

# Flushing Financial Corporation Reports Third Quarter GAAP Diluted EPS of \$0.37 and Core Diluted EPS of \$0.39

Oct 25, 2016 5:30 PM

## THIRD QUARTER 2016

- GAAP diluted EPS was \$0.37, down 64.8% QoQ
- Core diluted EPS was \$0.39, flat QoQ
- Net interest income was \$41.7 million, up 6.1% YoY
- Net interest margin was 2.94%, compared to 2.99% for the second quarter of 2016
- Excluding prepayment penalty income from loans and securities and recovered interest from nonaccrual loans, the net interest margin was 2.81%, a decrease of six basis points QoQ
- GAAP ROAE was 8.4%, compared with 9.5% for the third quarter of 2015
- Core ROAE was 8.9%, compared with 10.0% for the third quarter of 2015
- GAAP ROAA was 0.7%, compared with 0.8% for the third quarter of 2015
- Core ROAA was 0.8%, compared with 0.9% for the third quarter of 2015

UNIONDALE, N.Y., Oct. 25, 2016 (GLOBE NEWSWIRE) -- Flushing Financial Corporation (the "Company") (Nasdaq:FFIC), the parent holding company for Flushing Bank (the "Bank"), today announced its financial results for the three and nine months ended September 30, 2016.

John R. Buran, President and Chief Executive Officer, stated: "We are pleased to report core earnings per diluted common share of \$0.39 for the third quarter of 2016.

"Our main focus continues to be growing multi-family, commercial real estate, and commercial business loans while maintaining our conservative underwriting standards. During the quarter ended September 30, 2016, loan originations for multi-family, commercial real estate and commercial business loans totaled 26%, 30% and 36%, respectively, of total loan production. We produced solid earnings this quarter through continued strong credit quality, a small uptick in the coupon rates on loan originations, and by reducing our expenses. We have begun to successfully execute on the strategy change to increase net interest income through increasing rates as opposed to increasing volume. The interest rates on our mortgage loan pipeline increased 11 basis points to 4.05% from 3.94% at June 30, 2016. This strategy shift positions the Company to reap the benefits of an increase in rates. Conversely, the cost of funds increased four basis points to 1.03% on a linked quarter basis, as rates on certain government deposits were raised."

Core earnings, a non-GAAP measure, exclude the effects of net gains/losses from the sale of buildings and securities, net gains/losses from fair value adjustments, prepayment penalties from the extinguishment of debt, and the gain from life insurance proceeds.

For a reconciliation of core earnings and core diluted earnings per common share to accounting principles generally accepted in the United States ("GAAP") net income and GAAP diluted earnings per common share, please refer to the table titled "Reconciliation of GAAP Earnings and Core Earnings."

## **Earnings Summary:**

Quarter ended September 30, 2016 (3Q16) compared to the quarters ended September 30, 2015 (3Q15) and June 30, 2016 (2Q16).

### **Net Interest Income**

Net interest income for 3Q16 was \$41.7 million, an increase of 6.1% YoY but a decrease of 0.4% QoQ.

- Average balance of total interest-earning assets of \$5,684.4 million, increased \$533.4 million, or 10.4% YoY and \$71.5 million, or 1.3% QoQ
- Yield on interest-earning assets of 3.91% decreased 12 basis points YoY and 2 basis points QoQ
- Cost of interest-bearing liabilities of 1.09% remained unchanged YoY but increased 4 basis points QoQ
- Net interest spread and net interest margin of 2.82% and 2.94%, respectively, decreased 12 basis points and 11 basis points, respectively YoY and decreased 6 basis points and 5 basis points, respectively QoQ
- Includes prepayment penalty income from loans and securities of \$1.5 million, compared with \$2.2 million in 3Q15 and \$1.4 million in 2Q16, and recovered interest from nonaccrual loans of \$0.3 million, compared with \$0.4 million in 3Q15 and \$0.2 million in 2Q16
- Excluding prepayment penalty income from loans and securities and recovered interest from nonaccrual loans, the yield on interest-earning assets, would be 3.78%, compared with 3.83% in 3Q15 and 3.81% in 2Q16, and the net interest margin would be 2.81%, compared with 2.85% in 3Q15 and 2.87% in 2Q16
- Cost of total deposits of 0.92% increased 4 basis points YoY and 8 basis points QoQ
- Cost of borrowed funds of 1.58% decreased 16 basis points YoY and 12 basis points QoQ, primarily due to an increase in the average balance of lower-costing short-term borrowings

The following table shows the basis points increase (decrease) in the cost of interest-bearing liabilities:

#### Change in the Cost of Interest-Bearing Liabilities (bps)

	3Q16 vs.	
	2Q16	3Q15
Savings	1	2
NOW	8	10
Money market	10	23
Certificate of deposit	1	(6 )
Borrowings	(12 )	(16 )
Total interest-bearing liabilities	4	-

### **Non-interest Income**

Non-interest income (excluding: net gains on sale of buildings and securities) for 3Q16 was \$1.9 million, an increase of \$0.3 million YoY and QoQ.

