ended March 31, 2023, was primarily due to purchases of \$93.1 million at an average rate of 6.47% partially offset by maturities totaling \$10.0 million and a decrease in the fair value of other securities totaling \$1.0 million. At March 31, 2023, other securities primarily consisted of securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds, corporate bonds, and CLOs.

Liabilities. Total liabilities were \$7,807.4 million at March 31, 2023, an increase of \$61.6 million, or 0.8%, from \$7,745.8 million at December 31, 2022. During the three months ended March 31, 2023, due to depositors increased \$218.3 million, or 3.4%, to \$6,655.5 million due an increase of certificates of deposit totaling \$353.9 million partially offset by a decrease in transaction accounts of \$135.6 million. The Company has based deposit growth on certificates of deposit as they extend liabilities thus reducing interest rate risk. Included in deposits were brokered deposits totaling \$853.2 million, a decrease of \$3.1 million from \$856.3 million at December 31, 2022. At March 31, 2023, the Company had uninsured and uncollateralized deposits totaling \$1.1 billion, or 16% of deposits. Borrowed funds decreased \$165.5 million during the three months ended March 31, 2023.

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Total deposits at March 31, 2023 and December 31, 2022 and the weighted average rate on deposits at March 31, 2023 and December 31, 2022, are as follows:

	March 31, 2023	December 31, 2022	Weighted Average Rate 2023	Weighted Average Rate 2022
<i>(Dollars in thousands)</i>				
Interest-bearing deposits:				
Certificate of deposit accounts	\$ 1,880,260	\$ 1,526,338	3.68 %	3.03 %
Savings accounts	128,245	143,641	0.46	0.21
Money market accounts	1,855,781	2,099,776	3.16	2.47
NOW accounts	1,918,977	1,746,190	2.92	2.14
Total interest-bearing deposits	5,783,263	5,515,945		
Non-interest bearing demand deposits	872,254	921,238		
Total due to depositors	6,655,517	6,437,183		
Mortgagors' escrow deposits	78,573	48,159	0.21	0.30
Total deposits	<u>\$ 6,734,090</u>	<u>\$ 6,485,342</u>		

Equity. Total stockholders’ equity decreased \$4.8 million, or 0.7%, to \$672.3 million at March 31, 2023, from \$677.2 million at December 31, 2022. Stockholders’ equity decreased due to an increase in accumulated other comprehensive loss of \$1.3 million, the declaration and payment of dividends on the Company’s common stock of \$0.22 per common share totaling \$6.7 million and 159,516 shares repurchased totaling \$3.1 million. These decreases were partially offset by net income of \$4.0 million. Book value per common share decreased to \$22.80 at March 31, 2023 compared to \$22.97 at December 31, 2022.

Liquidity. Liquidity is the ability to economically meet current and future financial obligations. The Company’s primary objectives in terms of managing liquidity is to maintain the ability to originate and purchase loans, repay borrowings as they mature, satisfy financial obligations that arise in the normal course of business and meet our customer’s deposit withdrawal needs. Our primary sources of funds are deposits, borrowings, principal and interest payments on loans, mortgage-backed and other securities, and proceeds from sales of securities and loans. Deposit flows and mortgage prepayments, however, are greatly influenced by general interest rates, economic conditions, and competition. The Company has other sources of liquidity, including unsecured overnight lines of credit, and other types of borrowings. At March 31, 2023, the Company had available liquidity totaling \$3.7 billion.

Liquidity management is both a short and long-term function of business management. During 2023, funds were provided by the Company’s operating and financing activities, which were used to fund our investing activities. Our most liquid assets are cash and cash equivalents, which include cash and due from banks, overnight interest-earning deposits and federal funds sold with original maturities of 90 days or less. The level of these assets is dependent on our operating, financing, lending, and investing activities during any given period. At March 31, 2023, cash and cash equivalents totaled \$176.7 million and \$151.8 million, an increase of \$25.0 million, at March 31, 2023 and December 31, 2022, respectively. A portion of our cash and cash equivalents is restricted cash held as collateral for interest rate swaps. At March 31, 2023 and December 31, 2022, restricted cash totaled \$61.5 million and \$67.0 million, respectively.

