FLUSHING FINANCIAL CORP
Form 10-Q
May 10, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

Commission file number 001-33013

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

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

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

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

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

Large accelerated filer __	Accelerated filer X
Non-accelerated filer __	Smaller reporting company __

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

The number of shares of the registrant's Common Stock outstanding as of April 30, 2013 was 30,835,169.

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

Item 1. Financial Statements

(Dollars in thousands, except per share data)	March 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 46,046	$ 40,425
Securities available for sale:		
Mortgage-backed securities ($17,965 and $24,911 at fair value pursuant to the fair value option at March 31, 2013 and December 31, 2012, respectively)	764,701	720,113
Other securities ($29,933 and $29,577 at fair value pursuant to the fair value option at March 31, 2013 and December 31, 2012 respectively)	235,593	229,453
Loans held for sale	9,907	5,313
Loans:		
Multi-family residential	1,528,353	1,534,438
Commercial real estate	507,932	515,438
One-to-four family mixed-use property	615,661	637,353
One-to-four family residential	197,268	198,968
Co-operative apartments	8,221	6,303
Construction	10,952	14,381
Small Business Administration	8,812	9,496
Taxi medallion	8,777	9,922
Commercial business and other	302,726	295,076
Net unamortized premiums and unearned loan fees	12,495	12,746
Allowance for loan losses	(31,027)	(31,104)
Net loans	3,170,170	3,203,017
Interest and dividends receivable	17,209	17,917
Bank premises and equipment, net	22,016	22,500
Federal Home Loan Bank of New York stock	38,686	42,337
Bank owned life insurance	107,068	106,244
Goodwill	16,127	16,127
Core deposit intangible	351	468
Other assets	48,639	47,502
Total assets	$ 4,476,513	$ 4,451,416
LIABILITIES		
Due to depositors:		
Non-interest bearing	$ 160,234	$ 155,789
Interest-bearing:		
Certificate of deposit accounts	1,200,906	1,253,229
Savings accounts	281,145	288,398
Money market accounts	139,711	148,618
NOW accounts	1,278,071	1,136,599
Total interest-bearing deposits	2,899,833	2,826,844
Mortgagors' escrow deposits	46,585	32,560
Borrowed funds ($24,742 and $23,922 at fair value pursuant to the fair value option at March 31, 2013 and December 31, 2012, respectively)	683,064	763,105

Securities sold under agreements to repurchase		185,300		185,300
Other liabilities		57,614		45,453
Total liabilities		4,032,630		4,009,051
Commitments and contingencies (Note 4 and Note 5)				
STOCKHOLDERS' EQUITY				
Preferred stock ($0.01 par value; 5,000,000 shares authorized; None issued)		-		-
Common stock ($0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at March 31, 2013 and December 31, 2012; 30,846,118 shares and 30,743,329 shares outstanding at March 31, 2013 and December 31, 2012, respectively)		315		315
Additional paid-in capital		200,135		198,314
Treasury stock, at average cost (684,477 shares and 787,266 shares at March 31, 2013 and December 31, 2012, respectively)		(9,174)		(10,257)
Retained earnings		244,505		241,856
Accumulated other comprehensive income, net of taxes		8,102		12,137
Total stockholders' equity		443,883		442,365
Total liabilities and stockholders' equity	$	4,476,513	$	4,451,416

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

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

(Dollars in thousands, except per share data)	For the three months ended March 31, 2013	2012
Interest and dividend income		
Interest and fees on loans	$42,940	$46,560
Interest and dividends on securities:		
Interest	6,954	7,631
Dividends	175	207
Other interest income	17	17
Total interest and dividend income	50,086	54,415
Interest expense		
Deposits	8,291	10,910
Other interest expense	7,649	6,160
Total interest expense	15,940	17,070
Net interest income	34,146	37,345
Provision for loan losses	6,000	6,000
Net interest income after provision for loan losses	28,146	31,345
Non-interest income		
Loan fee income	608	466
Banking services fee income	432	455
Net loss on sale of loans	(9)	-
Net gain on sale of securities	2,858	-
Net loss from fair value adjustments	(123)	(448)
Federal Home Loan Bank of New York stock dividends	414	385
Bank owned life insurance	825	696
Other income	343	324
Total non-interest income	5,348	1,878
Non-interest expense		
Salaries and employee benefits	12,233	11,041
Occupancy and equipment	1,860	1,930
Professional services	1,618	1,722
FDIC deposit insurance	991	1,017
Data processing	1,043	976
Depreciation and amortization	767	834
Other real estate owned/foreclosure expense	668	712
Other operating expenses	3,239	3,304
Total non-interest expense	22,419	21,536
Income before income taxes	11,075	11,687

Provision for income taxes		
Federal	3,461	3,624
State and local	858	934
Total taxes	4,319	4,558
Net income	$6,756	$7,129
Basic earnings per common share	$0.22	$0.23
Diluted earnings per common share	$0.22	$0.23
Dividends per common share	$0.13	$0.13

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

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

(Dollars in thousands)	For the three months ended March 31, 2013	2012
Comprehensive Income, net of tax		
Net income	$ 6,756	$ 7,129
Amortization of actuarial losses	174	149
Amortization of prior service credits	(6)	(6)
Unrealized gains (losses) on securities, net	(4,203)	1,217
Comprehensive income	$ 2,721	$ 8,489

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)

	For the three months ended March 31,	
(Dollars in thousands)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,756	$ 7,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,000	6,000
Depreciation and amortization of bank premises and equipment	767	834
Amortization of premium, net of accretion of discount	1,774	1,561
Net loss from fair value adjustments	123	448
Net loss from sale of loans	9	-
Net gain from sale of securities	(2,858)	-
Income from bank owned life insurance	(825)	(696)
Stock-based compensation expense	1,993	1,418
Deferred compensation	(423)	(306)
Amortization of core deposit intangibles	117	117
Excess tax benefit from stock-based payment arrangements	(245)	(106)
Deferred income tax provision	904	713
Decrease in prepaid FDIC assessment	927	946
Increase (decrease) in other liabilities	2,089	(1,676)
Decrease in other assets	3,004	540
Net cash provided by operating activities	20,112	16,922
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of bank premises and equipment	(283)	(470)
Net (purchase) redemptions of Federal Home Loan Bank of New York shares	3,651	(1,976)
Purchases of securities available for sale	(171,018)	(122,512)
Proceeds from sales and calls of securities	96,396	-
Proceeds from maturities and prepayments of securities available for sale	37,461	39,035
Net (originations) and repayment of loans	4,426	(19,871)
Purchases of loans	(452)	(3,456)
Proceeds from sale of real estate owned	1,793	624
Proceeds from sale of delinquent loans	8,166	9,091
Net cash used in investing activities	(19,860)	(99,535)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	4,445	12,921
Net (decrease) increase in interest-bearing deposits	72,700	(743)
Net increase in mortgagors' escrow deposits	14,025	11,457
Net (repayment) proceeds from short-term borrowed funds	(121,500)	58,500
Proceeds from long-term borrowings	110,271	47,414
Repayment of long-term borrowings	(69,912)	(62,000)
Purchases of treasury stock	(954)	(1,652)
Excess tax benefit from stock-based payment arrangements	245	106
Proceeds from issuance of common stock upon exercise of stock options	22	244