- Increase in fair value adjustments of \$0.3 million compared to 3Q15 and 2Q16

### **Non-interest Expense**

Non-interest expense for 3Q16 was \$26.3 million, an increase of \$2.6 million, or 10.8% YoY but a decrease of \$2.2 million, or 7.7% QoQ.

- 2Q16 includes a non-recurring penalty of \$2.1 million on the prepayment of \$38.0 million in repurchase agreements
- Salaries and benefits increased YoY by \$2.1 million primarily due to annual salary increases and additions in staffing and increased \$0.8 million QoQ due to increased staffing and stock-based compensation costs as a result of the recent increase in the Company's stock price
- 3Q16 and 2Q16 both include a write-down of \$0.8 million on one OREO property
- Non-interest expense (excluding: salaries and benefits expense, prepayment penalty on borrowings and net gain/losses on sale of OREO) totaled \$10.7 million, a decrease of \$0.4 million, or 3.7% YoY and \$0.8 million, or 7.1% QoQ
- The efficiency ratio increased to 57.4% in 3Q16 from 56.2% in 3Q15 and 57.1% in 2Q16

### **Provision for Income Taxes**

The provision for income taxes for 3Q16 was \$6.7 million, essentially unchanged YoY but was a decrease of \$14.1 million QoQ.

- Income before income taxes decreased by \$33.9 million QoQ, primarily due to the net gain from the Building Sale, which also reduced impact of preferential tax items in 2Q16
- Effective tax rates of 38.5% in 3Q16, 40.5% in 2Q16 and 37.7% in 3Q15.

### **Loans:**

- Net loans were \$4,719.5 million reflecting an increase of 1.0% QoQ (not annualized) and 8.1% year-to-date as we continue to focus on the origination of multi-family, commercial real estate and commercial business loans with a full relationship
- Loan originations and purchases of multi-family, commercial real estate and commercial business loans totaled \$777.5 million year-to-date, or 91.4% of loan production during the period
- Total loan originations and purchases were \$850.3 million year-to-date, an increase of \$12.5 million YoY
- Loan purchases, which are underwritten to the same standards as organic originations, were \$138.0 million year-to-date, a decrease of \$78.3 million YoY
- Loan pipeline totaled \$289.3 million at September 30, 2016 compared with \$330.5 million at December 31, 2015
- Multi-family (excluding underlying co-operative mortgages), commercial real estate and one-to-four family mixed-use property mortgage loans originated during the quarter had an average loan-to-value ratio of 41.9% and an average debt coverage ratio of 204%

The following table shows the average rate received from loan originations and purchases for the periods indicated:

Loan type	For the three months ended			
	September 30,	June 30,	September 30,	
	2016	2016	2015	
Mortgage loans	3.52 %	3.53 %	3.58 %	
Non-mortgage loans	4.12 %	4.29 %	3.43 %	
Total loans	3.74 %	3.71 %	3.56 %	

### **Credit Quality:**

- Non-performing loans totaled \$23.5 million, a decrease of \$2.5 million, or 9.7%, from \$26.1 million at December 31, 2015
- Classified assets totaled \$48.7 million, an increase of \$4.8 million, or 10.9%, from \$43.9 million at December 31, 2015, primarily due to an increase in substandard taxi medallion loans
- Loans classified as troubled debt restructured totaled \$8.2 million, a decrease of \$1.3 million, or 13.7%, from \$9.5 million at December 31, 2015
- Strong underwriting standards coupled with our practice of obtaining updated appraisals and recording charge-offs, when necessary, has resulted in a 40.3% average loan-to-value for non-performing loans collateralized by real estate
- Year-to-date, no provision for loan losses was recorded compared with a benefit of \$1.6 million recorded in the comparable prior year period
- 3Q16 included a charge-off of \$0.4 million on one SBA loan
- Net recoveries totaled \$0.3 million year-to-date, amid continued improvement in credit conditions
- We anticipate continued low loss content in the loan portfolio

### **Capital Management:**

- The Bank and Company are subject to the same regulatory capital requirements and at September 30, 2016, both were well-capitalized under all regulatory requirements
- Year-to-date, stockholders' equity increased \$39.6 million, or 8.4% to \$512.6 million due to net income of \$50.6 million and an improvement in other comprehensive income of \$5.8 million, mainly due to an increase in the fair value of the securities portfolio
- Increases noted above were partially offset by the declaration and payment of dividends on the Company's common stock of \$0.51 per common share totaling \$14.8 million and the purchase of 378,695 treasury shares, at an average price of \$19.78 per share, for a total cost of \$7.5 million
- As of September 30, 2016, 520,905 shares may still be repurchased under the currently authorized stock repurchase program, which has no expiration or maximum dollar amount
- Book value per common share was \$17.90 at September 30, 2016, compared with \$16.41 at December 31, 2015
- Tangible book value per common share, a non-GAAP measure, was \$17.35, compared with \$15.86 at December 31, 2015

### **About Flushing Financial Corporation**

Flushing Financial Corporation is the holding company for Flushing Bank, a New York State-chartered commercial bank insured by the Federal Deposit Insurance Corporation. The Bank serves consumers, businesses, and public entities by offering a full complement of deposit, loan, and cash management services through its 19 banking offices located in Queens, Brooklyn, Manhattan, and Nassau County. The Bank also operates an online banking division, iGObanking.com®, which offers competitively priced deposit products to consumers nationwide.