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	At March 31, 2023		
	Total Available	Amount Used	Net Availability
Internal Sources:		<i>(In millions)</i>	
Unpledged Securities and Other	\$ 581.7	\$ —	\$ 581.7
Interest Earnings Deposits	99.4	—	99.4
External Sources:			
Federal Home Loan Bank	3,789.8	1,952.8	1,837.0
Other Banks	1,208.0	—	1,208.0
Total Liquidity	\$ 5,678.9	\$ 1,952.8	\$ 3,726.1

INTEREST RATE RISK

Economic Value of Equity Analysis. The Consolidated Statements of Financial Position have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”), 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 fluctuate 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 quantifies the net portfolio value should interest rates immediately go up or down 100 or 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. The changes in value are measured as percentage changes from the net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 2023. Various estimates regarding prepayment assumptions are made at each level of rate shock. At March 31, 2023, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

The following table presents the Company’s interest rate shock as of March 31, 2023:

Change in Interest Rate	Net Portfolio Value (NPV)	
	% Change in NPV	NPV Ratio
-200 Basis points	(2.6) %	10.1 %
-100 Basis points	(0.9)	10.5
Base interest rate	-	10.8
+100 Basis points	(3.4)	10.6
+200 Basis points	(6.8)	10.4

Income Simulation Analysis. 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 provides a report for review by the ALCO Investment Committee of the Board of Directors. This report quantifies the potential changes in net interest income through various interest rate scenarios.

The starting point for the net interest income simulation is an estimate of the next twelve months’ net interest income assuming that both interest rates and the Company’s interest-sensitive assets and liabilities remain at period-end levels.

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The report quantifies the potential changes in net interest income should interest rates go up or down 100 or 200 basis points (shocked), assuming the yield curves of the rate shocks will be parallel to each other. All changes in income are measured as percentage changes from the projected net interest income at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 2023. 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.

The following table presents the Company’s interest rate shock as of March 31, 2023:

	Projected Percentage Change In Net Interest Income
-200 Basis points	4.9 %
-100 Basis points	3.0
Base interest rate	-
+100 Basis points	(5.9)
+200 Basis points	(12.2)

Another net interest income simulation assumes that changes in interest rates change gradually in equal increments over the twelve-month period. Prepayment penalty income is also excluded from this analysis. Based on these assumptions, net interest income would be reduced by 3.1% from a 100 basis point increase in rates over the next twelve months. Actual results could differ significantly from these estimates.

At March 31, 2023, the Company had a derivative portfolio with a notional value totaling \$1.6 billion. This portfolio is designed to provide protection against rising interest rates. See Note 11 (“Derivative Financial Instruments”) of the Notes to the Consolidated Financial Statements.

A portion of this portfolio is comprised of interest rate swaps on certain short-term advances and brokered deposits totaling \$921.5 million. At March 31, 2023, \$621.5 million of the interest rate swaps are effective swaps at a weighted average rate of approximately 2.53% that mature through 2027 and \$300.0 million of the interest rate swaps are forward swaps effective at different points through 2023 and 2024, at an average rate of 1.80%.

