

Kearny Financial Corp.
Form 10-Q
May 10, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended

March 31, 2013

OR

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

For the transition period from

to

Commission File Number 000-51093

KEARNY FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

UNITED STATES
(State or other jurisdiction of
incorporation or organization)

22-3803741
(I.R.S. Employer
Identification Number)

120 Passaic Ave., Fairfield, New Jersey
(Address of principal executive offices)

07004-3510
(Zip Code)

Registrant's telephone number, including area code 973-244-4500

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

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

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

Large accelerated filer

Accelerated filer

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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 Exchange Act). Yes [] No [X]

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: May 8, 2013.

\$0.10 par value common stock - 66,581,540 shares outstanding

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In Thousands, Except Share and Per Share Data)

	March 31, 2013	June 30, 2012
Assets	(Unaudited)	
Cash and amounts due from depository institutions	\$ 12,717	\$ 38,028
Interest-bearing deposits in other banks	197,182	117,556
Cash and Cash Equivalents	209,899	155,584
Debt securities available for sale (amortized cost \$139,577 and \$14,613)	137,778	12,602
Debt securities held to maturity (fair value \$146,686 and \$34,838)	146,892	34,662
Loans receivable, including unamortized yield adjustments of \$(943) and \$(1,654)	1,340,965	1,284,236
Less allowance for loan losses	(10,758)	(10,117)
Net Loans Receivable	1,330,207	1,274,119
Mortgage-backed securities available for sale (amortized cost \$757,910 and \$1,188,373)	782,279	1,230,104
Mortgage-backed securities held to maturity (fair value \$942 and \$1,159)	881	1,090
Premises and equipment	37,427	38,677
Federal Home Loan Bank of New York ("FHLB") stock	11,214	14,142
Interest receivable	7,549	8,395
Goodwill	108,591	108,591
Bank owned life insurance	85,379	48,615
Other assets	8,453	10,425
Total Assets	\$ 2,866,549	\$ 2,937,006
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	\$ 179,257	\$ 165,118
Interest-bearing	1,973,744	2,006,679
Total Deposits	2,153,001	2,171,797
Borrowings	183,206	249,777
Advance payments by borrowers for taxes	7,772	5,974
Deferred income tax liabilities, net	116	7,276
Other liabilities	38,726	10,565
Total Liabilities	2,382,821	2,445,389
Stockholders' Equity		

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Preferred stock, \$0.10 par value, 25,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$0.10 par value, 75,000,000 shares authorized; 72,737,500 shares issued; 66,647,840 and 66,936,040 shares outstanding, respectively	7,274	7,274
Paid-in capital	215,668	215,539
Retained earnings	324,242	319,661
Unearned Employee Stock Ownership Plan shares; 569,772 shares and 678,878 shares, respectively	(5,698)	(6,789)
Treasury stock, at cost; 6,089,660 shares and 5,801,460 shares, respectively	(70,497)	(67,664)
Accumulated other comprehensive income	12,739	23,596
 Total Stockholders' Equity	 483,728	 491,617
 Total Liabilities and Stockholders' Equity	 \$2,866,549	 \$2,937,006

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Interest Income				
Loans	\$15,445	\$15,809	\$46,386	\$48,493
Mortgage-backed securities	5,532	8,242	18,697	24,157
Securities:				
Taxable	436	270	936	1,096
Tax-exempt	26	8	38	63
Other interest-earning assets	205	205	595	582
Total Interest Income	21,644	24,534	66,652	74,391
Interest Expense				
Deposits	3,400	4,853	11,450	15,668
Borrowings	1,898	2,011	5,987	6,088
Total Interest Expense	5,298	6,864	17,437	21,756
Net Interest Income	16,346	17,670	49,215	52,635
Provision for Loan Losses	1,407	1,257	3,139	3,645
Net Interest Income after Provision for Loan Losses	14,939	16,413	46,076	48,990
Non-Interest Income				
Fees and service charges	605	594	1,851	1,859
Gain on sale of loans	545	217	545	526
Gain (loss) on sale of securities	9,075	-	10,172	(5)
Loss on sale and write down of real estate owned	(8)	(1,215)	(541)	(3,271)
Income from bank owned life insurance	485	186	1,261	560
Electronic banking fees and charges	261	224	835	695
Miscellaneous	107	376	432	532
Total Non-Interest Income	11,070	382	14,555	896
Non-Interest Expenses				
Salaries and employee benefits	8,977	8,538	26,580	25,082
Net occupancy expense of premises	1,777	1,685	5,030	4,866
Equipment and systems	1,879	1,686	5,752	5,429
Advertising and marketing	224	220	785	842
Federal deposit insurance premium	535	569	1,636	1,551

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Directors' compensation	171	168	513	491
Debt extinguishment expense	8,688	-	8,688	-
Miscellaneous	1,691	1,895	5,422	5,630
Total Non-Interest Expenses	\$23,942	\$14,761	\$54,406	\$43,891

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Continued)
(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Income Before Income Taxes	\$2,067	\$2,034	\$6,225	\$5,995
Income Taxes	323	642	1,644	2,115
Net Income	\$1,744	\$1,392	\$4,581	\$3,880
Net Income per Common Share (EPS):				
Basic and Diluted	\$0.03	\$0.02	\$0.07	\$0.06
Weighted Average Number of Common Shares Outstanding:				
Basic and Diluted	66,141	66,243	66,195	66,571
Dividends Declared Per Common Share	\$-	\$0.05	\$-	\$0.15

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In Thousands, Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Net Income	\$ 1,744	\$ 1,392	\$ 4,581	\$ 3,880
Other Comprehensive (Loss) Income:				
Realized gain on securities available for sale, net of deferred income tax expense of 2013 \$3,721, \$4,173 and 2012 \$ - , \$ -	(5,355)	-	(6,006)	-
Unrealized (loss) gain on securities available for sale, net of deferred income tax (benefit) expense of 2013 \$(2,405), \$(2,776) and, 2012 \$2, \$2,631	(3,688)	31	(4,195)	3,859
Benefit plans, net of deferred income tax expense (benefit) of 2013 \$10, \$(454) and, 2012 \$4, \$128	15	6	(656)	185
Total Other Comprehensive (Loss) Income	(9,028)	37	(10,857)	4,044
Total Comprehensive (Loss) Income	\$ (7,284)	\$ 1,429	\$ (6,276)	\$ 7,924

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended March 31, 2012
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance - June 30, 2011	67,851	\$7,274	\$215,258	\$317,354	\$(8,244)	\$(59,200)	\$ 15,432	\$487,874
Net income	-	-	-	3,880	-	-	-	3,880
Other comprehensive income, net of income tax	-	-	-	-	-	-	4,044	4,044
ESOP shares committed to be released (108 shares)	-	-	(67)	-	1,092	-	-	1,025
Dividends contributed for payment of ESOP loan	-	-	118	-	-	-	-	118
Stock option expense	-	-	31	-	-	-	-	31
Treasury stock purchases	(879)	-	-	-	-	(8,130)	-	(8,130)
Restricted stock plan shares earned (12 shares)	-	-	126	-	-	-	-	126
Cash dividends declared (\$0.15/ public share)	-	-	-	(2,321)	-	-	-	(2,321)
Cash dividend to Kearny MHC	-	-	-	(450)	-	-	-	(450)
Balance - March 31, 2012	66,972	\$7,274	\$215,466	\$318,463	\$(7,152)	\$(67,330)	\$ 19,476	\$486,197

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended March 31, 2013
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance - June 30, 2012	66,936	\$7,274	\$215,539	\$319,661	\$(6,789)	\$(67,664)	\$ 23,596	\$491,617
Net income	-	-	-	4,581	-	-	-	4,581
Other comprehensive loss, net of income tax	-	-	-	-	-	-	(10,857)	(10,857)
ESOP shares committed to be released (108 shares)	-	-	(26)	-	1,091	-	-	1,065
Dividends contributed for payment of ESOP loan	-	-	(2)	-	-	-	-	(2)
Stock option expense	-	-	31	-	-	-	-	31
Treasury stock purchases	(288)	-	-	-	-	(2,833)	-	(2,833)
Restricted stock plan shares earned (12 shares)	-	-	126	-	-	-	-	126
Balance - March 31, 2013	66,648	\$7,274	\$215,668	\$324,242	\$(5,698)	\$(70,497)	\$ 12,739	\$483,728

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands, Unaudited)