Additional information on Flushing Financial Corporation may be obtained by visiting the Company's website at <http://www.flushingbank.com>.

***“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995:*** Statements in this Press Release relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of the Private Securities

Litigation Reform Act of 1995, 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, risk factors discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as "may", "will", "should", "could", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "forecasts", "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. The Company has no obligation to update these forward-looking statements.

**- Statistical Tables Follow -**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Dollars in thousands, except per share data)

(Unaudited)

	For the three months ended		For the nine months ended		
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b><u>Interest and Dividend Income</u></b>					
Interest and fees on loans	\$ 49,181	\$ 48,413	\$ 45,243	\$ 145,152	\$ 132,861
Interest and dividends on securities:					
Interest	6,173	6,510	6,508	19,275	18,366
Dividends	121	120	119	360	355
Other interest income	49	48	43	191	96
Total interest and dividend income	55,524	55,091	51,913	164,978	151,678
<b><u>Interest Expense</u></b>					
Deposits	8,520	8,097	7,701	24,590	22,596
Other interest expense	5,291	5,105	4,902	15,653	14,078
Total interest expense	13,811	13,202	12,603	40,243	36,674
<b>Net Interest Income</b>	<b>41,713</b>	<b>41,889</b>	<b>39,310</b>	<b>124,735</b>	<b>115,004</b>

Benefit for loan losses	-	-	(370 )	-	(1,620 )
<b>Net Interest Income After Benefit for Loan Losses</b>	41,713	41,889	39,680	124,735	116,624
<b><u>Non-interest Income</u></b>					
Banking services fee income	826	973	778	2,775	2,560
Net gain on sale of securities	-	2,363	103	2,363	167
Net gain on sale of loans	240	3	306	584	355
Net gain on sale of buildings	-	33,814	-	33,814	6,537
Net loss from fair value adjustments	(823 )	(1,115 )	(1,094 )	(2,925 )	(921 )
Federal Home Loan Bank of New York stock dividends	665	582	480	1,870	1,455
Gains from life insurance proceeds	47	-	-	458	-
Bank owned life insurance	707	694	725	2,096	2,157
Other income	191	403	399	1,075	1,264
Total non-interest income	1,853	37,717	1,697	42,110	13,574
<b><u>Non-interest Expense</u></b>					
Salaries and employee benefits	14,795	13,968	12,648	45,024	40,471
Occupancy and equipment	2,576	2,352	2,443	7,298	7,791
Professional services	1,730	2,027	1,907	5,907	5,036
FDIC deposit insurance	536	940	817	2,380	2,377
Data processing	939	1,199	1,178	3,229	3,425
Depreciation and amortization	1,169	1,062	993	3,263	2,528

Other real estate owned/foreclosure expense	273	405	110	831	717
Prepayment penalty on borrowings	-	2,082	-	2,082	-
Other operating expenses	4,259	4,419	3,612	13,214	11,550
Total non-interest expense	26,277	28,454	23,708	83,228	73,895
<b>Income Before Income Taxes</b>	17,289	51,152	17,669	83,617	56,303
<b><u>Provision for Income Taxes</u></b>					
Federal	5,568	15,203	5,375	25,518	16,782
State and local	1,087	5,514	1,286	7,469	4,946
Total taxes	6,655	20,717	6,661	32,987	21,728
<b>Net Income</b>	\$ 10,634	\$ 30,435	\$ 11,008	\$ 50,630	\$ 34,575
Basic earnings per common share	\$ 0.37	\$ 1.05	\$ 0.38	\$ 1.75	\$ 1.18
Diluted earnings per common share	\$ 0.37	\$ 1.05	\$ 0.38	\$ 1.75	\$ 1.18
Dividends per common share	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.51	\$ 0.48

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(Dollars in thousands, except per share data)

(Unaudited)

	September 30, 2016	June 30, 2016	December 31, 2015
<b><u>ASSETS</u></b>			
Cash and due from banks	\$ 47,880	\$ 50,165	\$ 42,363
Securities held-to-maturity:			
Other securities	33,274	28,410	6,180

Securities available for sale:

Mortgage-backed securities	545,067	580,500	668,740
Other securities	365,812	368,611	324,657

Loans:

Multi-family residential	2,171,289	2,159,138	2,055,228
Commercial real estate	1,195,266	1,146,400	1,001,236
One-to-four family — mixed-use property	555,691	566,702	573,043
One-to-four family — residential	183,993	190,251	187,838
Co-operative apartments	7,494	7,571	8,285
Construction	11,250	9,899	7,284
Small Business Administration	14,339	14,718	12,194
Taxi medallion	20,536	20,641	20,881
Commercial business and other	564,972	564,084	506,622
Net unamortized premiums and unearned loan fees	16,447	16,875	15,368
Allowance for loan losses	(21,795 )	(22,198 )	(21,535 )
Net loans	4,719,482	4,674,081	4,366,444
Interest and dividends receivable	19,833	20,390	18,937
Bank premises and equipment, net	26,000	24,470	25,622
Federal Home Loan Bank of New York stock	65,185	67,195	56,066
Bank owned life insurance	115,807	115,100	115,536
Goodwill	16,127	16,127	16,127
Other assets	44,788	41,678	63,962
Total assets	\$ 5,999,255	\$ 5,986,727	\$ 5,704,634

**LIABILITIES**

Due to depositors:

Non-interest bearing	\$ 320,060	\$ 317,112	\$ 269,469
Interest-bearing:			
Certificate of deposit accounts	1,384,551	1,411,550	1,403,302
Savings accounts	258,058	260,528	261,748
Money market accounts	733,361	452,589	472,489
NOW accounts	1,296,475	1,453,540	1,448,695
Total interest-bearing deposits	3,672,445	3,578,207	3,586,234
Mortgagors' escrow deposits	49,276	45,905	36,844
Borrowed funds	1,360,515	1,444,751	1,271,676
Other liabilities	84,338	91,869	67,344
Total liabilities	5,486,634	5,477,844	5,231,567

**STOCKHOLDERS' EQUITY**

Preferred stock (5,000,000 shares authorized; none issued)	-	-	-
--	---	---	---



Common stock (\$0.01 par value; 100,000,000 shares authorized; 31,530,595 shares

issued at September 30, 2016, June 30, 2016 and December 31, 2015; 28,632,796

shares, 28,631,243 shares and 28,830,558 shares outstanding at September 30, 2016,

June 30, 2016 and December 31, 2015, respectively)

315

315

315

Additional paid-in capital

213,488

212,613

210,652

Treasury stock (2,897,799 shares, 2,899,352 shares and 2,700,037 shares at

September 30, 2016, June 30, 2016 and December 31, 2015, respectively)

(53,373 )

(53,351 )

(48,868 )

Retained earnings

351,942

346,218

316,530

Accumulated other comprehensive income (loss), net of taxes

249

3,088

(5,562 )

Total stockholders' equity

512,621

508,883

473,067

Total liabilities and stockholders' equity \$ 5,999,255 \$ 5,986,727 \$ 5,704,634

## FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per share data)

(Unaudited)

	At or for the three months ended			At or for the nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b><u>Per Share Data</u></b>					
Basic earnings per share	\$ 0.37	\$ 1.05	\$ 0.38	\$ 1.75	\$ 1.18
Diluted earnings per share	\$ 0.37	\$ 1.05	\$ 0.38	\$ 1.75	\$ 1.18
Average number of shares outstanding for:					

Basic earnings per common share computation	28,861,101	29,022,122	28,926,735	28,992,813	29,188,269
Diluted earnings per common share computation	28,874,979	29,034,454	28,946,496	29,006,423	29,209,369
Shares outstanding	28,632,796	28,631,243	28,830,210	28,632,796	28,830,210
Book value per common share <sup>(1)</sup>	\$ 17.90	\$ 17.77	\$ 16.34	\$ 17.90	\$ 16.34
Tangible book value per common share <sup>(2)</sup>	\$ 17.35	\$ 17.22	\$ 15.80	\$ 17.35	\$ 15.80

**Stockholders' Equity**

Stockholders' equity	512,621	508,883	471,190	512,621	471,190
Tangible stockholders' common equity	496,901	493,163	455,469	496,901	455,469

**Average Balances**

Total loans, net	\$ 4,686,593	\$ 4,567,019	\$ 4,069,650	\$ 4,548,154	\$ 3,967,239
Total interest-earning assets	5,684,413	5,612,935	5,151,015	5,596,342	5,016,512
Total assets	5,976,725	5,897,858	5,427,619	5,883,453	5,291,093
Total due to depositors	3,673,731	3,779,256	3,473,264	3,732,869	3,403,656
Total interest-bearing liabilities	5,059,620	5,046,162	4,643,161	5,021,921	4,526,229
Stockholders' equity	508,974	486,261	464,180	491,617	463,316

**Performance Ratios** <sup>(3)</sup>

Return on average assets	0.71	%	2.06	%	0.81	%	1.15	%	0.87	%
Return on average equity	8.36		25.04		9.49		13.73		9.95	
Yield on average interest-earning assets	3.91		3.93		4.03		3.93		4.03	
Cost of average interest-bearing liabilities	1.09		1.05		1.09		1.07		1.08	
Interest rate spread during period	2.82		2.88		2.94		2.86		2.95	
Net interest margin	2.94		2.99		3.05		2.97		3.06	
Non-interest expense to average assets	1.76		1.93		1.75		1.89		1.86	
Efficiency ratio <sup>(4)</sup>	57.37		57.09		56.18		59.64		59.46	
Average interest-earning assets to average interest-bearing liabilities	1.12	X	1.11	X	1.11	X	1.11	X	1.11	X

(1) Calculated by dividing stockholders' equity by shares outstanding.