Cash dividends paid	(3,973)	(3,965)
Net cash provided by financing activities	5,369	62,282
Net increase (decrease) in cash and cash equivalents	5,621	(20,331)
Cash and cash equivalents, beginning of period	40,425	55,721
Cash and cash equivalents, end of period	$ 46,046	$ 35,390
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$ 15,652	$ 16,995
Income taxes paid	1,581	5,218
Taxes paid if excess tax benefits were not tax deductible	1,826	5,324
Non-cash activities:		
Securities purchased not yet settled	14,308	-
Loans transferred to Other Real Estate Owned	679	1,293
Loans provided for the sale of Other Real Estate Owned	2,088	221
Loans held for investment transferred to loans held for sale	7,682	-

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

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

(Dollars in thousands, except per share data)	For the three months ended March 31, 2013	2012
Common Stock		
Balance, beginning of period	$ 315	$ 315
No activity	-	-
Balance, end of period	$ 315	$ 315
Additional Paid-In Capital		
Balance, beginning of period	$ 198,314	$ 195,628
Award of common shares released from Employee Benefit Trust (133,656 and 146,735 common shares for the three months ended March 31, 2013 and 2012, respectively)	1,563	1,363
Shares issued upon vesting of restricted stock unit awards (98,610 and 85,163 common shares for the three months ended March 31, 2013 and 2012, respectively)	78	151
Issuance upon exercise of stock options (42,400 and 56,850 common shares for the three months ended March 31, 2013 and 2012, respectively)	55	73
Stock-based compensation activity, net	(120)	4
Stock-based income tax benefit	245	106
Balance, end of period	$ 200,135	$ 197,325
Treasury Stock		
Balance, beginning of period	$ (10,257)	$ (7,355)
Purchases of outstanding shares (18,560 and 97,200 common shares for the three months ended March 31, 2013 and 2012, respectively)	(301)	(1,282)
Shares issued upon vesting of restricted stock unit awards (151,652 and 113,993 common shares for the three months ended March 31, 2013 and 2012, respectively)	1,983	1,343
Issuance upon exercise of stock options (52,320 and 67,330 common shares for the three months ended March 31, 2013 and 2012, respectively)	691	802
Purchases of shares to fund options exercised (39,957 and 40,866 common shares for the three months ended March 31, 2013 and 2012, respectively)	(637)	(548)
Repurchase of shares to satisfy tax obligations (42,666 and 27,883 common shares for the three months ended March 31, 2013 and 2012, respectively)	(653)	(370)
Balance, end of period	$ (9,174)	$ (7,410)
Retained Earnings		
Balance, beginning of period	$ 241,856	$ 223,510
Net income	6,756	7,129
Cash dividends declared and paid on common shares ($0.13 per common share for the three months ended March 31, 2013 and 2012)	(3,973)	(3,965)
Issuance upon exercise of stock options (9,920 and 10,480 common shares for the three months ended March 31, 2013 and 2012, respectively)	(35)	(24)
Shares issued upon vesting of restricted stock unit awards (53,042 and 28,830 common shares for the three months ended March 31, 2013 and 2012, respectivley)	(99)	(97)
Balance, end of period	$ 244,505	$ 226,553
Accumulated Other Comprehensive Income		
Balance, beginning of period	$ 12,137	$ 4,813
	(2,594)	1,217

Change in net unrealized gains (losses) on securities available for sale, net of taxes of approximately $2,013 and ($962) for the three months ended March 31, 2013 and 2012, respectively		
Amortization of actuarial losses, net of taxes of approximately ($135) and ($117) for the three months ended March 31, 2013 and 2012, respectively	174	149
Amortization of prior service credits, net of taxes of approximately $5 for the three months ended March 31, 2013 and 2012)	(6)	(6)
Reclassification adjustment for losses included in net income, net of taxes of approximatley $1,249 for the three months ended March 31, 2013	(1,609)	-
Balance, end of period	$ 8,102	$ 6,173
Total Stockholders' Equity	$ 443,883	$ 422,956

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

Flushing Financial Corporation (the "Holding Company"), a Delaware corporation, is a bank holding company. On February 28, 2013 the Holding Company's wholly owned subsidiary Flushing Savings Bank, FSB (the "Savings Bank"), merged with and into (the "Merger") Flushing Commercial Bank. Flushing Commercial Bank was the surviving entity of the Merger and its name was changed to Flushing Bank. References herein to the "Bank" mean the Savings Bank (including its wholly owned subsidiary, Flushing Commercial Bank) prior to the Merger and the surviving entity after the Merger. The Holding Company and its direct and indirect wholly-owned subsidiaries, including the Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc., are collectively herein referred to as "we," "us," "our" and the "Company."

The Merger was the result of the combination of two entities under common control, and in accordance with ASC 805-50-30-5, the Bank measured the recognized assets and liabilities transferred at their carrying amounts (historical cost) for this transaction.

The primary business of the Holding Company is the operation of its wholly-owned subsidiary, the Bank. The unaudited consolidated financial statements presented in this Quarterly Report on Form 10-Q ("Quarterly Report") include the collective results of the Company on a consolidated basis.

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

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

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited consolidated interim financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

When necessary, certain reclassifications have been made to the prior-period consolidated financial statements to conform to the current-period presentation.

2. Use of Estimates

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

3. Earnings Per Share

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

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

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

	For the three months ended March 31,	
	2013	2012
	(In thousands, except per share data)	
Net income, as reported	$ 6,756	$ 7,129
Divided by:		
Weighted average common shares outstanding	30,449	30,396
Weighted average common stock equivalents	32	24
Total weighted average common shares outstanding and common stock equivalents	30,481	30,420
Basic earnings per common share	$ 0.22	$ 0.23
Diluted earnings per common share (1)	$ 0.22	$ 0.23
Dividend payout ratio	59.1 %	56.5 %

(1) For the three months ended March 31, 2013, options to purchase 542,400 shares at an average exercise price of $17.66 were not included in the computation of diluted earnings per common share as they were anti-dilutive. For the three months ended March 31, 2012, options to purchase 720,340 shares at an average exercise price of $16.71were not included in the computation of diluted earnings per common share as they were anti-dilutive.