	Nine Months Ended March 31,	
	2013	2012
Cash Flows from Operating Activities:		
Net income	\$4,581	\$3,880
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,964	1,993
Net amortization of premiums, discounts and loan fees and costs	7,887	6,447
Deferred income taxes	241	511
Amortization of intangible assets	105	118
Amortization of benefit plans' unrecognized net loss	75	30
Provision for loan losses	3,139	3,645
Loss on write-down and sales of real estate owned	541	3,271
Realized gain on sale of loans	(545)	(526)
Proceeds from sale of loans	5,193	5,872
Realized sale gain on mortgage-backed securities available for sale	(10,178)	-
Realized sale loss on mortgage-backed securities held to maturity	6	5
Realized loss on debt extinguishment	8,688	-
Realized gain on disposition of premises and equipment	(100)	(1)
Increase in cash surrender value of bank owned life insurance	(1,261)	(560)
ESOP, stock option plan and restricted stock plan expenses	1,222	1,182
Decrease in interest receivable	846	966
Decrease in other assets	1,313	718
Decrease in interest payable	(260)	(32)
Decrease in other liabilities	(276)	(446)
 Net Cash Provided by Operating Activities	 23,181	 27,073
Cash Flows from Investing Activities:		
Purchase of debt securities available for sale	(97,788)	-
Proceeds from calls and maturities of debt securities available for sale	-	30,598
Proceeds from repayments of debt securities available for sale	444	650
Purchase of debt securities held to maturity	(144,784)	(1,775)
Proceeds from calls and maturities of debt securities held to maturity	32,023	72,760
Proceeds from repayments of debt securities held to maturity	518	717
Purchase of loans	(9,655)	(54,460)
Net (increase) decrease in loans receivable	(56,119)	49,454
Proceeds from sale of real estate owned	2,389	224
Purchases of mortgage-backed securities available for sale	(262,266)	(455,370)
Principal repayments on mortgage-backed securities available for sale	284,197	225,944
Principal repayments on mortgage-backed securities held to maturity	198	159
Proceeds from sale of mortgage-backed securities held to maturity	15	27
Proceeds from sale of mortgage-backed securities available for sale	409,840	-

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Purchase of FHLB stock	(1,170)	(1,800)
Redemption of FHLB stock	4,098	1,802
Purchase of bank owned life insurance	(35,503)	-
Proceeds from cash settlement of premises and equipment	200	3
Additions to premises and equipment	(814)	(1,495)
Net Cash Provided by (Used in) Investing Activities	\$125,823	\$(132,562)

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Thousands, Unaudited)

	Nine Months Ended March 31,	
	2013	2012
Cash Flows from Financing Activities:		
Net (decrease) increase in deposits	\$(18,604)	\$5,525
Repayment of long-term FHLB advances	(73,752)	(59)
(Decrease) increase in other short-term borrowings	(1,296)	177
Increase (decrease) in advance payments by borrowers for taxes	1,798	(233)
Dividends paid to stockholders of Kearny Financial Corp.	-	(2,357)
Purchase of common stock of Kearny Financial Corp. for treasury	(2,833)	(8,130)
Dividends contributed for payment of ESOP loan	(2)	118
Net Cash Used in Financing Activities	(94,689)	(4,959)
Net Increase (Decrease) in Cash and Cash Equivalents	54,315	(110,448)
Cash and Cash Equivalents – Beginning	155,584	222,580
Cash and Cash Equivalents – Ending	\$209,899	\$112,132
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	\$1,019	\$1,836
Interest	\$17,697	\$21,788
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	\$2,375	\$1,157

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. PRINCIPLES OF CONSOLIDATION

The unaudited consolidated financial statements include the accounts of Kearny Financial Corp. (the “Company”), its wholly-owned subsidiary, Kearny Federal Savings Bank (the “Bank”) and the Bank’s wholly-owned subsidiaries, KFS Financial Services, Inc., KFS Investment Corp. and CJB Investment Corp. The Company conducts its business principally through the Bank. Management prepared the unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”), including the elimination of all significant inter-company accounts and transactions during consolidation.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, income, comprehensive income, changes in stockholders’ equity and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the unaudited consolidated financial statements have been included. The results of operations for the three-month and nine-month periods ended March 31, 2013, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated statement of financial condition for June 30, 2012 was derived from the Company’s 2012 annual report on Form 10-K. That data, along with the interim unaudited financial information presented in the consolidated statements of financial condition, income, comprehensive income, changes in stockholders’ equity and cash flows should be read in conjunction with the audited consolidated financial statements, including the notes thereto included in the Company’s 2012 annual report on Form 10-K.

3. NET INCOME PER COMMON SHARE (“EPS”)

Basic EPS is based on the weighted average number of common shares actually outstanding including restricted stock awards (see following paragraph) adjusted for Employee Stock Ownership Plan (“ESOP”) shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. Shares issued and reacquired during any period are weighted for the portion of the period they were outstanding.

The Financial Accounting Standards Board (“FASB”) has issued guidance on determining whether instruments granted in share-based payment transactions are participating securities. This guidance clarifies that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied.

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The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	Three Months Ended			Nine Months Ended		
	March 31, 2013			March 31, 2013		
	Income (Numerator) (In Thousands, Except Per Share Data)	Shares (Denominator)	Per Share Amount	Income (Numerator) (In Thousands, Except Per Share Data)	Shares (Denominator)	Per Share Amount
Net income	\$1,744			\$4,581		
Basic earnings per share, income available to common stockholders	\$1,744	66,141	\$0.03	\$4,581	66,195	\$0.07
Effect of dilutive securities:						
Stock options	-	-		-	-	
	\$1,744	66,141	\$0.03	\$4,591	66,195	\$0.07
	Three Months Ended			Nine Months Ended		
	March 31, 2012			March 31, 2012		
	Income (Numerator) (In Thousands, Except Per Share Data)	Shares (Denominator)	Per Share Amount	Income (Numerator) (In Thousands, Except Per Share Data)	Shares (Denominator)	Per Share Amount
Net income	\$1,392			\$3,880		
Basic earnings per share, income available to common stockholders	\$1,392	66,243	\$0.02	\$3,880	66,571	\$0.06
Effect of dilutive securities:						
Stock options	-	-		-	-	
	\$1,392	66,243	\$0.02	\$3,880	66,571	\$0.06

During the three and nine months ended March 31, 2013, the average number of options which were considered anti-dilutive totaled approximately 3,193,000. During the three and nine months ended March 31, 2012, the average number of options which were considered anti-dilutive totaled approximately 3,233,000 and 3,229,000, respectively.

4. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of March 31, 2013, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date this document was filed and identified certain transactions executed in conjunction with the balance sheet restructuring described in Note 5 below as subsequent events requiring disclosure.

5. RESTRUCTURING TRANSACTION

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During the two month period ended April 30, 2013, the Company successfully completed a series of balance sheet restructuring transactions that are expected to result in improvements in the financial

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position and expected operating results of the Company and the Bank. The Company expects such improvements to be reflected in an expanded net interest margin resulting in an immediate improvement in net interest income and earnings.

Through these restructuring transactions, the Company reduced its concentration in agency mortgage-backed securities (“MBS”) in favor of other investment sectors within the portfolio. As a result, the Company reduced its exposure to residential mortgage prepayment and extension risk while enhancing the overall yield of the investment portfolio and providing some additional protection to earnings against potential movements in market interest rates. Gains recognized through the sale of MBS enabled the Company to fully offset the costs of prepaying a portion of its high-rate Federal Home Loan Bank (“FHLB”) advances. Additionally, the Company modified the terms of its remaining high-rate FHLB advances to a lower interest rate while extending the duration of the modified funding to better protect against potential increases in interest rates in the future.

As discussed below, the restructuring was initiated by the Company in March 2013 and completed during April 2013. Consequently, only a portion of the applicable transactions were completed by the close of the Company’s third quarter ended March 31, 2013, with the remaining transactions being reflected in the Company’s financial results for the quarter and fiscal-year ending June 30, 2013.

Key features and characteristics of the restructuring transactions are as follows:

- During March 2013, the Company sold agency MBS totaling approximately \$330.0 million with a weighted average book yield of 1.78% resulting in a one-time gain on sale totaling approximately \$9.1 million;
- During March 2013, a portion of the proceeds from the noted MBS sales were used to prepay \$60.0 million of fixed-rate FHLB advances at a weighted average rate of 3.99% resulting in a one-time expense of \$8.7 million largely attributable to the prepayment penalties paid to the FHLB to extinguish the debt; and
- During March and April 2013, the Company reinvested the remaining proceeds from the noted MBS sales into a diversified mix of high-quality securities with an aggregate tax-effective yield modestly exceeding that of the MBS sold. Such securities primarily included:
 - o Fixed-rate, bank-qualified municipal obligations;
 - o Floating-rate corporate bonds issued by financial companies;
 - o Floating-rate, asset-backed securities comprising education loans with 97% U.S. government guarantees;
 - o Fixed-rate agency commercial MBS secured by multifamily mortgage loans; and
 - o Fixed-rate agency collateralized mortgage obligations (“CMO”).
- During April 2013, the Company modified the terms of its remaining \$145.0 million of “puttable” FHLB advances with a weighted average cost of 3.68% and weighted average remaining maturity of approximately 4.5 years. Such advances were currently subject to the FHLB’s quarterly “put” option enabling it to demand repayment in full in the event of an increase in interest rates. The terms of the modified advances extended their “non-puttable” period to five years with a final stated maturity of ten years while reducing their average interest rate by 0.64% to 3.04%. The Bank did not explicitly pay a prepayment penalty to the FHLB to modify the terms of these advances. Rather, the interest paid by

the Company to the FHLB under the modified terms reflects an above market rate through which the FHLB will recover the economic value of the foregone prepayment penalty. Because the difference between the present value of the cash flows of the pre-modified and post-modified advances is less than 10%, the modifications were effected at no immediate cost to the Company, in accordance with applicable accounting requirements.