(2) Calculated by dividing tangible stockholders' common equity, a non-GAAP measure by shares outstanding. Tangible stockholders' common equity is stockholders' equity less intangible assets (goodwill, net of deferred taxes). See "Reconciliation of GAAP Earnings and Core Earnings".

(3) Ratios are presented on an annualized basis.

(4) Efficiency ratio, a non-GAAP measure, was calculated by dividing non-interest expense (excluding OREO expense, prepayment penalties from the extinguishment of debt and the net gain/loss from the sale of OREO) by the total of net interest income and non-interest income (excluding net gains and losses from fair value adjustments, net gain and losses from the sale of securities, life insurance proceeds, and sale of buildings). See "Reconciliation of GAAP Earnings and Core Earnings".

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**SELECTED CONSOLIDATED FINANCIAL DATA**

(Dollars in thousands)

(Unaudited)

	At or for the nine months ended September 30, 2016	At or for the year ended December 31, 2015	At or for the nine months ended September 30, 2015
--	---	--	---

**Selected Financial Ratios and Other Data**

Regulatory capital ratios (for Flushing Financial Corporation):

Tier 1 capital	\$ 523,428	\$ 490,919	\$ 482,684
Common equity Tier 1 capital	496,605	462,883	455,153
Total risk-based capital	545,223	512,454	505,657
Tier 1 leverage capital (well capitalized = 5%)	8.80 %	8.84 %	8.93 %
Common equity Tier 1 risk-based capital (well capitalized = 6.5%)	11.72	11.83	12.01
Tier 1 risk-based capital (well capitalized = 8.0%)	12.35	12.55	12.74
Total risk-based capital (well capitalized = 10.0%)	12.87	13.10	13.34

Regulatory capital ratios (for Flushing Bank only):

Tier 1 capital	\$ 528,168	\$ 494,690	\$ 488,327
Common equity Tier 1 capital	528,168	494,690	488,327
Total risk-based capital	549,963	516,226	511,300
Tier 1 leverage capital (well capitalized = 5%)	8.88 %	8.89 %	9.02 %
Common equity Tier 1 risk-based capital (well capitalized = 6.5%)	12.44	12.62	12.86
Tier 1 risk-based capital (well capitalized = 8.0%)	12.44	12.62	12.86





Savings accounts	\$ 258,884	306	0.47	\$ 265,856	306	0.46	\$ 262,535	297	0.45
NOW accounts	1,384,368	1,979	0.57	1,612,704	1,962	0.49	1,398,358	1,646	0.47
Money market accounts	601,709	990	0.66	483,317	681	0.56	420,860	455	0.43
Certificate of deposit accounts	1,428,770	5,213	1.46	1,417,379	5,121	1.45	1,391,511	5,276	1.52
Total due to depositors	3,673,731	8,488	0.92	3,779,256	8,070	0.85	3,473,264	7,674	0.88
Mortgagors' escrow accounts	48,840	32	0.26	67,728	27	0.16	44,606	27	0.24
Total interest-bearing deposits	3,722,571	8,520	0.92	3,846,984	8,097	0.84	3,517,870	7,701	0.88
Borrowings	1,337,049	5,291	1.58	1,199,178	5,105	1.70	1,125,291	4,902	1.74
Total interest-bearing liabilities	5,059,620	13,811	1.09	5,046,162	13,202	1.05	4,643,161	12,603	1.09
Non interest-bearing demand deposits	318,188			296,597			254,435		
Other liabilities	89,943			68,838			65,843		
Total liabilities	5,467,751			5,411,597			4,963,439		
Equity	508,974			486,261			464,180		
Total liabilities and equity	\$ 5,976,725			\$ 5,897,858			\$ 5,427,619		

Net interest  
income /

net  
interest rate  
spread

\$ 41,713 2.82 %

\$ 41,889 2.88 %

\$ 39,310 2.94 %

Net  
interest-  
earning  
assets /

net  
interest  
margin

\$ 624,793

2.94 % \$ 566,773

2.99 % \$ 507,854

3.05 %

Ratio of  
interest-  
earning  
assets to  
interest-  
bearing  
liabilities

1.12 X

1.11 X

1.11 X

(1) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$0.9 million, \$1.0 million and \$1.4 million for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015, respectively.

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

(3) Includes prepayment penalty income of approximately \$26,000 and \$0.2 million for the three months ended September 30, 2016 and 2015. There was no prepayment penalty income during the three months ended June 30, 2016.

## FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

### NET INTEREST MARGIN

(Dollars in thousands)

(Unaudited)

For the nine months ended  
September 30, 2016

Average  
Balance

Interest

Yield/  
Cost

September 30, 2015

Average  
Balance

Interest

Yield/  
Cost

#### Interest-earning Assets:

Mortgage loans, net

\$ 3,972,502 \$ 129,200

4.34 %

\$ 3,466,085 \$ 119,931

4.61 %



Other loans, net	575,652	15,950	3.69	501,154	12,930	3.44
Total loans, net <sup>(1)</sup>	4,548,154	145,150	4.26	3,967,239	132,861	4.47
Taxable securities:						
Mortgage-backed securities	603,994	11,231	2.48	700,563	13,028	2.48
Other securities	241,821	6,040	3.33	151,589	2,897	2.55
Total taxable securities	845,815	17,271	2.72	852,152	15,925	2.49
Tax-exempt securities:						
(2) (3)						
Other securities	140,889	2,366	2.24	137,093	2,796	2.72
Total tax-exempt securities	140,889	2,366	2.24	137,093	2,796	2.72
Interest-earning deposits and federal funds sold	61,484	191	0.41	60,028	96	0.21
Total interest-earning assets	5,596,342	164,978	3.93	5,016,512	151,678	4.03
Other assets	287,111			274,581		
Total assets	\$ 5,883,453			\$ 5,291,093		

**Interest-bearing Liabilities:**

Deposits:						
Savings accounts	\$ 262,382	910	0.46	\$ 265,831	852	0.43
NOW accounts	1,539,050	5,863	0.51	1,441,598	4,847	0.45
Money market accounts	514,626	2,277	0.59	352,639	1,015	0.38
Certificate of deposit accounts	1,416,811	15,455	1.45	1,343,588	15,809	1.57
Total due to depositors	3,732,869	24,505	0.88	3,403,656	22,523	0.88
Mortgagors' escrow accounts	55,481	85	0.20	51,772	73	0.19
Total interest-bearing deposits	3,788,350	24,590	0.87	3,455,428	22,596	0.87

Borrowings	1,233,571	15,653	1.69	1,070,801	14,078	1.75
Total interest-bearing liabilities	5,021,921	40,243	1.07	4,526,229	36,674	1.08
Non interest-bearing demand deposits	296,321			243,693		
Other liabilities	73,594			57,855		
Total liabilities	5,391,836			4,827,777		
Equity	491,617			463,316		
Total liabilities and equity	\$ 5,883,453			\$ 5,291,093		
Net interest income / net interest rate spread		\$ 124,735	2.86 %		\$ 115,004	2.95 %
Net interest-earning assets / net interest margin	\$ 574,421		2.97 %	\$ 490,283		3.06 %
Ratio of interest-earning assets to interest-bearing liabilities			1.11 X			1.11 X

(1) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$3.4 million and \$3.2 million for the nine months ended September 30, 2016 and 2015, respectively.

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

(3) Includes prepayment penalty income of approximately \$26,000 and \$0.2 million for the nine months ended September 30, 2016 and 2015.

## FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

### DEPOSIT COMPOSITION

(Unaudited)

September  
2016 vs.

Sept  
2016

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	December 2015 % Change	September 30, 2015	Sept 2015 % C
<i>(Dollars in thousands)</i>							
<b><u>Deposits</u></b>							
Non-interest bearing	\$ 320,060	\$ 317,112	\$ 280,450	\$ 269,469	18.8 %	\$ 257,196	24
Interest bearing:							
Certificate of deposit							
accounts	1,384,551	1,411,550	1,362,062	1,403,302	(1.3 %)	1,386,945	(0
Savings accounts	258,058	260,528	268,057	261,748	(1.4 %)	261,400	(1
Money market accounts	733,361	452,589	485,774	472,489	55.2 %	438,457	67
NOW accounts	1,296,475	1,453,540	1,610,932	1,448,695	(10.5 %)	1,338,715	(3
Total interest-bearing							
deposits	3,672,445	3,578,207	3,726,825	3,586,234	2.4 %	3,425,517	7.2
Total deposits	\$ 3,992,505	\$ 3,895,319	\$ 4,007,275	\$ 3,855,703	3.5 %	\$ 3,682,713	8.4

## FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

### LOANS

(Unaudited)

#### Loan Origination and Purchases

	For the three months			For the nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<i>(In thousands)</i>					
Multi-family residential	\$ 61,378	\$ 162,364	\$ 91,306	\$ 293,385	\$ 268,481
Commercial real estate	68,970	114,007	151,358	245,114	295,084
One-to-four family – mixed-use property	12,618	11,630	20,008	42,493	44,905

One-to-four family – residential	3,362	4,195	12,618	17,050	34,696
Co-operative apartments	-	470	1,915	470	2,365
Construction	1,920	2,427	1,999	6,034	3,386
Small Business Administration	470	314	2,232	6,785	8,713
Taxi Medallion	-	-	-	-	-
Commercial business and other	84,525	92,456	53,028	239,015	180,239
Total	\$ 233,243	\$ 387,863	\$ 334,464	\$ 850,346	\$ 837,869