4. Debt and Equity Securities

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

The Company did not hold any trading securities or securities held-to-maturity during the three month periods ended March 31, 2013 and 2012. Securities available for sale are recorded at fair value.

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

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
U.S. government agencies	$ 10,006	$ 10,020	$ 14	$ -
Corporate	103,668	108,323	4,674	19
Municipals	81,113	81,200	417	330
Mutual funds	21,823	21,823	-	-
Other	18,172	14,227	17	3,962
Total other securities	234,782	235,593	5,122	4,311
REMIC and CMO	492,492	509,440	19,445	2,497

GNMA	37,487	40,843	3,356	-
FNMA	193,310	197,903	5,322	729
FHLMC	16,068	16,515	447	-
Total mortgage-backed securities	739,357	764,701	28,570	3,226
Total securities available for sale	$974,139	$1,000,294	$ 33,692	$ 7,537

The table above includes commitments to purchase securities totaling $14.3 million which settled during April 2013.

Mortgage-backed securities shown in the table above include two private issue collateralized mortgage obligations ("CMOs") that are collateralized by commercial real estate mortgages with amortized cost and market values totaling $18.0 million and $18.4 million, respectively, at March 31, 2013. The remaining private issue mortgage-backed securities are backed by one-to-four family residential mortgage loans.

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

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value aggregated by category and length of time the individual securities have been in a continuous unrealized loss position at March 31, 2013:

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Corporate	$9,981	$ 19	$9,981	$ 19	$-	$ -
Municipals	21,666	330	21,666	330	-	-
Other	5,600	3,962	-	-	5,600	3,962
Total other securities	37,247	4,311	31,647	349	5,600	3,962
REMIC and CMO	130,532	2,497	106,771	560	23,761	1,937
FNMA	73,523	729	73,523	729	-	-
Total mortgage-backed securities	204,055	3,226	180,294	1,289	23,761	1,937
Total securities available for sale	$241,302	$ 7,537	$211,941	$ 1,638	$29,361	$ 5,899

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

The Company reviewed each investment that had an unrealized loss at March 31, 2013. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCI, net of tax. Unrealized losses that are considered to be other-than-temporary are split between credit related and noncredit related impairments, with the credit related impairment being recorded as a charge against earnings and the noncredit related impairment being recorded in AOCI, net of tax.

The Company evaluates its pooled trust preferred securities, included in the table above in the row labeled "Other", using an impairment model through an independent third party, which includes evaluating the financial condition of each counterparty. For single issuer trust preferred securities, the Company evaluates the issuer's financial condition. The Company evaluates its mortgage-backed securities by reviewing the characteristics of the securities, including delinquency and foreclosure levels, projected losses at various loss severity levels and credit enhancement and coverage. In addition, private issue CMOs are evaluated using an impairment model through an independent third party. When an OTTI is identified, the portion of the impairment that is credit related is determined by management using the following methods: (1) for trust preferred securities, the credit related impairment is determined by using a discounted cash flow model from an independent third party, with the difference between the present value of the projected cash flows and the amortized cost basis of the security recorded as a credit related loss against earnings; (2) for mortgage-backed securities, credit related impairment is determined for each security by estimating losses based

on a set of assumptions, which includes delinquency and foreclosure levels, projected losses at various loss severity levels, credit enhancement and coverage; and (3) for private issue CMOs, through an impairment model from an independent third party and then recording those estimated losses as a credit related loss against earnings.

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

Corporate:
The unrealized losses in Corporate securities at March 31, 2013 consist of losses on one Corporate security. The unrealized loss was caused by movements in interest rates. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company’s investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell the security before recovery of the security’s amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this investment to be other-than-temporarily impaired at March 31, 2013.

Municipals:
The unrealized losses in Municipal securities at March 31, 2013, consist of losses on eight municipal securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2013.

Other Securities:
The unrealized losses in Other Securities at March 31, 2013, consist of losses on one single issuer trust preferred security and two pooled trust preferred securities. The unrealized losses on such securities were caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. These securities are currently rated below investment grade. The pooled trust preferred securities do not have collateral that is subordinate to the classes the Company owns. The Company’s management evaluates these securities using an impairment model, through an independent third party, that is applied to debt securities. In estimating OTTI losses, management considers: (1) the length of time and the extent to which the fair value has been less than amortized cost; (2) the current interest rate environment; (3) the financial condition and near-term prospects of the issuer, if applicable; and (4) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. Additionally, management reviews the financial condition of each individual issuer within the pooled trust preferred securities. All of the issuers of the underlying collateral of the pooled trust preferred securities we reviewed are banks.

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

- Ratio of tangible equity to assets
- Tier 1 Risk Weighted Capital
- Net interest margin
- Efficiency ratio for most recent two quarters
- Return on average assets for most recent two quarters
- Texas Ratio (ratio of non-performing assets plus assets past due over 90 days divided by tangible equity plus the reserve for loan losses)

§ Credit ratings (where applicable)
§ Capital issuances within the past year (where applicable)
§ Ability to complete Federal Deposit Insurance Corporation ("FDIC") assisted acquisitions (where applicable)

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

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

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

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In order to estimate potential future defaults and deferrals, we segregated the performing underlying issuers by their Texas Ratio. We then reviewed performing issuers with Texas Ratios in excess of 50%. The Texas Ratio is a key indicator of the health of the institution and the likelihood of failure. This ratio compares the problem assets of the institution to the institution's available capital and reserves to absorb losses that are likely to occur in these assets. There were no issuers in our pooled trust preferred securities which had a Texas Ratio in excess of 50.00%. We assigned a zero default rate to these issuers. Our analysis also assumed that issuers currently deferring would default with no recovery, and issuers that have defaulted will have no recovery.

We had an independent third party prepare a discounted cash flow analysis for each of these pooled trust preferred securities based on the assumptions discussed above. Other significant assumptions were: (1) two issuers totaling $7.7 million will prepay in the second quarter of 2013 and two issuers totaling $21.5 million will prepay in the second quarter of 2015; (2) senior classes will not call the debt on their portions; and (3) use of the forward London Interbank Offered Rate ("LIBOR") curve. The cash flows were discounted at the effective rate for each security.

One of the pooled trust preferred securities is over 90 days past due and the Company has stopped accruing interest. The remaining pooled trust preferred security as well as the single issuer trust preferred security both are performing according to their terms. The Company also owns a pooled trust preferred security that is carried under the fair value option, where the unrealized losses are included in the Consolidated Statements of Income – Net gain (loss) from fair value adjustments. This security is over 90 days past due and the Company has stopped accruing interest.