Given the effects of the restructuring, the Company continues to maintain high levels of on-balance sheet liquidity while the sensitivity of its Economic Value of Equity (“EVE”) to movements in interest rates - a key measure of long-term exposure to interest rate risk – remains substantially unchanged. Moreover, the Company is evaluating additional opportunities to utilize capital through effective deployment of wholesale growth and diversification strategies designed to improve earnings further while prudently managing its exposure to interest rate, credit and liquidity risk.

6. RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (“FASB”) has issued Accounting Standards Updated (“ASU”) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU requires an entity to report, either on the face of the statement where net income is presented or in the notes to the financial statements, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional details about those amounts. The amendments in this ASU are effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted this ASU on January 1, 2013 by including the required disclosures in the notes included on the consolidated statements of comprehensive income. The adoption of ASU 2013-02 did not have an impact on the Company’s financial condition, results of operations or cash flows.

7. STOCK REPURCHASE PLANS

On March 23, 2012, the Company announced that the Board of Directors authorized a stock repurchase plan to acquire up to 802,780 shares, or 5% of the Company’s outstanding stock held by persons other than Kearny MHC. Through March 31, 2013 the Company has repurchased a total of 324,000 shares in accordance with this repurchase plan at a total cost of approximately \$3,167,000 and at an average cost per share of \$9.78.

7. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and fair values of securities available for sale at March 31, 2013 and June 30, 2012 and stratification by contractual maturity of such securities at March 31, 2013 are presented below:

	Amortized Cost	At March 31, 2013		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Securities available for sale:				
Debt securities:				
U.S. agency securities	\$5,266	\$157	\$-	\$5,423
Obligations of state and political subdivisions	55,212	28	354	54,886
Asset-backed securities	10,199	1	-	10,200
Corporate bonds	60,023	46	142	59,927
Trust preferred securities	8,877	-	1,535	7,342
Total debt securities	139,577	232	2,031	137,778
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	16,769	176	-	16,945
Total collateralized mortgage obligations	16,769	176	-	16,945
Mortgage pass-through securities:				
Government National Mortgage Association	6,170	665	-	6,835
Federal Home Loan Mortgage Corporation	279,818	8,166	42	287,942
Federal National Mortgage Association	455,153	15,646	242	470,557
Total mortgage pass-through securities	741,141	24,477	284	765,334
Total mortgage-backed securities	757,910	24,653	284	782,279
Total securities available for sale	\$897,487	\$24,885	\$2,315	\$920,057
(In Thousands)				
	Amortized Cost	At March 31, 2013 Fair Value		
Debt securities available for sale:				
Due in one year or less	\$-	\$-		
Due after one year through five years	-	-		

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Due after five years through ten years	66,962	66,876
Due after ten years	72,615	70,902
Total	\$139,577	\$137,778

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		At June 30, 2012		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In Thousands)		
Securities available for sale:				
Debt securities:				
Trust preferred securities	\$8,871	\$-	\$2,158	\$6,713
U.S. agency securities	5,742	148	1	5,889
Total debt securities	14,613	148	2,159	12,602
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	2,493	30	-	2,523
Total collateralized mortgage obligations	2,493	30	-	2,523
Mortgage pass-through securities:				
Government National Mortgage Association	10,804	903	17	11,690
Federal Home Loan Mortgage Corporation	447,173	13,357	21	460,509
Federal National Mortgage Association	727,903	27,512	33	755,382
Total mortgage pass-through securities	1,185,880	41,772	71	1,227,581
Total mortgage-backed securities	1,188,373	41,802	71	1,230,104
Total securities available for sale	\$1,202,986	\$41,950	\$2,230	\$1,242,706

During the nine months ended March 31, 2013, proceeds from sales of securities available for sale totaled \$409.8 million and resulted in gross gains of \$10,314,000 and gross losses of \$135,000. There were no sales of securities available for sale during the nine months ended March 31, 2012. At March 31, 2013 and June 30, 2012, securities available for sale with carrying values of approximately \$111.3 million and \$292.8 million, respectively, were utilized as collateral for borrowings through the FHLB of New York. As of those same dates, securities available for sale with carrying values of approximately \$5.1 million and \$7.2 million, respectively, were pledged to secure public funds on deposit.

The Company's available for sale mortgage-backed securities are generally secured by residential mortgage loans with original contractual maturities of ten to thirty years. However, the effective lives of those securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute

cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

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8. SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and fair values of securities held to maturity at March 31, 2013 and June 30, 2012 and stratification by contractual maturity of such securities at March 31, 2013 are presented below:

	Amortized Cost	March 31, 2013 Gross Unrealized Gains		Gross Unrealized Losses	Fair Value
		(In Thousands)			
Securities held to maturity:					
Debt securities:					
U.S. agency securities	\$ 144,963	\$ 20		\$ 227	\$ 144,756
Obligations of state and political subdivisions	1,929	1		-	1,930
Total debt securities	146,892	21		227	146,686
Mortgage-backed securities:					
Collateralized mortgage obligations:					
Federal Home Loan Mortgage Corporation	26	4		-	30
Federal National Mortgage Association	395	45		-	440
Non-agency securities	115	1		3	113
Total collateralized mortgage obligations	536	50		3	583
Mortgage pass-through securities:					
Federal Home Loan Mortgage Corporation	102	4		-	106
Federal National Mortgage Association	243	10		-	253
Total mortgage pass-through securities	345	14		-	359
Total mortgage-backed securities	881	64		3	942
Total securities held to maturity	\$ 147,773	\$ 85		\$ 230	\$ 147,628

	At March 31, 2013	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities held to maturity:		
Due in one year or less	\$ -	\$ -
Due after one year through five years	146,892	146,686
Due after five years through ten years	-	-

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Due after ten years	-	-
Total	\$ 146,892	\$ 146,686

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	Amortized Cost	At June 30, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Securities held to maturity:				
Debt securities:				
U.S. agency securities	\$32,426	\$172	\$-	\$32,598
Obligations of state and political subdivisions	2,236	4	-	2,240
Total debt securities	34,662	176	-	34,838
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	38	5	-	43
Federal National Mortgage Association Non-agency securities	511	62	-	573
	146	-	13	133
Total collateralized mortgage obligations	695	67	13	749
Mortgage pass-through securities:				
Federal Home Loan Mortgage Corporation	120	5	-	125
Federal National Mortgage Association	275	10	-	285
Total mortgage pass-through securities	395	15	-	410
Total mortgage-backed securities	1,090	82	13	1,159
Total securities held to maturity	\$35,752	\$258	\$13	\$35,997

During the nine months ended March 31, 2013 and March 31, 2012, proceeds from sales of held to maturity securities totaled \$15,000 and \$27,000, respectively, resulting in losses of \$6,000 and \$5,000, respectively. The proceeds and losses were fully attributable to the sale of non-investment grade, non-agency collateralized mortgage obligations during each period. The securities sold were originally acquired as investment grade securities upon the in-kind redemption of the Company's interest in the AMF Ultra Short Mortgage Fund during the first quarter of fiscal 2009. The rating of the securities subsequently declined below investment grade resulting in their eligibility for sale from the held-to-maturity portfolio without tainting the status of the remaining securities within the portfolio. At March 31, 2013, held to maturity securities totaling \$123.3 million were utilized as collateral for borrowings while no such securities were pledged to secure public funds on deposit as of that date. At June 30, 2012, no held to maturity securities were utilized as collateral for borrowings or pledged to secure public funds on deposit.