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AVERAGE BALANCES

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following tables sets forth certain information relating to the Company’s Consolidated Statements of Financial Condition and Consolidated Statements of Income for the three months ended March 31, 2023 and 2022, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

	For the three months ended March 31,					
	2023			2022		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Mortgage loans, net	\$ 5,333,274	\$ 62,054	4.65 %	\$ 5,152,070	\$ 53,970	4.19 %
Other loans, net	1,537,918	20,835	5.42	1,426,610	13,546	3.80
Total loans, net ⁽¹⁾⁽²⁾	<u>6,871,192</u>	<u>82,889</u>	<u>4.83</u>	<u>6,578,680</u>	<u>67,516</u>	<u>4.11</u>
Taxable securities:						
Mortgage-backed securities	457,911	2,281	1.99	580,670	2,167	1.49
Other securities	411,723	4,611	4.48	226,744	1,119	1.97
Total taxable securities	<u>869,634</u>	<u>6,892</u>	<u>3.17</u>	<u>807,414</u>	<u>3,286</u>	<u>1.63</u>
Tax-exempt securities: ⁽³⁾						
Other securities	66,828	477	2.86	57,611	591	4.10
Total tax-exempt securities	<u>66,828</u>	<u>477</u>	<u>2.86</u>	<u>57,611</u>	<u>591</u>	<u>4.10</u>
Interest-earning deposits and federal funds sold	194,722	1,959	4.02	126,668	51	0.16
Total interest-earning assets	<u>8,002,376</u>	<u>92,217</u>	<u>4.61</u>	<u>7,570,373</u>	<u>71,444</u>	<u>3.77</u>
Other assets	465,941			479,097		
Total assets	<u>\$ 8,468,317</u>			<u>\$ 8,049,470</u>		
Liabilities and Equity						
Interest-bearing liabilities						
Deposits:						
Savings accounts	\$ 134,945	126	0.37	\$ 156,592	49	0.13
NOW accounts	1,970,555	13,785	2.80	2,036,914	793	0.16
Money market accounts	2,058,523	14,102	2.74	2,253,630	1,275	0.23
Certificate of deposit accounts	1,679,517	11,007	2.62	889,847	1,289	0.58
Total due to depositors	<u>5,843,540</u>	<u>39,020</u>	<u>2.67</u>	<u>5,336,983</u>	<u>3,406</u>	<u>0.26</u>
Mortgagors’ escrow accounts	70,483	36	0.20	71,509	2	0.01
Total deposits	<u>5,914,023</u>	<u>39,056</u>	<u>2.64</u>	<u>5,408,492</u>	<u>3,408</u>	<u>0.25</u>
Borrowed funds	789,535	7,799	3.95	812,018	4,433	2.18
Total interest-bearing liabilities	<u>6,703,558</u>	<u>46,855</u>	<u>2.80</u>	<u>6,220,510</u>	<u>7,841</u>	<u>0.50</u>
Non-interest-bearing deposits	896,462			1,001,571		
Other liabilities	185,239			154,377		
Total liabilities	<u>7,785,259</u>			<u>7,376,458</u>		
Equity	683,058			673,012		
Total liabilities and equity	<u>\$ 8,468,317</u>			<u>\$ 8,049,470</u>		
Net interest income / net interest rate spread (tax equivalent) ⁽³⁾		<u>\$ 45,362</u>	<u>1.81 %</u>		<u>\$ 63,603</u>	<u>3.27 %</u>
Net interest-earning assets / net interest margin (tax equivalent)	<u>\$ 1,298,818</u>		<u>2.27 %</u>	<u>\$ 1,349,863</u>		<u>3.36 %</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>1.19 X</u>			<u>1.22 X</u>

- (1) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$0.2 million and \$2.9 million for the three months ended March 31, 2023 and 2022, respectively.
- (2) Loan interest income includes net gains (losses) from fair value adjustments on qualifying hedges of \$0.1 and (\$0.1) million for three months ended March 31, 2023 and 2022, respectively.
- (3) Interest and yields are calculated on the tax equivalent basis using the statutory federal income tax rate of 21% for the periods presented totaling \$0.1 million each for the three months ended March 31, 2023 and 2022.