### **Loan Composition**

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2016 vs. December 2015 % Change	September 30, 2015	September 2016 vs. September 2015 % Change
<i>(Dollars in thousands)</i>							
<b><u>Loans:</u></b>							
Multi-family residential	\$ 2,171,289	\$ 2,159,138	\$ 2,039,794	\$ 2,055,228	5.6 %	\$ 2,043,740	6.2 %
Commercial real estate	1,195,266	1,146,400	1,058,028	1,001,236	19.4 %	857,806	39.3 %
One-to-four family — mixed-use property	555,691	566,702	571,846	573,043	(3.0 %)	568,401	(2.2 %)
One-to-four family — residential	183,993	190,251	191,158	187,838	(2.0 %)	191,430	(3.9 %)
Co-operative apartments	7,494	7,571	8,182	8,285	(9.5 %)	9,122	(17.5 %)
Construction	11,250	9,899	7,472	7,284	54.4 %	5,671	98.4 %
Small Business Administration	14,339	14,718	14,701	12,194	17.6 %	10,540	36.0 %
Taxi medallion	20,536	20,641	20,757	20,881	(1.7 %)	21,025	(2.3 %)
Commercial business and other	564,972	564,084	531,322	506,622	11.5 %	479,085	17.9 %
Net unamortized premiums							

and unearned loan fees	16,447	16,875	15,281	15,368	7.0 %	14,129	16.4
Allowance for loan losses	(21,795 )	(22,198 )	(21,993 )	(21,535 )	1.2 %	(22,973 )	(5.1
Net loans	\$ 4,719,482	\$ 4,674,081	\$ 4,436,548	\$ 4,366,444	8.1 %	\$ 4,177,976	13.0

### **Loan Activity**

	Three Months Ended				
	September 30,	June 30,	March 31,	December 31,	September 30,
(In thousands)	2016	2015	2016	2015	2015
Loans originated and purchased	\$ 233,243	\$ 387,863	\$ 229,240	\$ 395,592	\$ 334,464
Principal reductions	(183,583 )	(149,307 )	(152,521 )	(206,125 )	(155,794 )
Loans transferred to held-for-sale	-	-	-	-	-
Loans sold	(3,693 )	(2,310 )	(5,515 )	(1,164 )	(8,800 )
Loan charged-offs	(541 )	(102 )	(147 )	(2,478 )	(168 )
Foreclosures	-	-	(408 )	(34 )	(773 )
Net change in deferred (fees) and costs	(428 )	1,594	(87 )	1,239	878
Net change in the allowance for loan losses	403	(205 )	(458 )	1,438	111
Total loan activity	\$ 45,401	\$ 237,533	\$ 70,104	\$ 188,468	\$ 169,918

### **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES** **NON-PERFORMING ASSETS and NET CHARGE-OFFS** (Unaudited)

September 30,	June 30,	March 31,	December 31,	September 30,
------------------	----------	-----------	-----------------	------------------

(Dollars in thousands)	2016		2016		2016		2015		2015	
<b>Loans 90 Days Or More Past Due</b>										
<b>and Still Accruing:</b>										
Multi-family residential	\$	-	\$	574	\$	792	\$	233	\$	516
Commercial real estate		1,183		320		1,083		1,183		253
One-to-four family - mixed-use property		470		635		743		611		1,293
One-to-four family - residential		-		13		13		13		13
Construction		-		-		570		1,000		-
Commercial business and other		-		-		-		220		222
Total		1,653		1,542		3,201		3,260		2,297
<b>Non-accrual Loans:</b>										
Multi-family residential		1,649		3,162		3,518		3,561		4,686
Commercial real estate		1,157		2,299		3,295		2,398		2,407
One-to-four family - mixed-use property		4,534		6,005		5,519		5,952		5,446
One-to-four family - residential		8,340		8,406		8,861		10,120		10,441
Small business administration		2,132		185		201		218		234
Taxi Medallion		3,971		196		196		-		-
Commercial business and other		99		128		511		568		3,089
Total		21,882		20,381		22,101		22,817		26,303
<b>Total Non-performing Loans</b>		23,535		21,923		25,302		26,077		28,600
<b>Other Non-performing Assets:</b>										
Real estate acquired through foreclosure		2,839		3,668		4,602		4,932		4,855
Total		2,839		3,668		4,602		4,932		4,855
<b>Total Non-performing Assets</b>	\$	26,374	\$	25,591	\$	29,904	\$	31,009	\$	33,455
<b>Non-performing Assets to Total Assets</b>	0.44	%	0.43	%	0.51	%	0.54	%	0.61	%
<b>Allowance For Loan Losses to Non-performing Loans</b>	92.6	%	101.3	%	86.9	%	82.6	%	80.3	%