The Company's held to maturity mortgage-backed securities are generally secured by residential mortgage loans with original contractual maturities of ten to thirty years. However, the effective lives of

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those securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

9. IMPAIRMENT OF SECURITIES

The following two tables summarize the fair values and gross unrealized losses within the available for sale and held to maturity portfolios at March 31, 2013 and June 30, 2012. The gross unrealized losses, presented by security type, represent temporary impairments of value within each portfolio as of the dates presented. Temporary impairments within the available for sale portfolio have been recognized through other comprehensive income as reductions in stockholders' equity on a tax-effected basis.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
Securities Available for Sale:						
At March 31, 2013:						
Obligations of state and political subdivisions	\$ 21,192	\$ 354	\$ -	\$ -	\$ 21,192	\$ 354
Corporate bonds	23,878	142	-	-	23,878	142
Trust preferred securities	-	-	6,342	1,535	6,342	1,535
Mortgage pass-through securities	64,270	284	-	-	64,270	284
Total	\$109,340	\$780	\$6,342	\$1,535	\$115,682	\$2,315
At June 30, 2012:						
Trust preferred securities	\$-	\$-	\$5,713	\$2,158	\$5,713	\$2,158
U.S. agency securities	-	-	116	1	116	1
Mortgage pass-through securities	3,173	13	922	58	4,095	71
Total	\$3,173	\$13	\$6,751	\$2,217	\$9,924	\$2,230

The number of available for sale securities with unrealized losses at March 31, 2013 totaled 70 comprising 54 municipal obligations, three corporate bonds, four single-issuer trust preferred securities and nine mortgage pass-through securities. The number of available for sale securities with unrealized losses at June 30, 2012 totaled 22 comprising four single-issuer trust preferred securities, one U.S. agency security and 17 mortgage pass-through securities.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Held to Maturity:						
At March 31, 2013:						
U.S. agency securities	\$ 133,096	\$ 227	\$-	\$-	\$ 133,096	\$ 227
Collateralized mortgage obligations	-	-	61	3	61	3
Total	\$ 133,096	\$ 227	\$ 61	\$ 3	\$ 133,157	\$ 230
At June 30, 2012:						
Collateralized mortgage obligations	\$ 13	\$ 1	\$ 120	\$ 12	\$ 133	\$ 13
Total	\$ 13	\$ 1	\$ 120	\$ 12	\$ 133	\$ 13

The number of held to maturity securities with unrealized losses at March 31, 2013 totaled 11 comprising six U.S. agency securities and five collateralized mortgage obligations. Held to maturity securities with unrealized losses at June 30, 2012 comprised ten collateralized mortgage obligations.

In general, if the fair value of a debt security is less than its amortized cost basis at the time of evaluation, the security is “impaired” and the impairment is to be evaluated to determine if it is other than temporary. The Company evaluates the impaired securities in its portfolio for possible other than temporary impairment (OTTI) on at least a quarterly basis. The following represents the circumstances under which an impaired security is determined to be other than temporarily impaired:

- When the Company intends to sell the impaired debt security;
- When the Company more likely than not will be required to sell the impaired debt security before recovery of its amortized cost (for example, whether liquidity requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a forecasted recovery occurs); and
- When an impaired debt security does not meet either of the two conditions above, but the Company does not expect to recover the entire amortized cost of the security. According to applicable accounting guidance, this is generally when the present value of cash flows expected to be collected is less than the amortized cost of the security.

In the first two circumstances noted above, the amount of OTTI recognized in earnings is the entire difference between the security’s amortized cost basis and its fair value at the balance sheet date. In the third circumstance, however, the OTTI is to be separated into the amount representing the credit loss from the amount related to all other factors. The credit loss component is to be recognized in earnings while the non-credit loss component is to be recognized in other comprehensive income. In these cases, OTTI is generally predicated on an adverse change in cash flows (e.g. principal and/or interest payment deferrals or losses) versus those expected at the time of purchase. The absence of an adverse change in expected cash flows generally indicates that a security’s impairment is related to other “non-credit loss” factors thereby precluding its recognition as OTTI.

The Company considers a variety of factors when determining whether a credit loss exists for an impaired security including, but not limited to:

- The length of time and the extent (a percentage) to which the fair value has been less than the amortized cost basis;
- Adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset backed debt security, in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement);
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security;
- Actual or expected failure of the issuer of the security to make scheduled interest or principal payments;
- Changes to the rating of the security by external rating agencies; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

The following discussion summarizes the Company's rationale for recognizing the impairments reported in the tables above as "temporary" versus "other-than-temporary". Such rationale is presented by investment type and generally applies consistently to both the available for sale and held to maturity portfolios, except where specifically noted.

Mortgage-backed Securities. The carrying value of the Company's mortgage-backed securities totaled \$783.2 million at March 31, 2013 and comprised 73.3% of total investments and 27.3% of total assets as of that date. This category of securities primarily includes mortgage pass-through securities and collateralized mortgage obligations issued by U.S. government-sponsored entities such as Ginnie Mae, Fannie Mae and Freddie Mac who guarantee the contractual cash flows associated with those securities. Those guarantees were strengthened during the 2008-2009 financial crisis during which time Fannie Mae and Freddie Mac were placed into receivership by the federal government. Through those actions, the U.S. government effectively reinforced the guarantees of their agencies thereby strengthening the creditworthiness of the mortgage-backed securities issued by those agencies.

With credit risk being reduced to negligible levels due primarily to the U.S. government's support of most of these agencies, the unrealized losses on the Company's investment in U.S. agency mortgage-backed securities are due largely to the combined effects of several market-related factors. First, movements in market interest rates significantly impact the average lives of mortgage-backed securities by influencing the rate of principal prepayment attributable to refinancing activity. Changes in the expected average lives of such securities significantly impact their fair values due to the extension or contraction of the cash flows that an investor expects to receive over the life of the security.

Generally, lower market interest rates prompt greater refinancing activity thereby shortening the average lives of mortgage-backed securities and vice-versa. The historically low mortgage rates currently prevalent in the marketplace have created significant refinancing incentive for qualified borrowers. However, prepayment rates are also influenced by fluctuating real estate values and the overall

availability of credit in the marketplace which significantly impacts the ability of borrowers to qualify for refinancing. The deteriorating real estate market values and reduced availability of credit that have characterized the residential real estate marketplace in recent years have stifled demand for residential real estate while reducing the ability of certain borrowers to qualify for the refinancing of existing loans. To some extent, these factors have offset the effects of historically low interest rates on mortgage-backed security prepayment rates.

The market price of mortgage-backed securities, being the key measure of the fair value to an investor in such securities, is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of a security decreases its price. For example, during fiscal 2008 and fiscal 2009, the volatility and uncertainty in the marketplace had reduced the overall level of demand for mortgage-backed securities which generally had an adverse impact on their prices in the open market. This was further exacerbated by many larger institutions shedding mortgage-related assets to shrink their balance sheets for capital adequacy purposes thereby increasing the supply of such securities.

Since fiscal 2010, however, institutional demand for mortgage-backed securities has increased reflecting greater stability and liquidity in the financial markets coupled with the intervention of the Federal Reserve as a buyer/holder of such securities. Moreover, many financial institutions are experiencing the effect of diminished loan origination volume resulting in increased institutional demand for mortgage-backed securities as investment alternatives to loans with market prices of agency mortgage-backed securities generally reflecting that increased institutional demand.

In sum, the factors influencing the fair value of the Company's U.S. agency mortgage-backed securities, as described above, generally result from movements in market interest rates and changing real estate and financial market conditions which affect the supply and demand for such securities. Such market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value arising from these changing market conditions are both "noncredit-related" and "temporary" in nature.

The Company has the stated ability and intent to "hold to maturity" those securities so designated and does not intend to sell the temporarily impaired available for sale securities until the fair value of the securities recovers to a level equal to or greater than the Company's amortized cost. Additionally, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date.

In light of the factors noted above, the Company does not consider its U.S. agency mortgage-backed securities with unrealized losses at March 31, 2013 to be "other-than-temporarily" impaired as of that date.

In addition to those mortgage-backed securities issued by U.S. agencies, the Company held a nominal balance of non-agency mortgage-backed securities at March 31, 2013. Unlike agency mortgage-backed securities, non-agency collateralized mortgage obligations are not explicitly guaranteed by a U.S. government sponsored entity. Rather, such securities generally utilize the structure of the larger investment vehicle to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying mortgage

loans. The creditworthiness of certain tranches may also be further enhanced by additional credit insurance protection embedded within the terms of the total investment vehicle.

The fair values of the non-agency mortgage-backed securities are subject to many of the factors applicable to the agency securities that may result in “temporary” impairments in value. However, due to the lack of agency guaranty, the Company also monitors the general level of credit risk for each of its non-agency mortgage-backed securities based upon a variety of factors including, but not limited to, the ratings assigned to its specific tranches by one or more credit rating agencies. As noted above, the level of such ratings and changes thereto, is one of several factors considered by the Company in identifying those securities that may be other-than-temporarily impaired.

The classification of impairment as “temporary” is generally reinforced by the Company’s stated intent and ability to “hold to maturity” all of its non-agency mortgage-backed securities which allows for an adequate timeframe during which the fair values of the impaired securities are expected to recover to the level of their amortized cost. However, in the event of a severe deterioration of a security’s credit characteristics – including, but not limited to, a reduction in credit rating below certain internally defined rating thresholds and/or the recognition of credit-related impairment resulting from actual or expected deterioration of cash flows - the Company may re-evaluate and restate its intent to hold an impaired security until the expected recovery of its amortized cost.

For example, during both fiscal 2013 and 2012, the Company re-evaluated its intent regarding the retention or sale of its impaired, non-agency collateralized mortgage obligations whose credit-ratings had fallen below the thresholds that generally support an investment grade assessment by the Company. The Company considered the combined effects of the severe deterioration of the securities’ credit ratings since their acquisition as investment grade securities and the actual and anticipated cash flow losses that characterized most of the securities. Based on these factors, the Company modified its intent regarding these impaired securities from “hold to recovery of amortized cost” to “sell” and sold such securities during the periods noted.

At March 31, 2013, the Company's remaining portfolio comprised eight non-agency CMOs held-to-maturity totaling \$115,000 of which five were impaired but maintained their credit-ratings, where applicable, at levels supporting an investment grade assessment by the Company. The Company has not decided to sell the impaired securities as of March 31, 2013 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date.