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Management’s Discussions and Analysis of
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LOANS

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

<i>(In thousands)</i>	For the three months ended March 31,	
	2023	2022
Mortgage Loans		
At beginning of period	\$ 5,380,935	\$ 5,200,782
Mortgage loans originated:		
Multi-family residential	42,164	98,180
Commercial real estate	15,570	45,102
One-to-four family mixed-use property	4,938	8,498
One-to-four family residential	4,296	9,261
Construction	10,463	8,096
Total mortgage loans originated	<u>77,431</u>	<u>169,137</u>
Mortgage loans purchased:		
Construction	129	706
Total mortgage loans purchased	<u>129</u>	<u>706</u>
Less:		
Principal reductions	102,543	216,487
Mortgage loan sales	2,375	—
At end of period	<u>\$ 5,353,577</u>	<u>\$ 5,154,138</u>
Non-mortgage loans		
At beginning of period	\$ 1,544,823	\$ 1,433,084
Loans originated:		
Small Business Administration	318	—
Commercial business	51,081	105,514
Other	250	359
Total other loans originated	<u>51,649</u>	<u>105,873</u>
Non-mortgage loans purchased:		
Commercial business	44,337	53,603
Total non-mortgage loans purchased	<u>44,337</u>	<u>53,603</u>
Less:		
Principal reductions	89,901	146,066
Charge-offs ⁽¹⁾	9,292	8
At end of period	<u>\$ 1,541,616</u>	<u>\$ 1,446,486</u>

⁽¹⁾ Does not include charge-offs totaling \$1.0 million on the guaranteed portion of SBA receivables deemed uncollectible during the three months ended March 31, 2022.

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TROUBLED DEBT RESTRUCTURED (“TDR”) AND NON-PERFORMING ASSETS

On January 1, 2023, the Company adopted ASU No. 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures” without material impact on the business operations or consolidated financial statements. See Note 14 (“New Authoritative Accounting Pronouncements”) of the Notes to the Consolidated Financial Statements.

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

<i>(In thousands)</i>	December 31, 2022
Accrual Status:	
Multi-family residential	\$ 1,673
Commercial real estate	7,572
One-to-four family - mixed-use property	974
One-to-four family - residential	253
Commercial business and other	1,069
Total	11,541
Non-Accrual Status:	
One-to-four family - mixed-use property	248
Commercial business and other	28
Total	276
Total performing troubled debt restructured	\$ 11,817

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

<i>(In thousands)</i>	March 31, 2023	December 31, 2022
Loans 90 days or more past due and still accruing:		
Construction	\$ —	\$ 2,600
Total	—	2,600
Non-accrual loans:		
Multi-family residential	3,628	3,206
Commercial real estate	—	237
One-to-four family - mixed-use property ⁽¹⁾	790	790
One-to-four family - residential	4,961	4,425
Small business administration	937	937
Commercial Business and other ⁽¹⁾	10,860	20,187
Total	21,176	29,782
Total non-performing loans	21,176	32,382
Other non-performing assets:		
Held-to-maturity securities	20,981	20,981
Total	20,981	20,981
Total non-performing assets	\$ 42,157	\$ 53,363
Non-performing assets to total assets	0.50 %	0.63 %
ACL - loans to non-accrual loans	182.89 %	135.79 %
ACL - loans to non-performing assets	91.87 %	75.79 %

(1) Not included in the above analysis are the following non-accrual TDRs that are performing according to their restructured terms: one-to-four family mixed-use property loans totaling \$0.2 million at December 31, 2022, and commercial business loans totaling less than \$0.1 million at December 31, 2022.

CRITICIZED AND CLASSIFIED ASSETS

Our policy is to review our assets, focusing primarily on the loan portfolio, other real estate owned, and the investment portfolios, to ensure that credit quality is maintained at the highest levels. See Note 5 (“Loans”) of the Notes to the Consolidated Financial Statements for a description of how loans are determined to be criticized or classified and a table displaying criticized and classified loans at March 31, 2022. The amortized cost of Criticized and Classified assets were \$80.6 million at March 31, 2023, a decrease of \$8.3 million from \$88.9 million at December 31, 2022. The Company had one investment security with an amortized cost of \$21.0 million classified as substandard at March 31, 2023 and December 31, 2022.