It is not anticipated at this time that the one single issuer trust preferred security and the two pooled trust preferred securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms; except for the pooled trust preferred securities for which the Company has stopped accruing interest as discussed above and, in the opinion of management based on the review performed at March 31, 2013, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider the one single issuer trust preferred security and the two pooled trust preferred securities to be other-than-temporarily impaired at March 31, 2013.

At March 31, 2013, the Company held six trust preferred issues which had a current credit rating of at least one rating below investment grade. Two of those issues are carried under the fair value option and therefore, changes in fair value are included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments.

The following table details the remaining four trust preferred issues that were evaluated to determine if they were other-than-temporarily impaired at March 31, 2013. The class the Company owns in pooled trust preferred securities does not have any excess subordination.

						Deferrals/Defaults		
Issuer Type	Class	Performing Banks	Amortized Cost	Fair Value	Cumulative Credit Related OTTI	Actual as a Percentage of Original Security	Expected Percentage of Performing Collateral	Current Lowest Rating
			(Dollars in thousands)					

Single issuer	n/a	1	$ 300	$ 295	$ -	None	None	BB-
Single issuer	n/a	1	500	517	-	None	None	B+
Pooled issuer	B1	19	5,617	2,880	2,196	24.8%	0.0%	C
Pooled issuer	C1	19	3,645	2,425	1,542	21.3%	0.0%	C
Total			$ 10,062	$ 6,117	$ 3,738			

REMIC and CMO:
The unrealized losses in Real Estate Mortgage Investment Conduit (“REMIC”) and CMO securities at March 31, 2013 consist of seven issues from the Federal Home Loan Mortgage Corporation (“FHLMC”), six issues from the Federal National Mortgage Association (“FNMA”) and five private issues.

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The unrealized losses on the REMIC and CMO securities issued by FHLMC and FNMA were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities' before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2013.

The unrealized losses at March 31, 2013 on REMIC and CMO securities issued by private issuers were caused by movements in interest rates, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. Each of these securities has some level of credit enhancements and none are collateralized by sub-prime loans. Currently, one of these securities is performing according to its terms, with four of these securities remitting less than the full principal amount due. The principal loss for these four securities totaled $0.2 million for the three months ended March 31, 2013. These losses were anticipated in the cumulative credit related OTTI charges recorded for these four securities.

Credit related impairment for mortgage-backed securities are determined for each security by estimating losses based on the following set of assumptions: (1) delinquency and foreclosure levels; (2) projected losses at various loss severity levels; and (3) credit enhancement and coverage. Based on these reviews, an OTTI charge was not recorded during the three months ended March 31, 2013.

It is not anticipated at this time that the five private issue CMOs would be settled at a price that is less than the current amortized cost of the Company's investment. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2013.

At March 31, 2013, the Company held five private issue CMOs which had a current credit rating of at least one rating below investment grade.

The following table details the five private issue CMOs that were evaluated to determine if they were other-than-temporarily impaired at March 31, 2013:

Security	Amortized Cost	Fair Value	Outstanding Principal	Cumulative OTTI Charges Recorded	Year of Issuance	Maturity	Current Lowest Rating	Collateral Located in: CA	FL	VA	NY	NJ	TX	CO	A
	(Dollars in thousands)														
1	$9,478	$8,845	$10,432	$3,470	2006	05/25/36	D	40 %			16 %				7
2	4,216	3,695	4,353	727	2006	08/19/36	D	58 %						10 %	7

3	4,420	4,169	4,815	1,107	2006	08/25/36	D	35 %	15 %					71
4	3,309	3,150	3,828	780	2006	08/25/36	D	41 %	14 %		13 %		10 %	72
5	4,275	3,903	4,551	222	2006	03/25/36	CC	24 %		21 %	12 %	12 %		71
Total	$25,698	$23,762	$27,979	$6,306										

FNMA:
The unrealized losses in FNMA securities at March 31, 2013 consist of losses on nine FNMA securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements, and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2013.

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The following table details gross unrealized losses recorded in AOCI and the ending credit loss amount on debt securities, as of March 31, 2013, for which the Company has recorded a credit related OTTI charge in the Consolidated Statements of Income:

(in thousands)	Amortized Cost	Fair Value	Gross Unrealized Losses Recorded In AOCI	Ending Credit Loss Amount
Private issued CMO's (1)	$ 25,698	$ 23,762	$ 1,937	$ 2,271
Trust preferred securities (1)	9,262	5,305	3,957	3,738
Total	$ 34,960	$ 29,067	$ 5,894	$ 6,009

(1) The Company has recorded OTTI charges in the Consolidated Statements of Income on five private issue CMOs and two pooled trust preferred securities for which a portion of the OTTI is currently recorded in AOCI.

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

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

The following table details the amortized cost and estimated fair value of the Company's securities classified as available for sale at March 31, 2013, by contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$22,823	$22,823
Due after one year through five years	59,256	62,081
Due after five years through ten years	49,774	51,110
Due after ten years	102,929	99,579

Total other securities	234,782	235,593
Mortgage-backed securities	739,357	764,701
Total securities available for sale	$974,139	$1,000,294

During the three months ended March 31, 2013, as part of a balance sheet restructuring, the Company sold $68.5 million in mortgage-backed securities and recorded gross gains of $3.2 million and gross losses of $0.3 million. The Company did not sell any securities during the three months ended March 31, 2012.

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The following table summarizes the Company's portfolio of securities available for sale at December 31, 2012:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
U.S. government agencies	$31,409	$ 31,513	$ 104	$ -
Corporate	83,389	87,485	4,096	-
Municipals	74,228	75,297	1,152	83
Mutual funds	21,843	21,843	-	-
Other	17,797	13,315	17	4,499
Total other securities	228,666	229,453	5,369	4,582
REMIC and CMO	453,468	474,050	23,690	3,108
GNMA	43,211	46,932	3,721	-
FNMA	168,040	175,929	7,971	82
FHLMC	22,562	23,202	640	-
Total mortgage-backed securities	687,281	720,113	36,022	3,190
Total securities available for sale	$915,947	$ 949,566	$ 41,391	$ 7,772

Mortgage-backed securities shown in the table above include two private issue CMOsthat are collateralized by commercial real estate mortgages with an amortized cost and market value of $15.2 million and $15.7 million, respectively, at December 31, 2012. The remaining private issue mortgage-backed securities are backed by one-to-four family residential mortgage loans.

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2012.