In light of the factors noted above, the Company does not consider its balance of non-agency mortgage-backed securities with unrealized losses at March 31, 2013 to be “other-than-temporarily” impaired as of that date.

U.S. Agency Debt Securities. The carrying value of the Company’s U.S. agency debt securities totaled \$150.4 million at March 31, 2013 and comprised 14.1% of total investments and 5.2% of total assets as of that date. Such securities are comprised of \$145.0 million of U.S. agency debentures and \$5.4 million of securitized pools of loans issued and fully guaranteed by the Small Business Administration (“SBA”), a U.S. government sponsored entity.

With credit risk being reduced to negligible levels due to the issuer’s guarantee, the unrealized losses on the Company’s investment in U.S. agency debt securities are due largely to the combined effects of several market-related factors including movements in market interest rates and general level of liquidity of such securities in the marketplace based on supply and demand.

With regard to interest rates, the Company's SBA securities include, but are not limited to, variable rate investments generally based on the Prime rate minus a margin. Based upon the historically low level of short term market interest rates, of which the Prime rate is one measure, the current yields on these securities are comparatively low. Consequently, the fair value of the variable rate SBA securities, as determined based upon the market price of these securities, reflects the effects of the historically low short term, market interest rates at March 31, 2013.

Like the mortgage-backed securities described earlier, the fair value of the Company's SBA securities also reflects the extended average lives of the underlying loans resulting from loan prepayment prohibitions that may be embedded in the underlying loans coupled with the generally reduced availability of credit in the marketplace reducing borrower refinancing opportunities. Such influences extend the timeframe over which an investor would anticipate holding the security at a historically low yield. Similarly, the price of securitized SBA loan pools also reflects fluctuating supply and demand in the marketplace attributable to similar factors as those applying to mortgage-backed securities, as presented above. Despite these general considerations, the Company's U.S. agency debt securities representing securitized SBA loan pools were not impaired at March 31, 2013.

Unlike its variable rate SBA securities, the Company's other U.S. agency debentures are fixed rate investments whose fair values over time generally reflect movements in comparatively longer term market interest rates. Such securities include the fixed rate portion of the Company's SBA securities. At March 31, 2013, the unrealized losses applicable to those securities are generally attributable to movements in longer term interest rates since their acquisition by the Company.

In sum, the factors influencing the fair value of the Company's U.S. agency securities, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Such market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value arising from these changing market conditions are both "noncredit-related" and "temporary" in nature.

The Company has the stated ability and intent to "hold to maturity" those securities so designated and does not intend to sell the temporarily impaired available for sale securities until the fair value of the securities recovers to a level equal to or greater than the Company's amortized cost. Additionally, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Furthermore, the Company purchased these securities at either par or nominal premiums. Accordingly, the Company expects that the securities will not be settled for a price less than their amortized cost.

In light of the factors noted above, the Company does not consider its balance of U.S. agency securities with unrealized losses at March 31, 2013 to be "other-than-temporarily" impaired as of that date.

Obligations of state and political subdivisions. The outstanding balance of the Company's securities representing obligations of state and political subdivisions totaled \$56.8 million at March 31, 2013 and comprised 5.3% of total investments and 2.0% of total assets as of that date. Such securities include approximately \$54.9 million of highly-rated, bank qualified securities representing general obligations of municipalities located within the U.S. or the obligations of their related entities such as boards of education or school districts. The portfolio also includes a nominal balance of non-rated municipal obligations totaling approximately \$1.9 million comprising eight short term, bond anticipation

notes (“BANs”) issued by a total of three New Jersey municipalities with whom the Company also maintains deposit relationships. At March 31, 2013, the fair value of each of the Company’s BANs exceeded their respective carrying values resulting in no reported impairment on those securities as of that date.

As noted earlier, the Company considers the ratings assigned by one or more credit rating agencies, where available, in its evaluation of the impairment attributable to each of its municipal obligations. The Company uses such ratings, in conjunction with the other criteria noted earlier, to identify those securities whose impairments are potentially “credit-related” versus “noncredit-related”.

Unrealized losses associated with municipal obligations whose credit ratings exceed certain internally defined thresholds are considered to be indicative of “noncredit-related” impairment given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company’s periodic internal investment grade assessment of the security.

At March 31, 2013, each of the Company’s impaired municipal obligations were consistently rated by Moody’s and Standard & Poor’s Financial Services (“S&P”) well above the thresholds that generally support the Company’s investment grade assessment with such ratings equaling or exceeding A+ or higher by Standard & Poors (“S&P”) and/or A1 or higher by Moody’s Investors Service (“Moody’s”).

In sum, the factors influencing the fair value of the Company’s municipal obligations, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Such market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value arising from these changing market conditions are both “noncredit-related” and “temporary” in nature.

The Company has the stated ability and intent to “hold to maturity” those securities so designated and does not intend to sell the temporarily impaired available for sale securities until the fair value of the securities recovers to a level equal to or greater than the Company’s amortized cost. Additionally, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Furthermore, the Company purchased these securities at either par or nominal premiums while call provisions, where applicable, require full repayment of principal at par by the issuer. Accordingly, the Company expects that the securities will not be settled for a price less than their amortized cost.

In light of the factors noted above, the Company does not consider its balance of obligations of state and political subdivisions with unrealized losses at March 31, 2013 to be “other-than-temporarily” impaired as of that date.

Corporate Bonds. The outstanding balance of the Company’s corporate bonds totaled \$59.9 million at March 31, 2013 and comprised 5.6% of total investments and 2.1% of total assets as of that date. Such securities are comprised entirely of corporate obligations of U.S. financial companies.

As noted earlier, the Company considers the ratings assigned by one or more credit rating agencies, where available, in its evaluation of the impairment attributable to each of its corporate bonds. The Company uses such ratings, in conjunction with the other criteria noted earlier, to identify those securities whose impairments are potentially “credit-related” versus “noncredit-related”.

Unrealized losses associated with corporate bonds whose credit ratings exceed certain internally defined thresholds are considered to be indicative of “noncredit-related” impairment given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company’s periodic internal investment grade assessment of the security.

At March 31, 2013, each of the Company’s impaired corporate bonds were consistently rated by Moody’s and S&P well above the thresholds that generally support the Company’s investment grade assessment with such ratings equaling or exceeding A- or higher by S&P and/or A3 or higher by Moody’s.

In sum, the factors influencing the fair value of the Company’s corporate bonds, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Such market conditions may fluctuate over time resulting in certain securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not necessarily reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value arising from these changing market conditions are both “noncredit-related” and “temporary” in nature.

While all of its corporate bonds are classified as available for sale, the Company does not intend to sell the impaired securities until their fair values recover to a level equal to or greater than the Company’s amortized cost. Additionally, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Moreover, the Company purchased these securities at par or nominal premiums. Accordingly, the Company expects that the securities will not be settled for a price less than their amortized cost.

In light of the factors noted above, the Company does not consider its investments in corporate bonds with unrealized losses at March 31, 2013 to be “other-than-temporarily” impaired as of that date.

Trust Preferred Securities. The carrying value of the Company’s trust preferred securities totaled \$7.3 million at March 31, 2013 and comprised less than one percent of total investments and total assets as of that date. The category comprises a total of five “single-issuer” (i.e. non-pooled) trust preferred securities, four of which are impaired as of March 31, 2013, that were originally issued by four separate financial institutions. As a result of bank mergers involving the issuers of these securities, the Company’s five trust preferred securities currently represent the de-facto obligations of three separate financial institutions.

As noted earlier, the Company considers the ratings assigned by one or more credit rating agencies, where such ratings are available, in its evaluation of the impairment attributable to each of its trust preferred securities. The Company uses such ratings, in conjunction with other criteria, to identify those securities whose impairments are potentially “credit-related” versus “noncredit-related”.

Unrealized losses associated with trust preferred securities whose credit ratings exceed certain internally defined thresholds are considered to be indicative of “noncredit-related” impairment given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company’s internal investment grade assessment of the security.

At March 31, 2013, the Company owned two securities at an amortized cost of \$3.0 million that were consistently rated by Moody’s and S&P above the thresholds that generally support the Company’s

investment grade assessment. The securities were originally issued through Chase Capital II and currently represent de-facto obligations of JPMorgan Chase & Co.

The Company has attributed the unrealized losses on these securities to the combined effects of several market-related factors including movements in market interest rates and general level of liquidity of such securities in the marketplace based on overall supply and demand.

With regard to interest rates, the Company's impaired trust preferred securities are variable rate securities whose interest rates generally float with three month Libor plus a margin. Based upon the historically low level of short term market interest rates, the current yield on these securities is comparatively low. Consequently, the fair value of the securities, as determined based upon their market price, reflects the adverse effects of the historically low market interest rates at March 31, 2013.