## **Net Charge-Offs (Recoveries)**

	Three Months Ended				
	September 30,	June 30,	March 31,	December 31,	September 30,
<i>(In thousands)</i>	2016	2016	2016	2015	2015
Multi-family residential	\$ 79	\$ (183 )	\$ 29	\$ (35 )	\$ 54
Commercial real estate	(11 )	-	-	-	(100 )
One-to-four family – mixed-use property	24	36	(173 )	18	73
One-to-four family – residential	-	7	(299 )	97	(300 )
Co-operative apartments	-	-	-	-	-
Small Business Administration	317	(42 )	(31 )	17	4
Commercial business and other	(6 )	(23 )	16	2,005	10
Total net loan charge- offs (recoveries)	\$ 403	\$ (205 )	\$ (458 )	\$ 2,102	\$ (259 )

Core Diluted EPS, Core ROAE, Core ROAA, tangible book value per common share and tangible common stockholders' equity are each non-GAAP measures used in this release. A reconciliation to the most directly comparable GAAP financial measures appears in tabular form at the end of this release. The Company believes that these measures are useful for both investors and management to understand the effects of certain non-interest items and provide an alternative view of the Company's performance over time and in comparison to the Company's competitors. These measures should not be viewed as a substitute for net income. The Company believes that tangible book value per share and tangible common stockholders' equity are useful for both investors and management as these are measures commonly used by financial institutions, regulators and investors to measure the capital adequacy of financial institutions. The Company believes these measures facilitate comparison of the quality and composition of the Company's capital over time and in comparison to its competitors. These measures should not be viewed as a substitute for total shareholders' equity.

These non-GAAP measures have inherent limitations, are not required to be uniformly applied and are not audited. They should not be considered in isolation or as a substitute for analysis of results reported under GAAP. These non-GAAP measures may not be comparable to similarly titled measures reported by other companies.

## **FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES** **RECONCILIATION OF GAAP EARNINGS and CORE EARNINGS**

(Dollars in thousands, except per share data)

(Unaudited)

Three Months Ended

Nine Months Ended

	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
GAAP income before income taxes	\$ 17,289	\$ 51,152	\$ 17,669	\$ 83,617	\$ 56,303
Net (gain) loss from fair value adjustments	823	1,115	1,094	2,925	921
Net gain on sale of securities	-	(2,363 )	(103 )	(2,363 )	(167 )
Gain from life insurance proceeds	(47 )	-	-	(458 )	-
Net gain on sale of buildings	-	(33,814 )	-	(33,814 )	(6,537 )
Prepayment penalty on borrowings	-	2,082	-	2,082	-
Core income before taxes	18,065	18,172	18,660	51,989	50,520
Provision for income taxes for core income	6,736	6,851	7,087	19,628	19,247
Core net income	\$ 11,329	\$ 11,321	\$ 11,573	\$ 32,361	\$ 31,273
GAAP diluted earnings per common share	\$ 0.37	\$ 1.05	\$ 0.38	\$ 1.75	\$ 1.18
Net loss from fair value adjustments, net of tax	0.03	0.02	0.02	0.06	0.02
Net gain on sale of securities, net of tax	-	(0.05 )	-	(0.05 )	-
Gain from life insurance proceeds	-	-	-	(0.02 )	-
Net gain on sale of buildings, net of tax	-	(0.67 )	-	(0.67 )	(0.13 )
Prepayment penalty on borrowings	-	0.04	-	0.04	-
Core diluted earnings per common share*	\$ 0.39	\$ 0.39	\$ 0.40	\$ 1.12	\$ 1.07



Core net income, as calculated above	\$ 11,329		\$ 11,321		\$ 11,573		\$ 32,361		\$ 31,273	
Average assets	5,976,725		5,897,858		5,427,619		5,883,453		5,291,093	
Average equity	508,974		486,261		464,180		491,617		463,316	
Core return on average assets**	0.76	%	0.77	%	0.85	%	0.73	%	0.79	%
Core return on average equity**	8.90	%	9.31	%	9.97	%	8.78	%	9.00	%

\* Core diluted earnings per common share may not foot due to rounding.

\*\* Ratios are calculated on an annualized basis.

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**CALCULATION OF TANGIBLE STOCKHOLDERS'**  
**COMMON EQUITY to TANGIBLE ASSETS**  
(Unaudited)

	September 30, 2016	December 31, 2015
<i>(Dollars in thousands)</i>		
Total Equity	\$ 512,621	\$ 473,067
Less:		
Goodwill	(16,127 )	(16,127 )
Intangible deferred tax liabilities	407	406
Tangible Stockholders' Common Equity	\$ 496,901	\$ 457,346
 Total Assets	 \$ 5,999,255	 \$ 5,704,634
Less:		
Goodwill	(16,127 )	(16,127 )
Intangible deferred tax liabilities	407	406
Tangible Assets	\$ 5,983,535	\$ 5,688,913
 Tangible Stockholders' Common Equity to Tangible Assets	 8.30	 % 8.04
		%

Susan K. Cullen  
Senior Executive Vice President, Treasurer and Chief Financial Officer  
Flushing Financial Corporation  
(718) 961-5400

Source: Flushing Financial Corporation