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Municipals	$9,782	$ 83	$9,782	$ 83	$-	$ -
Other	5,064	4,499	-	-	5,064	4,499
Total other securities	14,846	4,582	9,782	83	5,064	4,499
REMIC and CMO	64,126	3,108	40,651	155	23,475	2,953
FNMA	10,331	82	10,331	82	-	-
Total mortgage-backed securities	74,457	3,190	50,982	237	23,475	2,953
Total securities available for sale	$89,303	$ 7,772	$60,764	$ 320	$28,539	$ 7,452

5. Loans

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. Interest on loans is

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

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The Company maintains an allowance for loan losses at an amount, which, in management's judgment, is adequate to absorb probable estimated losses inherent in the loan portfolio. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available. In assessing the adequacy of the Company's allowance for loan losses, management considers various factors such as, the current fair value of collateral for collateral dependent loans, the Company's historical loss experience, recent trends in losses, collection policies and collection experience, trends in the volume of non-performing and classified loans, changes in the composition and volume of the gross loan portfolio and local and national economic conditions. The Company's Board of Directors (the "Board of Directors") reviews and approves management's evaluation of the adequacy of the allowance for loan losses on a quarterly basis.

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

The Company recognizes a loan as non-performing when the borrower has indicated the inability to bring the loan current, or due to other circumstances which, in our opinion, indicate the borrower will be unable to bring the loan current within a reasonable time. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. Appraisals and/or updated internal evaluations are obtained as soon as practical and before the loan become 90 days delinquent. The loan balances of collateral dependant impaired loans are compared to the loan's updated fair value. The balance which exceeds fair value is generally charged-off. Management reviews the allowance for loan losses on a quarterly basis and records as a provision the amount deemed appropriate, after considering current year charge-offs, charge-off trends, new loan production, current balance by particular loan categories and delinquent loans by particular loan categories.

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

The Company reviews each impaired loan to determine if a charge-off is to be recorded or if a valuation allowance is to be allocated to the loan. The Company does not allocate a valuation allowance to loans for which we have concluded the current value of the underlying collateral will allow for recovery of the loan balance either through the sale of the loan or by foreclosure and sale of the property.

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

approach to value the collateral.

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

As of March 31, 2013, the Company utilized recent third party appraisals of the collateral to measure impairment for $86.1 million, or 78.1%, of collateral dependent impaired loans and used internal evaluations of the property's value for $24.5 million, or 21.9%, of collateral dependent impaired loans.

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

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

The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate, or for a non-performing TDR which is collateral dependent, the fair value of the collateral. At March 31, 2013, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

The following table shows loans modified and classified as TDR during the three months ended March 31, 2013 and 2012:

	For the three months ended March 31, 2013			For the three months ended March 31, 2012		
(Dollars in thousands)	Number	Balance	Modification description	Number	Balance	Modification description
Multi-family residential	1	$413	Received a below market interest rate and the loan amortization was extended	-	$-	
Commercial real estate	1	273	Received a below market interest rate and the loan amortization was extended	1	1,388	Received a below market interest rate, loan amortization term extended and loan term extended
One-to-four family - mixed-use property	-	-		2	462	Received a below market interest rate
Commercial business and other	1	615	Received a below market interest rate and the loan term was extended	-	-	
Total	3	$1,301		3	$1,850	

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

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

	March 31, 2013		December 31, 2012	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	9	$ 2,816	8	$ 2,347
Commercial real estate	6	8,698	5	8,499
One-to-four family - mixed-use property	7	2,326	7	2,336
One-to-four family - residential	1	372	1	374
Construction	1	3,137	1	3,805
Commercial business and other	3	3,135	2	2,540
Total performing troubled debt restructured	27	$ 20,484	24	$ 19,901

During the three months ended March 31, 2013, there were no loans classified as TDR transferred to non-accrual status.

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

	March 31, 2013		December 31, 2012	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	-	$ -	2	$ 323
Commercial real estate	2	2,987	2	3,075
One-to-four family - mixed-use property	2	688	2	816
Construction	1	7,296	1	7,368
Total troubled debt restructurings that subsequently defaulted	5	$ 10,971	7	$ 11,582

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

(Dollars in thousands)	March 31, 2013	December 31, 2012
Loans ninety days or more past due and still accruing:		
Multi-family residential	$ 1,073	$ -
Co-operative apartment	103	-
Commercial Business and other	602	644
Total	1,778	644
Non-accrual mortgage loans:		
Multi-family residential	18,569	13,095
Commercial real estate	13,811	15,640
One-to-four family - mixed-use property	10,523	16,553
One-to-four family - residential	13,547	13,726
Co-operative apartments	160	234
Construction	7,396	7,695
Total	64,006	66,943
Non-accrual non-mortgage loans:		
Small Business Administration	458	283
Commercial Business and other	12,640	16,860
Total	13,098	17,143
Total non-accrual loans	77,104	84,086
Total non-accrual loans and loans ninety days or more past due and still accruing	$ 78,882	$ 84,730

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

	For the three months ended March 31,	
	2013	2012
	(In thousands)	
Interest income that would have been recognized had the loans performed in accordance with their original terms	$ 2,202	$ 2,646
Less: Interest income included in the results of operations	243	147
Total foregone interest	$ 1,959	$ 2,499

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

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	$ 14,669	$ 2,879	$ 18,688	$ 36,236	$ 1,492,117	$ 1,528,353
Commercial real estate	11,067	1,309	13,812	26,188	481,744	507,932
One-to-four family - mixed-use property	22,994	2,293	10,135	35,422	580,239	615,661
One-to-four family - residential	4,067	705	13,209	17,981	179,287	197,268
Co-operative apartments	-	-	161	161	8,060	8,221
Construction loans	-	-	7,396	7,396	3,556	10,952
Small Business Administration	31	-	458	489	8,323	8,812
Taxi medallion	-	-	-	-	8,777	8,777
Commercial business and other	62	1	11,451	11,514	291,212	302,726
Total	$ 52,890	$ 7,187	$ 75,310	$ 135,387	$ 3,053,315	$ 3,188,702

The following table shows an age analysis of our recorded investment in loans at December 31, 2012:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
			(in thousands)			
Multi-family residential	$ 24,059	$ 4,828	$ 13,095	$ 41,982	$ 1,492,456	$ 1,534,438
Commercial real estate	9,764	3,622	15,639	29,025	486,413	515,438
One-to-four family - mixed-use property	21,012	3,368	16,554	40,934	596,419	637,353
One-to-four family - residential	3,407	2,010	13,602	19,019	179,949	198,968
Co-operative apartments	-	-	234	234	6,069	6,303
Construction loans	2,462	-	7,695	10,157	4,224	14,381
Small Business Administration	404	-	283	687	8,809	9,496
Taxi medallion	-	-	-	-	9,922	9,922
Commercial business and other	2	5	15,601	15,608	279,468	295,076
Total	$ 61,110	$ 13,833	$ 82,703	$ 157,646	$ 3,063,729	$ 3,221,375