More significantly, the market prices of the impaired trust preferred securities also currently reflect the effect of reduced demand for such securities given the increasingly credit risk-averse nature of financial institutions in the current marketplace. Additionally, such prices reflect the effects of increased supply arising from financial institutions selling such investments and reducing assets for capital adequacy purposes, as noted earlier.

In addition to the securities noted above, the Company owned two additional trust preferred securities at an amortized cost of \$4.9 million whose external credit ratings by both S&P and Moody's fell below the thresholds that the Company normally associates with investment grade securities. The securities were originally issued through BankBoston Capital Trust IV and MBNA Capital B and currently represent de-facto obligations of Bank of America Corporation.

The Company's evaluation of the unrealized loss associated with these securities considered a variety of factors to determine if any portion of the impairment was credit-related at March 31, 2013. Factors generally considered in such evaluations included the financial strength and viability of the issuer and its parent company, the security's historical performance through prior business and economic cycles, rating consistency or variability among rating companies, the security's current and anticipated status regarding payment default or deferral of contractual payments to investors and the impact of these factors on the present value of the security's expected future cash flows in relation to its amortized cost basis.

In its evaluation, the Company noted the overall financial strength and continuing expected viability of the issuing entity's parent, particularly given their systemically critical role in the marketplace. The Company noted the security's absence of historical defaults or payment deferrals throughout prior business cycles including the recent fiscal crisis that triggered the current economic weaknesses prevalent in the marketplace. Given these factors, the Company had no basis upon which to estimate an adverse change in the expected cash flows over the securities' remaining terms to maturity.

In sum, the factors influencing the fair value of the Company's trust preferred securities and the resulting impairment attributable to each generally resulted from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Such market conditions may generally fluctuate over time resulting in the securities being impaired for periods in excess of 12 months. However, the longevity of such impairment is not reflective of an expectation for an adverse change in cash flows signifying a credit loss. Consequently, the impairments of value arising from these changing market conditions are both "noncredit-related" and "temporary" in nature.

While all of its trust preferred securities are classified as available for sale, the Company does not intend to sell the impaired securities until their fair values recover to a level equal to or greater than the Company's amortized

cost. Additionally, the Company has concluded that the possibility of being

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required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Moreover, the Company purchased these securities at nominal discounts. Accordingly, the Company expects that the securities will not be settled for a price less than their amortized cost.

In light of the factors noted above, the Company does not consider its investments in trust preferred securities with unrealized losses at March 31, 2013 to be “other-than-temporarily” impaired as of that date.

At March 31, 2013 and June 30, 2012, the Company held no securities on which credit-related OTTI had been recognized in earnings.

10. LOAN QUALITY AND ALLOWANCE FOR LOAN LOSSES

Past Due Loans. A loan’s “past due” status is generally determined based upon its “P&I delinquency” status in conjunction with its “past maturity” status, where applicable. A loan’s “P&I delinquency” status is based upon the number of calendar days between the date of the earliest P&I payment due and the “as of” measurement date. A loan’s “past maturity” status, where applicable, is based upon the number of calendar days between a loan’s contractual maturity date and the “as of” measurement date. Based upon the larger of these criteria, loans are categorized into the following “past due” tiers for financial statement reporting and disclosure purposes: Current (including 1-29 days past due), 30-59 days, 60-89 days and 90 or more days.

Nonaccrual Loans. Loans are generally placed on nonaccrual status when contractual payments become 90 days or more past due, and are otherwise placed on nonaccrual when the Company does not expect to receive all P&I payments owed substantially in accordance with the terms of the loan agreement. Loans that become 90 days past maturity, but remain non-delinquent with regard to ongoing P&I payments may remain on accrual status if: (1) the Company expects to receive all P&I payments owed substantially in accordance with the terms of the loan agreement, past maturity status notwithstanding, and (2) the borrower is working actively and cooperatively with the Company to remedy the past maturity status through an expected refinance, payoff or modification of the loan agreement that is not expected to result in a troubled debt restructuring (“TDR”) classification. All TDRs are placed on nonaccrual status for a period of no less than six months after restructuring, irrespective of past due status. Nonaccrual loans plus accruing loans that are 90 days or more past due are generally defined collectively as “nonperforming loans”.

Payments received in cash on nonaccrual loans, including both the principal and interest portions of those payments, are generally applied to reduce the carrying value of the loan for financial statement purposes. When a loan is returned to accrual status, any accumulated interest payments previously applied to the carrying value of the loan during its nonaccrual period are recognized as interest income as an adjustment to the loan’s yield over its remaining term.

Loans that are not considered to be TDRs are generally returned to accrual status when payments due are brought current and the Company expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement. Non-TDR loans may also be returned to accrual status when a loan’s payment status falls below 90 days past due and the Company: (1) expects receipt of the remaining past due amounts within a reasonable timeframe, and (2) expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement.

Acquired Loans. Loans that we acquire in acquisitions subsequent to January 1, 2009 are recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair

value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require us to evaluate the need for an allowance for credit losses. Subsequent improvements in expected cash flows result in the reversal of a corresponding amount of the nonaccretable discount which we then reclassify as accretable discount that is recognized into interest income over the remaining life of the loan using the interest method. Our evaluation of the amount of future cash flows that we expect to collect is performed in a similar manner as that used to determine our allowance for credit losses. Charge-offs of the principal amount on acquired loans would be first applied to the nonaccretable discount portion of the fair value adjustment.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if we expect to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable discount.

At March 31, 2013, the remaining outstanding principal balance and carrying amount of the acquired credit-impaired loans totaled approximately \$9,902,000 and \$6,220,000, respectively. By comparison, at June 30, 2012, the remaining outstanding principal balance and carrying amount of such loans totaled approximately \$12,586,000 and \$8,439,000, respectively.

The carrying amount of acquired credit-impaired loans for which interest is not being recognized due to the uncertainty of the cash flows relating to such loans totaled \$2,016,000 and \$2,967,000 at March 31, 2013 and June 30, 2012, respectively.

The balance of the allowance for loan losses at March 31, 2013 and June 30, 2012 included approximately \$19,000 and \$59,000 of valuation allowances, respectively, for a specifically identified impairment attributable to acquired credit-impaired loans. The valuation allowances were attributable to additional impairment recognized on the applicable loans subsequent to their acquisition, net of any charge offs recognized during that time.

The following table presents the changes in the accretable yield relating to the acquired credit-impaired loans for the three and nine months ended March 31, 2013 and March 31, 2012.

	Three Months Ended March 31, 2013 (in thousands)	Three Months Ended March 31, 2012 (in thousands)
Beginning balance	\$ 1,088	\$ 1,554
Accretion to interest income	(250)	(70)
Disposals	-	-
Reclassifications from nonaccretable difference	-	-
Ending balance	\$ 838	\$ 1,484

	Nine Months Ended March 31, 2013 (in thousands)	Nine Months Ended March 31, 2012 (in thousands)
Beginning balance	\$ 1,461	\$ 1,718
Accretion to interest income	(532)	(234)
Disposals	(91)	-
Reclassifications from nonaccretable difference	-	-
Ending balance	\$ 838	\$ 1,484

Classification of Assets. In compliance with the regulatory guidelines, the Company’s loan review system includes an evaluation process through which certain loans exhibiting adverse credit quality characteristics are classified “Special Mention”, “Substandard”, “Doubtful” or “Loss”.

An asset is classified as “Substandard” if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as “Doubtful” have all of the weaknesses inherent in those classified as “Substandard”, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. Assets or portions thereof, classified as “Loss” are considered uncollectible or of so little value that their continuance as assets is not warranted.

Management evaluates loans classified as substandard or doubtful for impairment in accordance with applicable accounting requirements. As discussed in greater detail below, a valuation allowance is established through the provision for loan losses for any impairment identified through such evaluations. To the extent that impairment identified on a loan is classified as “Loss”, that portion of the loan is charged off against the allowance for loan losses. In a limited number of cases, the entire net carrying value of a loan may be determined to be impaired based upon a collateral-dependent impairment analysis. However, the borrower’s adherence to contractual repayment terms precludes the recognition of a “Loss” classification and charge off. In these limited cases, a valuation allowance equal to 100% of the impaired loan’s carrying value may be maintained against the net carrying value of the asset.

In the past, the Company’s impaired loans with impairment were characterized by “split classifications” (ex. Substandard/Loss) with all loan impairment being ascribed a “Loss” classification by default and charge offs being recorded against the allowance for loan loss at the time such losses were realized. For loans primarily secured by real estate, which have historically comprised over 90% of the Company’s loan portfolio, the recognition of impairments as “charge offs” typically coincided with the foreclosure of the property securing the impaired loan at which time the property was brought into real estate owned at its fair value, less estimated selling costs, and any portion of the loan’s carrying value in excess of that amount was charged off against the allowance for loan losses.