Included within net loans at both March 31, 2023 and December 31, 2022, were \$5.2 million of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

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ALLOWANCE FOR CREDIT LOSSES

The following table shows allowance for credit losses at the period indicated:

<i>(In thousands)</i>	For the three months ended March 31,	
	2023	2022
Balance at beginning of period	\$ 40,442	\$ 37,135
Loans- charge-off	(9,298)	(1,036)
Loans- recovery	64	101
Loans- provision	7,521	1,233
Allowance for credit losses - loans	<u>\$ 38,729</u>	<u>\$ 37,433</u>
Balance at beginning of period	\$ 1,100	\$ 862
Held-to-maturity securities- (benefit) provision	(13)	124
Allowance for HTM securities losses	<u>\$ 1,087</u>	<u>\$ 986</u>
Balance at beginning of period	\$ 970	\$ 1,209
Off-balance sheet- (benefit) provision	(85)	380
Allowance for off-balance sheet losses	<u>\$ 885</u>	<u>\$ 1,589</u>
Allowance for credit losses	<u>\$ 40,701</u>	<u>\$ 40,008</u>

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The following table sets forth the activity in the Company’s ACL - loans for the periods indicated:

<i>(Dollars in thousands)</i>	For the three months ended March 31,	
	2023	2022
Balance at beginning of year	\$ 40,442	\$ 37,135
Provision for credit losses	7,521	1,233
Loans charged-off:		
One-to-four family - residential	(6)	—
SBA	(6)	(1,028)
Commercial business and other loans	(9,286)	(8)
Total loans charged-off	(9,298)	(1,036)
Recoveries:		
Multi-family residential	1	—
One-to-four family - residential	42	2
Small Business Administration	12	13
Taxi medallion	—	12
Commercial business and other	9	74
Total recoveries	64	101
Net charge-offs	(9,234)	(935)
Balance at end of year	\$ 38,729	\$ 37,433
Ratio of net charge-offs to average loans outstanding during the period	0.54 %	0.06 %
Ratio of ACL - loans to gross loans at end of period	0.56 %	0.57 %
Ratio of ACL - loans to non-performing loans at end of period	182.89 %	266.12 %

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 March 31, 2023, 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.

Since that evaluation, however, and as a result of the material weakness in the Company's internal control over financial reporting discussed below, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2023, the Company's disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

The Company had engaged an independent national tax credit advisory firm that had advised the Company that it qualified for certain ERCs for the three-month period ended March 31, 2023. In the course of preparing the Company's consolidated financial statements for the fiscal year ended December 31, 2023, however, the Company determined that it could no longer rely on such advice and is not able to treat the ultimate realization of the ERCs as "probable" under GAAP.

Management determined that the foregoing constitutes a material weakness in the Company's internal control over financial reporting. Management is taking steps to remediate the material weakness in its internal control over financial reporting relating to the proper accounting treatment of the ERCs. These steps will include the preparation of a technical accounting memorandum for any material unusual transactions including careful evaluation of any probability assessments or other areas of judgment involved, such as the ERCs, to determine the correct accounting treatment for such transactions. Management believes the additional control procedures designed, and when implemented, will fully remediate the material weakness.

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

Except as set forth below, 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, 2022.

The Company has identified a material weakness in its internal controls and cannot provide assurances that this weakness will be effectively remediated or that additional material weaknesses will not occur in the future.

The Company's management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The Company had engaged an independent national tax credit advisory firm that had advised the Company that it qualified for certain ERCs for the three-month period ended March 31, 2023. In the course of preparing the Company's consolidated financial statements for the fiscal year ended December 31, 2023, however, the Company determined that it could no longer rely on such advice and was not able to treat the ultimate realization of the ERCs as "probable" under GAAP.