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

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Sr Bus Admin
Allowance for credit losses:							
Beginning balance	$13,001	$5,705	$5,960	$1,999	$46	$66	$5
Charge-off's	1,488	681	2,606	691	74	234	2
Recoveries	11	80	53	31	-	-	3
Provision	871	556	2,933	738	116	235	1
Ending balance	$12,395	$5,660	$6,340	$2,077	$88	$67	$4
Ending balance: individually evaluated for impairment	$209	$320	$592	$60	$-	$37	$-
Ending balance: collectively evaluated for impairment	$12,186	$5,340	$5,748	$2,017	$88	$30	$4
Financing Receivables:							
Ending balance	$1,528,353	$507,932	$615,661	$197,268	$8,221	$10,952	$8
Ending balance: individually evaluated for impairment	$26,094	$25,545	$18,762	$15,548	$267	$10,229	$5
Ending balance: collectively evaluated for impairment	$1,502,259	$482,387	$596,899	$181,720	$7,954	$723	$8

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The following table shows the activity in the allowance for loan losses for the year ended December 31, 2012:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	$11,267	$5,210	$5,314	$1,649	$80	$668	$987	$41	$5,128	$30,344
Charge-off's	6,016	2,746	4,286	1,583	62	4,591	324	-	1,661	21,269
Recoveries	144	307	358	29	-	-	87	-	104	1,029
Provision	7,606	2,934	4,574	1,904	28	3,989	(245)	(34)	244	21,000
Ending balance	$13,001	$5,705	$5,960	$1,999	$46	$66	$505	$7	$3,815	$31,104
Ending balance: individually evaluated for impairment	$183	$359	$571	$94	$-	$38	$-	$-	$249	$1,494
Ending balance: collectively evaluated for impairment	$12,818	$5,346	$5,389	$1,905	$46	$28	$505	$7	$3,566	$29,610
Financing Receivables:										
Ending balance	$1,534,438	$515,438	$637,353	$198,968	$6,303	$14,381	$9,496	$9,922	$295,076	$3,221,375
Ending balance: individually evaluated for impairment	$21,675	$23,525	$26,368	$15,702	$237	$14,232	$850	$-	$26,021	$128,610
Ending balance: collectively evaluated for impairment	$1,512,763	$491,913	$610,985	$183,266	$6,066	$149	$8,646	$9,922	$269,055	$3,092,765

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$23,637	$26,895	$ -	$ 21,695	$ 47
Commercial real estate	18,875	19,644	-	26,774	78
One-to-four family mixed-use property	15,175	17,537		19,115	63
One-to-four family residential	15,176	19,226	-	15,252	20
Co-operative apartments	267	403	-	252	2
Construction	7,835	12,488	-	9,217	-
Non-mortgage loans:			-		
Small Business Administration	505	621	-	678	1
Taxi Medallion	-	-	-	-	
Commercial Business and other	13,434	15,442	-	8,913	15
Total loans with no related allowance recorded	94,904	112,256	-	101,896	226
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	2,457	2,458	209	2,190	36
Commercial real estate	6,670	6,736	320	7,222	69
One-to-four family mixed-use property	3,587	3,586	592	3,451	55
One-to-four family residential	372	372	60	373	4
Co-operative apartments	-	-	-	-	
Construction	3,137	3,137	37	3,471	28
Non-mortgage loans:					
Small Business Administration	-	-	-	-	
Taxi Medallion	-	-	-	-	
Commercial Business and other	4,436	4,436	180	3,488	52
Total loans with an allowance recorded	20,659	20,725	1,398	20,195	244
Total Impaired Loans:					
Total mortgage loans	$97,188	$112,482	$ 1,218	$ 109,012	$ 402
Total non-mortgage loans	$18,375	$20,499	$ 180	$ 13,079	$ 68

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The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the year ended December 31, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$19,753	$22,889	$ -	$ 27,720	$ 429
Commercial real estate	34,672	38,594	-	43,976	536
One-to-four family mixed-use property	23,054	25,825	-	27,018	485
One-to-four family residential	15,328	18,995	-	15,047	186
Co-operative apartments	237	299	-	174	2
Construction	10,598	15,182	-	14,689	173
Non-mortgage loans:					
Small Business Administration	850	1,075	-	1,042	25
Taxi Medallion	-	-	-	-	-
Commercial Business and other	4,391	5,741	-	5,102	53
Total loans with no related allowance recorded	108,883	128,600	-	134,768	1,889
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	1,922	1,937	183	3,174	124
Commercial real estate	7,773	7,839	359	6,530	400
One-to-four family mixed-use property	3,314	3,313	571	4,385	205
One-to-four family residential	374	374	94	188	19
Co-operative apartments	-	-	-	101	-
Construction	3,805	3,805	38	4,275	140
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	2,539	2,540	249	2,273	116
Total loans with an allowance recorded	19,727	19,808	1,494	20,926	1,004
Total Impaired Loans:					
Total mortgage loans	$120,830	$139,052	$ 1,245	$ 147,277	$ 2,699
Total non-mortgage loans	$7,780	$9,356	$ 249	$ 8,417	$ 194

In accordance with our policy and the current regulatory guidelines, we designate loans as “Special Mention,” which are considered “Criticized Loans,” and “Substandard,” “Doubtful,” or “Loss,” which are considered “Classified Loans”. If a loan does not fall within one of the previous mentioned categories then the loan would be considered “Pass.” We designate a

loan as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate a loan Doubtful when it displays the inherent weakness of a Substandard loan with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate a loan as Loss if it is deemed the debtor is incapable of repayment. Loans that are designated as Loss are charged to the Allowance for Loan Losses. Loans that are non-accrual are designated as Substandard, Doubtful or Loss. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications, but does contain a potential weakness that deserves closer attention.

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

(In thousands)	Special Mention	Substandard (1)	Doubtful	Loss	Total
Multi-family residential	$ 11,153	$ 23,690	$-	$-	$34,843
Commercial real estate	8,600	25,545	-	-	34,145
One-to-four family - mixed-use property	11,813	17,039	-	-	28,852
One-to-four family - residential	2,842	15,176	-	-	18,018
Co-operative apartments	-	267	-	-	267
Construction loans	3,137	7,834	-	-	10,971
Small Business Administration	226	141	-	-	367
Commercial business and other	2,228	14,792	1,080	-	18,100
Total loans	$ 39,999	$ 104,484	$1,080	$-	$145,563

The following table sets forth the recorded investment in loans designated as Criticized or Classified at December 31, 2012:

(In thousands)	Special Mention	Substandard (1)	Doubtful	Loss	Total
Multi-family residential	$ 16,345	$ 19,327	$-	$-	$35,672
Commercial real estate	11,097	27,877	-	-	38,974
One-to-four family - mixed-use property	13,104	24,635	-	-	37,739
One-to-four family - residential	5,223	15,328	-	-	20,551
Co-operative apartments	103	237	-	-	340
Construction loans	3,805	10,598	-	-	14,403
Small Business Administration	323	212	244	-	779
Commercial business and other	3,044	18,419	1,080	-	22,543
Total loans	$ 53,044	$ 116,633	$1,324	$-	$171,001

(1) The tables above do not include $9.9 million and $5.3 million of Substandard loans held for sale at March 31, 2013 and December 31, 2012, respectively.