During the prior year ended June 30, 2012, the Bank modified its loan classification and charge off practices to more closely align them to those of other institutions regulated by the Office of the Comptroller of the Currency (“OCC”). The OCC succeeded the Office of Thrift Supervision (“OTS”) as the Bank’s primary regulator effective July 21, 2011. The classification of loan impairment as “Loss” is now based upon a confirmed expectation for loss, rather than simply equating impairment with a “Loss” classification by default. For loans primarily secured by real estate, the expectation for loss is generally confirmed when: (a) impairment is identified on a loan individually evaluated in the manner described below; and, (b) the loan is presumed to be collateral-dependent such that the source of loan repayment is expected to arise solely from sale of the collateral securing the applicable loan. Impairment identified on non-collateral-dependent loans may or may not be eligible for a “Loss” classification depending upon the other salient facts and circumstances that affect the manner and likelihood of loan repayment. However, loan impairment that is classified as “Loss” is now charged off against the ALLL concurrent with that classification rather than deferring the charge off of confirmed expected losses until they are “realized”.

Assets which do not currently expose the Company to a sufficient degree of risk to warrant an adverse classification but have some credit deficiencies or other potential weaknesses are designated as “Special Mention” by management. Adversely classified assets, together with those rated as “Special Mention”, are generally referred to as “Classified Assets”. Non-classified assets are internally rated within one of four “Pass” categories or as “Watch” with the latter denoting a potential deficiency or concern that warrants increased oversight or tracking by management until remediated.

Management performs a classification of assets review, including the regulatory classification of assets, generally on a monthly basis. The results of the classification of assets review are validated by the Company’s third party loan review firm during their quarterly, independent review. In the event of a difference in rating or classification between those assigned by the internal and external resources, the Company will generally utilize the more critical or conservative rating or classification. Final loan ratings and regulatory classifications are presented monthly to the Board of Directors and are reviewed by regulators during the examination process.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects the Company’s estimation of the losses in its loan portfolio to the extent they are both probable and reasonable to estimate. The balance of the allowance is generally maintained through provisions for loan losses that are charged to income in the period that estimated losses on loans are identified by the Company’s loan review system. The Company charges confirmed losses on loans against the allowance as such losses are identified. Recoveries on loans previously charged-off are added back to the allowance.

The Company’s allowance for loan loss calculation methodology utilizes a “two-tier” loss measurement process that is generally performed monthly. Based upon the results of the classification of assets and credit file review processes described earlier, the Company first identifies the loans that must be reviewed individually for impairment. Factors considered in identifying individual loans to be reviewed include, but may not be limited to, loan type, classification status, contractual payment status, performance/accrual status and impaired status.

Traditionally, the loans considered by the Company to be eligible for individual impairment review have generally represented its larger and/or more complex loans including its commercial mortgage loans, comprising multi-family and nonresidential real estate loans, as well as its construction loans and commercial business loans. The scope of loans that the Company considers eligible for individual impairment review also includes all one-to-four family mortgage loans as well as its home equity loans and home equity lines of credit.

A reviewed loan is deemed to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, management performs an analysis to determine the amount of impairment associated with that loan.

In measuring the impairment associated with collateral dependent loans, the fair value of the real estate collateralizing the loan is generally used as a measurement proxy for that of the impaired loan itself as a practical expedient. Such values are generally determined based upon a discounted market value obtained through an automated valuation module or prepared by a qualified, independent real estate appraiser.

The Company generally obtains independent appraisals on properties securing mortgage loans when such loans are initially placed on nonperforming or impaired status with such values updated approximately every six to twelve months thereafter throughout the collections, bankruptcy and/or foreclosure processes. Appraised values are typically updated at the point of foreclosure, where applicable, and approximately every six to twelve months thereafter while the repossessed property is held as real estate owned.

As supported by accounting and regulatory guidance, the Company reduces the fair value of the collateral by estimated selling costs, such as real estate brokerage commissions, to measure impairment when such costs are expected to reduce the cash flows available to repay the loan.

The Company establishes valuation allowances in the fiscal period during which the loan impairments are identified. The results of management's individual loan impairment evaluations are validated by the Company's third party loan review firm during their quarterly, independent review. Such valuation allowances are adjusted in subsequent fiscal periods, where appropriate, to reflect any changes in carrying value or fair value identified during subsequent impairment evaluations which are generally updated monthly by management.

The second tier of the loss measurement process involves estimating the probable and estimable losses which addresses loans not otherwise reviewed individually for impairment as well as those individually reviewed loans that are determined to be non-impaired. Such loans include groups of smaller-balance homogeneous loans that may generally be excluded from individual impairment analysis, and therefore collectively evaluated for impairment, as well as the non-impaired loans within categories that are otherwise eligible for individual impairment review.

Valuation allowances established through the second tier of the loss measurement process utilize historical and environmental loss factors to collectively estimate the level of probable losses within defined segments of the Company's loan portfolio. These segments aggregate homogeneous subsets of loans with similar risk characteristics based upon loan type. For allowance for loan loss calculation and reporting purposes, the Company currently stratifies its loan portfolio into seven primary segments: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans, home equity loans, home equity lines of credit and other consumer loans. Each primary segment is further stratified to distinguish between loans originated and purchased through third parties from loans acquired through business combinations. Commercial business loans include secured and unsecured loans as well as loans originated through SBA programs. Additional criteria may be used to further group loans with common risk characteristics. For example, such criteria may distinguish between loans secured by different collateral types or separately identify loans supported by government guarantees such as those issued by the SBA.

In regard to historical loss factors, the Company's allowance for loan loss calculation calls for an analysis of historical charge-offs and recoveries for each of the defined segments within the loan portfolio. The Company currently utilizes a two-year moving average of annual net charge-off rates (charge-offs net of recoveries) by loan segment, where available, to calculate its actual, historical loss experience. The outstanding principal balance of the non-impaired portion of each loan segment is multiplied by the applicable historical loss factor to estimate the level of probable losses based upon the Company's historical loss experience.

The timeframe between when loan impairment is first identified by the Company and when such impairment may ultimately be charged off varies by loan type. For example, unsecured consumer and commercial loans are generally classified as "Loss" at 120 days past due resulting in their outstanding balances being charged off at that time.

By contrast, the timing of charge offs regarding the impairment associated with secured loans has historically been far more variable. The Company's secured loans, comprising a large majority of its total loan portfolio, consist primarily of residential and nonresidential mortgage loans and commercial/business loans secured by properties located in New Jersey where the foreclosure process currently takes 24-36 months to complete. Prior to fiscal 2012, charge offs of the impairment identified on loans secured by real estate were generally recognized upon completion of foreclosure at which time: (a) the property was brought into real estate owned at its fair value, less estimated selling costs, (b) any portion of the loan's carrying value in excess of that amount was charged off against the ALLL, and (c) the historical loss factors used in the Company's ALLL calculations were updated to reflect the actual realized loss. Accordingly, the historical loss factors used in the Company's allowance for loan loss calculations during prior periods did not reflect the probable losses on impaired loans until such time that the losses were realized as charge offs.

As a result of the noted changes to the Company's loan classification and charge off practices during fiscal 2012, the charge off of impairments relating to secured loans are now generally recognized upon the confirmation of an expected loss rather than deferring the charge off of loan impairments until such losses are realized.

For the Company's secured loans, the condition of collateral dependency generally serves as the basis upon which a "Loss" classification is ascribed to a loan's impairment thereby confirming an expected loss and triggering charge off of that impairment. While the facts and circumstances that affect the manner and likelihood of repayment vary from loan to loan, the Company generally considers the referral of a loan to foreclosure, coupled with the absence of other viable sources of loan repayment, to be demonstrable evidence of collateral dependency. Depending upon the nature of the collections process applicable to a particular loan, an early determination of collateral dependency could result in a nearly concurrent charge off of a newly identified impairment. By contrast, a presumption of collateral dependency may only be determined after the completion of lengthy loan collection and/or workout efforts, including bankruptcy proceedings, which may extend several months or more after a loan's impairment is first identified.

Regardless, the recognition of charge offs based upon confirmed expected losses rather than realized losses has generally accelerated the timing of their recognition compared to prior years. Toward that end, the adoption of this change to the Company's ALLL methodology during the quarter ended December 31, 2011 resulted in the charge off of approximately \$4.2 million of confirmed expected losses for which valuation allowances had been established for impairments identified during prior periods. Such charge offs comprised a substantial portion of the \$7.5 million of total charge offs recognized during the prior fiscal year ended June 30, 2012. The historical loss factors used in the Company's allowance for

loan loss calculations were updated to reflect these charge offs and have continued to reflect the charge off of confirmed expected losses since that time.

As noted, the second tier of the Company's allowance for loan loss calculation also utilizes environmental loss factors to estimate the probable losses within the loan portfolio. Environmental loss factors are based upon specific qualitative criteria representing key sources of risk within the loan portfolio. Such risk criteria includes the level of and trends in nonperforming loans; the effects of changes in credit policy; the experience, ability and depth of the lending function's management and staff; national and local economic trends and conditions; credit risk concentrations and changes in local and regional real estate values. For each category of the loan portfolio, a level of risk, developed from a number of internal and external resources, is assigned to each of the qualitative criteria utilizing a scale ranging from zero (negligible risk) to 15 (high risk), with higher values potentially ascribed to exceptional levels of risk that exceed the standard range, as appropriate. The sum of the risk values, expressed as a whole number, is multiplied by .01% to arrive at an overall environmental loss factor, expressed in basis points, for each loan category.