In connection with the foregoing, management of the Company concluded that a material weakness in the Company's internal control over financial reporting existed as of March 31, 2023. Specifically, the Company did not maintain effective controls over the probability assessment associated with the recognition of income related to the ERCs. While the Company is taking steps to remediate the material weakness, it cannot provide assurance that such remedial measures will be effective. If the Company fails to maintain effective internal control over financial reporting, it may not be able to accurately report its financial results, which may, among other adverse consequences, cause investors to lose confidence in the Company's reported financial information.

Recent events affecting the banking industry predicated by the failure of three regional banks and resulting media coverage may have eroded customer confidence in the banking system and have adversely impacted liquidity, particularly for regional and community banks like Flushing Bank.

Recent bank failures have generated significant market volatility and adversely impacted stock prices among publicly traded bank holding companies and, in particular, regional and community banks like the Company. Many regional banks experienced higher than normal deposit outflows immediately following the first regional bank failures in March 2023; however, Flushing Bank did not experience such outflows. These developments have negatively impacted customer confidence in the safety and soundness of regional and community banks. As a result of these recent events, customers may choose to maintain deposits with larger financial institutions or in other higher yielding alternatives, which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements regarding the safety and soundness of the banking system and taken actions to ensure that depositors of recently failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional and community banks and the banking system more broadly.

These recent events may result in potentially adverse changes to laws or regulations governing banks and bank holding companies or in the impositions of restrictions through supervisory or enforcement activities, including higher capital or liquidity requirements, which could have a material impact on our business. The cost of resolving the recent bank failures may prompt the FDIC to increase its deposit insurance premiums or assessments.

PART II – OTHER INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

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

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended March 31, 2023:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
January 1 to January 31, 2023	129,668	\$ 18.89	129,668	464,794
February 1 to February 28, 2023	29,848	20.22	29,848	434,946
March 1 to March 31, 2023	—	—	—	434,946
Total	<u>159,516</u>	<u>\$ 19.14</u>	<u>159,516</u>	

During the quarter ended March 31, 2023, the Company repurchased 159,516 shares of the Company's common stock. On March 31, 2023, 434,946 shares remained to be repurchased under the currently authorized stock repurchase programs. Stock will be purchased under the current stock repurchase programs from time to time, in the open market or through private transactions, subject to market conditions. There is no expiration or maximum dollar amount under these authorizations.

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 P	Certificate of Incorporation of Flushing Financial Corporation (Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488)
3.2	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (Incorporated by reference to Exhibit 4.2 filed with Form S-8 filed May 31, 2002)
3.3	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (Incorporated by reference to Exhibit 3.3 filed with Form 10-K for the year ended December 31, 2011)
3.4	Amended and Restated By-Laws of Flushing Financial Corporation (Incorporated by reference to Exhibit 3.6 filed with Form 10-Q for the quarter ended June 30, 2014)
4.1	Indenture dated November 22, 2021, between Flushing Financial Corporation and Wilmington Trust, National Association, as trustee. (Incorporated by reference to Exhibit 4.1 filed with Form 8-K filed November 22, 2021)
4.2	First Supplemental Indenture, dated November 22, 2021, between Flushing Financial Corporation and Wilmington Trust, National Association, as trustee. (Incorporated by reference to Exhibit 4.2 filed with Form 8-K filed November 22, 2021)
4.3	Second Supplemental Indenture, dated August 24, 2022, between Flushing Financial Corporation and Wilmington Trust, National Association, as trustee (Incorporated by reference to Exhibit 4.2 filed with Form 8-K filed August 24, 2022)
4.4	Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)
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)
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101.SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
SIGNATURES**

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

Flushing Financial Corporation,

Dated: February 9, 2024

By: /s/John R. Buran

John R. Buran

President and Chief Executive Officer

Dated: February 9, 2024

By: /s/Susan K. Cullen

Susan K. Cullen

Senior Executive Vice President, Treasurer and
Chief Financial Officer