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

(In thousands)	For the three months ended March 31 2013	2012
Balance, beginning of period	$31,104	$30,344
Provision for loan losses	6,000	6,000
Charge-off's	(6,282)	(6,019)
Recoveries	205	293

Balance, end of period	$31,027	$30,618

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

(In thousands)	Three Months Ended March 31, 2013	March 31, 2012
Multi-family residential	$1,477	$ 1,004
Commercial real estate	601	1,710
One-to-four family – mixed-use property	2,553	1,412
One-to-four family – residential	660	825
Co-operative apartments	74	42
Construction	234	234
Small Business Administration	174	104
Commercial business and other	304	395
Total net loan charge-offs	$6,077	$ 5,726

Commitments to extend credit (principally real estate mortgage loans) and lines of credit (principally home equity lines of credit and business line of credit) amounted to $54.7 million and $138.9 million, respectively, at March 31, 2013.

6. Loans held for sale

Loans held for sale are carried at the lower of cost or estimated fair value.

The following table shows our Loans held for sale for the periods indicated:

	March 31, 2013		December 31, 2012	
(Dollars in thousands)	Number of loans	Carrying Value	Number of loans	Carrying Value
Multi-family residential	6	$2,892	4	$3,442
Commercial real estate	4	970	-	-
One-to-four family - mixed-use property	25	5,906	4	1,871
One-to-four family - residential	2	139	-	-
Total	37	$9,907	8	$5,313

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

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

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

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

	For the three months ended March 31, 2012			
(Dollars in thousands)	Loans sold	Proceeds	Net charge-offs	Net gain (loss)
Multi-family residential	6	$3,968	$ (181)	$ -
Commercial real estate	3	1,678	(250)	-
One-to-four family - mixed-use property	4	1,280	(399)	-
Construction	3	2,540	(57)	-
Commercial business and other	1	215	(136)	-
Total	17	$9,681	$ (1,023)	$ -

7. Other Real Estate Owned

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

	For the three months ended March 31,	
	2013	2012
	(In thousands)	
Balance at beginning of period	$ 5,278	$ 3,179
Acquisitions	679	1,293
Write-down of carrying value	(65)	(88)
Sales	(3,703)	(780)
Balance at end of period	$ 2,189	$ 3,604

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

	For the three months ended March 31,	
	2013	2012
	(In thousands)	
Gross gains	$ 201	$ 45
Gross losses	(23)	(110)
Write-down of carrying value	(65)	(88)
Total	$ 113	$ (153)

8. Stock-Based Compensation

For the three months ended March 31, 2013 and 2012, the Company's net income, as reported, includes $2.0 million and $1.4 million, respectively, of stock-based compensation costs and $0.8 million and $0.6 million, respectively, of income tax benefits related to the stock-based compensation plans.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock price, the risk-free interest rate over the options' expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. During the three months ended March 31, 2013 and 2012, the Company granted 230,675 and 230,675 restricted stock units, respectively. There were no stock options granted during the three months ended March 31, 2013 and 2012.

The 2005 Omnibus Incentive Plan ("Omnibus Plan") became effective on May 17, 2005 after approval by the stockholders. The Omnibus Plan authorizes the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). On May 17, 2011, stockholders of the Company approved an amendment to the Omnibus Plan authorizing an additional 625,000 shares for use for full value awards. As of March 31, 2013, there were 340,125 shares available for full value awards and 56,440 shares available for non-full value awards. To satisfy stock option exercises or fund restricted stock and restricted stock unit awards, shares are issued from treasury stock, if available, otherwise new shares are issued. The Company will maintain separate pools of available shares for full value as opposed to non-full value awards, except that shares can be moved from the non-full value pool to the full value pool on a 3-for-1 basis. The exercise price per share of a stock option grant may not be less than the fair market value of the common stock of the Company, as defined in the Omnibus Plan, on the date of grant and may not be re-priced without the approval of the Company's stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years with stock options having a 10-year contractual term. Other awards do not have a contractual term of expiration. Restricted stock unit awards include participants who have reached or are close to reaching retirement eligibility, at which time such awards fully vest. These amounts are included in

stock-based compensation expense.

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

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The following table summarizes the Company's full value awards at or for the three months ended March 31, 2013:

Full Value Awards	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2012	318,051	$ 13.35
Granted	243,645	15.26
Vested	(175,486)	14.19
Forfeited	-	-
Non-vested at March 31, 2013	386,210	$ 14.18
Vested but unissued at March 31, 2013	232,395	$ 14.29

As of March 31, 2013, there was $5.0 million of total unrecognized compensation cost related to non-vested full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 3.6 years. The total fair value of awards vested for the three months ended March 31, 2013 and 2012 were $2.7 million and $1.9 million, respectively. The vested but unissued full value awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of the Omnibus Plan, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting dates.

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

The following table summarizes certain information regarding the non-full value awards, all of which have been granted as stock options, at or for the three months ended March 31, 2013:

Non-Full Value Awards	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value $(000) *
Outstanding at December 31, 2012	770,355	$ 15.92		
Granted	-	-		
Exercised	(52,320)	12.62		
Forfeited	-	-		
Outstanding at March 31, 2013	718,035	$ 16.16	2.8	$ 1,014
Exercisable shares at March 31, 2013	680,095	$ 16.34	2.7	$ 824
Vested but unexercisable shares at March 31, 2013	14,560	$ 13.29	5.6	$ 69

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

As of March 31, 2013, there was $23,000 of total unrecognized compensation cost related to unvested non-full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 0.6 years. The vested but unexercisable non-full value awards were made to employees who are eligible for retirement. According to the terms of the Omnibus Plan, these employees have no risk of forfeiture. These awards will be exercisable at the original contractual vesting dates.

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Cash proceeds, fair value received, tax benefits and the intrinsic value related to stock options exercised during the three months ended March 31, 2013 and 2012 are provided in the following table:

	For the three months ended March 31,	
(In thousands)	2013	2012
Proceeds from stock options exercised	$ 22	$ 244
Fair value of shares received upon exercised of stock options	637	548
Tax benefit related to stock options exercised	53	24
Intrinsic value of stock options exercised	174	114

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

The following table summarizes the Phantom Stock Plan at or for the three months ended March 31, 2013:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2012	50,067	$ 15.34
Granted	8,589	15.57
Forfeited	-	-
Distributions	(13)	15.84
Outstanding at March 31, 2013	58,643	$ 16.94
Vested at March 31, 2013	58,311	$ 16.94

The Company recorded stock-based compensation expense for the Phantom Stock Plan of $99,000 and $42,000 for the three months ended March 31, 2013 and 2012, respectively. The total fair value of the distributions from the Phantom Stock Plan was $1,000 for each of the three month periods ended March 31, 2013 and 2012, 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.

	Three months ended March 31,	
(In thousands)	2013	2012
Employee Pension Plan:		
Interest cost	$207	$220
Amortization of unrecognized loss	306	263
Expected return on plan assets	(315)	(310)
Net employee pension expense	$198	$173
Outside Director Pension Plan:		
Service cost	$21	$20
Interest cost	24	28
Amortization of unrecognized gain	(9)	(7)
Amortization of past service liability	9	9
Net outside director pension expense	$45	$50
Other Postretirement Benefit Plans:		
Service cost	$112	$100
Interest cost	55	54
Amortization of unrecognized loss	12	10
Amortization of past service credit	(20)	(21)
Net other postretirement expense	$159	$143

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2012 that it expects to contribute $0.8 million to the Company's Employee Pension Plan (the "Employee Pension Plan") and $0.2 million to each of the Outside Director Pension Plan (the "Outside Director Pension Plan") and the other post retirement benefit plans (the "Other Postretirement Benefit Plans") during the year ending December 31, 2013. As of March 31, 2013, the Company has contributed $159,000 to the Employee Pension Plan, $22,000 to the Outside Director Pension Plan and $13,000 to the Other Postretirement Benefit Plans. As of March 31, 2013, the Company has not revised its expected contributions for the year ending December 31, 2012.

10. Fair Value of Financial Instruments

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

certain other items at fair value. At March 31, 2013, the Company carried financial assets and financial liabilities under the fair value option with fair values of $47.9 million and $24.7 million, respectively. At December 31, 2012, the Company carried financial assets and financial liabilities under the fair value option with fair values of $54.5 million and $23.9 million, respectively. During the three months ended March 31, 2013 and 2012, the Company did not elect to carry any additional financial assets or financial liabilities under the fair value option. During the three months ended March 31, 2013, the Company sold financial assets carried under the fair value option totaling $4.4 million. The Company did not sell any financial assets during the three months ended March 31, 2012.

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

	Fair Value Measurements at March 31,	Fair Value Measurements at December 31,	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option	
			Three Months Ended	
(Dollars in thousands)	2013	2012	March 31, 2013	March 31, 2012
Mortgage-backed securities	$ 17,965	$ 24,911	$ (362)	$ (18)
Other securities	29,933	29,577	273	241
Borrowed funds	24,742	23,922	(819)	171
Net gain from fair value adjustments (1)			$ (908)	$ 394

(1) The net gain (loss) from fair value adjustments presented in the above table does not include net gains of $0.8 million and losses of $0.8 million for the three months ended March 31, 2013 and 2012, respectively, from the change in the fair value of interest rate caps / swaps.

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

The borrowed funds had a contractual principal amount of $61.9 million at March 31, 2013 and December 31, 2012. The fair value of borrowed funds includes accrued interest payable of $0.4 million at March 31, 2013 and December 31, 2012.

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

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

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

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

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

Level 1 – where quoted market prices are available in an active market. The Company did not value any of its assets or liabilities that are carried at fair value on a recurring basis as Level 1 at March 31, 2013 and December 31, 2012.

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, 2013 and December 31, 2012, Level 2 includes mortgage related securities, mutual funds, corporate debt and interest rate caps/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, 2013 and December 31, 2012, Level 3 includes REMIC and CMO securities, municipal securities and trust preferred securities owned by and junior subordinated debentures issued by the Company.

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

The following table sets forth the assets and liabilities that are carried at fair value on a recurring basis and the method that was used to determine their fair value, at March 31, 2013 and December 31, 2012:

	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	
	2013	2012	2013	2012	2013	2012	2013	2012
Assets:								
Mortgage-backed Securities	$ -	$ -	$ 740,940	$ 696,638	$ 23,761	$ 23,475	$ 764,701	$ 720,113
Other securities	-	-	218,788	213,374	16,805	16,079	235,593	229,453
Interest rate caps	-	-	16	19	-	-	16	19
Interest rate swaps	-	-	51	3	-	-	51	3
Total assets	$ -	$ -	$ 959,795	$ 910,034	$ 40,566	$ 39,554	$ 1,000,361	$ 949,588
Liabilities:								
Liabilities:								
Borrowings	$ -	$ -	$ -	$ -	$ 24,742	$ 23,922	$ 24,742	$ 23,922
Interest rate swaps	-	-	1,138	1,922	-	-	1,138	1,922
Total liabilities	$ -	$ -	$ 1,138	$ 1,922	$ 24,742	$ 23,922	$ 25,880	$ 25,844

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

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

The following table presents the quantitative information about recurring Level 3 fair value of financial instruments and the fair value measurements as of March 31, 2013:

March 31, 2013	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
		(Dollars in thousands)		
Assets:				
			Spread to index	2.4% - 4.1% (3.3%)
REMIC and CMO	$ 23,761	Discounted cash flows	Average Life (years)	4.4 - 7.6 (5.6)
Municipals	$ 9,378	Discounted cash flows	Discount rate	0.4% - 4.0% (3.6%)
			Discount rate	8.0% - 16.9% (11.9%)
			Prepayment assumptions	0% - 73.0% (45.6%)
Trust Preferred Securities	$ 7,427	Discounted cash flows	Defaults	0% - 10.3% (7.6%)
Liabilities:				
	$ 24,742		Discount rate	8.0% - 8.0% (8.0%)

Junior subordinated debentures	Discounted cash flows

The significant unobservable inputs used in the fair value measurement of the Company's REMIC and CMO securities valued under Level 3 are the spread to an index and the average life of the security. Significant increases or decreases in either of those inputs in isolation would result in a significantly lower or higher fair value measurement.

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

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

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

The following table sets forth the Company's assets that are carried at fair value on a non-recurring basis and the method that was used to determine their fair value, at March 31, 2013 and December 31, 2012:

	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	
	2013	2012	2013	2012	2013	2012	2013	2012
Assets:								
Loans held for sale	$-	$-	$-	$-	$ 9,907	$ 5,313	$ 9,907	$ 5,313
Impaired loans	-	-	-	-	39,689	49,703	39,689	49,703
Other real estate owned	-	-	-	-				