During prior years, the aggregate outstanding principal balance of the non-impaired loans within each loan category was simply multiplied by the applicable environmental loss factor, as described above, to estimate the level of probable losses based upon the qualitative risk criteria. To more closely align its ALLL calculation methodology to that of other institutions regulated by the OCC, the Company modified its ALLL calculation methodology to explicitly incorporate its existing credit-rating classification system into the calculation of environmental loss factors by loan type. Toward that end, the Company implemented the use of risk-rating classification "weights" into its calculation of environmental loss factors during fiscal 2012.

The Company's existing risk-rating classification system ascribes a numerical rating of "1" through "9" to each loan within the portfolio. The ratings "5" through "9" represent the numerical equivalents of the traditional loan classifications "Watch", "Special Mention", "Substandard", "Doubtful" and "Loss", respectively, while lower ratings, "1" through "4", represent risk-ratings within the least risky "Pass" category. The environmental loss factor applicable to each non-impaired loan within a category, as described above, is "weighted" by a multiplier based upon the loan's risk-rating classification. Within any single loan category, a "higher" environmental loss factor is now ascribed to those loans with comparatively higher risk-rating classifications resulting in a proportionately greater ALLL requirement attributable to such loans compared to the comparatively lower risk-rated loans within that category.

In evaluating the impact of the level and trends in nonperforming loans on environmental loss factors, the Company first broadly considers the occurrence and overall magnitude of prior losses recognized on such loans over an extended period of time. For this purpose, losses are considered to include both charge offs as well as loan impairments for which valuation allowances have been recognized through provisions to the allowance for loan losses, but have not yet been charged off. To the extent that prior losses have generally been recognized on nonperforming loans within a category, a basis is established to recognize existing losses on loans collectively evaluated for impairment based upon the current levels of nonperforming loans within that category. Conversely, the absence of material prior losses attributable to delinquent or nonperforming loans within a category may significantly diminish, or even preclude, the consideration of the level of nonperforming loans in the calculation of the environmental loss factors attributable to that category of loans.

Once the basis for considering the level of nonperforming loans on environmental loss factors is established, the Company then considers the current dollar amount of nonperforming loans by loan type in relation to the total outstanding balance of loans within the category. A greater portion of

nonperforming loans within a category in relation to the total suggests a comparatively greater level of risk and expected loss within that loan category and vice-versa.

In addition to considering the current level of nonperforming loans in relation to the total outstanding balance for each category, the Company also considers the degree to which those levels have changed from period to period. A significant and sustained increase in nonperforming loans over a 12-24 month period suggests a growing level of expected loss within that loan category and vice-versa.

As noted above, the Company considers these factors in a qualitative, rather than quantitative fashion when ascribing the risk value, as described above, to the level and trends of nonperforming loans that is applicable to a particular loan category. As with all environmental loss factors, the risk value assigned ultimately reflects the Company's best judgment as to the level of expected losses on loans collectively evaluated for impairment.

The sum of the probable and estimable loan losses calculated through the first and second tiers of the loss measurement processes as described above, represents the total targeted balance for the Company's allowance for loan losses at the end of a fiscal period. As noted earlier, the Company establishes all additional valuation allowances in the fiscal period during which additional individually identified loan impairments and additional estimated losses on loans collectively evaluated for impairment are identified. The Company adjusts its balance of valuation allowances through the provision for loan losses as required to ensure that the balance of the allowance for loan losses reflects all probable and estimable loans losses at the close of the fiscal period. Notwithstanding calculation methodology and the noted distinction between valuation allowances established on loans collectively versus individually evaluated for impairment, the Company's entire allowance for loan losses is available to cover all charge-offs that arise from the loan portfolio.

Although management believes that the Company's allowance for loans losses is established in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further additions to the level of loan loss allowances may be necessary.

The following tables present the balance of the allowance for loan losses at March 31, 2013 and June 30, 2012 based upon the calculation methodology described above. The table identifies the valuation allowances attributable to identified impairments on individually evaluated loans, including those acquired with deteriorated credit quality, as well as those valuation allowances for impairments on loans evaluated collectively. The underlying balance of loans receivable applicable to each category is also presented. The balance of loans receivable reported in the tables below excludes yield adjustments and the allowance for loan loss.

Allowance for Loan Losses and Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Balance of allowance for loan losses:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$ 687	\$ 472	\$ -	\$ -	\$ 111	\$ -	\$ -	\$ 1,270
Loans collectively evaluated for impairment	2,981	3,827	81	240	305	35	14	7,483
Allowance for loan losses on originated and purchased loans	3,668	4,299	81	240	416	35	14	8,753
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	-	-	19	-	-	-	19
Other acquired loans individually evaluated for impairment	-	11	-	1,114	-	-	-	1,125
Loans collectively evaluated for impairment	5	458	48	228	83	39	-	861
Allowance for loan losses on loans acquired at fair value	5	469	48	1,361	83	39	-	2,005
Total allowance for loan losses	\$ 3,673	\$ 4,768	\$ 129	\$ 1,601	\$ 499	\$ 74	\$ 14	\$ 10,758

Allowance for Loan Losses and Loans Receivable
at March 31, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Changes in the allowance for loan losses for the three months ended March 31, 2013:								
At December 31, 2012:								
Allocated	\$4,103	\$ 4,139	\$ 187	\$ 1,590	\$485	\$75	\$ 15	\$10,594
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	4,103	4,139	187	1,590	485	75	15	10,594
Total charge offs	(762)	(325)	(9)	-	(150)	-	-	(1,246)
Total recoveries	3	-	-	-	-	-	-	3
Total allocated provisions	329	954	(49)	11	164	(1)	(1)	1,407
Total unallocated provisions	-	-	-	-	-	-	-	-
At March 31, 2013:								
Allocated	3,673	4,768	129	1,601	499	74	14	10,758
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	\$3,673	\$ 4,768	\$ 129	\$ 1,601	\$499	\$74	\$ 14	\$10,758

Allowance for Loan Losses and Loans Receivable
at March 31, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Changes in the allowance for loan losses for the nine months ended March 31, 2013:								
At June 30, 2012:								
Allocated	\$4,572	\$ 3,443	\$ 277	\$ 1,310	\$447	\$54	\$ 14	\$10,117
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	4,572	3,443	277	1,310	447	54	14	10,117
Total charge offs	(1,665)	(525)	(9)	(116)	(220)	-	(2)	(2,537)
Total recoveries	12	-	-	18	9	-	-	39
Total allocated provisions	754	1,850	(139)	389	263	20	2	3,139
Total unallocated provisions	-	-	-	-	-	-	-	-
At March 31, 2013:								
Allocated	3,673	4,768	129	1,601	499	74	14	10,758
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	\$3,673	\$ 4,768	\$ 129	\$ 1,601	\$499	\$74	\$ 14	\$10,758

Allowance for Loan Losses and Loans Receivable
at March 31, 2012

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Changes in the allowance for loan losses for the three months ended March 31, 2012:								
At December 31, 2011:								
Allocated	\$4,329	\$ 2,664	\$ 207	\$ 997	\$330	\$54	\$ 15	\$8,596
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	4,329	2,664	207	997	330	54	15	8,596
Total charge offs	(712)	-	-	(14)	(29)	-	(1)	(756)
Total recoveries	1	-	-	-	-	-	2	3
Total allocated provisions	585	296	101	160	118	(1)	(2)	1,257
Total unallocated provisions	-	-	-	-	-	-	-	-
At March 31, 2012:								
Allocated	4,203	2,960	308	1,143	419	53	14	9,100
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	\$4,203	\$ 2,960	\$ 308	\$ 1,143	\$419	\$53	\$ 14	\$9,100

Allowance for Loan Losses and Loans Receivable
at March 31, 2012 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Changes in the allowance for loan losses for the nine months ended March 31, 2012:								
At June 30, 2011:								
Allocated	\$6,644	\$ 3,336	\$ 289	\$ 880	\$322	\$49	\$ 14	\$11,534
Unallocated	-	-	-	-	-	-	-	233
Total allowance for loan losses	6,644	3,336	289	880	322	49	14	11,767
Total charge offs	(5,319)	(483)	(73)	(340)	(132)	-	(7)	(6,354)
Total recoveries	2	36	-	-	2	-	2	42
Total allocated provisions	2,876	71	92	603	227	4	5	3,878
Total unallocated provisions	-	-	-	-	-	-	-	(233)
At March 31, 2012:								
Allocated	4,203	2,960	308	1,143	419	53	14	9,100
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	\$4,203	\$ 2,960	\$ 308	\$ 1,143	\$419	\$53	\$ 14	\$9,100

Allowance for Loan Losses and Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Balance of loans receivable:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$14,846	\$ 6,647	\$ 498	\$ 1,241	\$963	\$-	\$-	\$24,195
Loans collectively evaluated for impairment	494,064	493,739	6,823	25,767	66,516	10,555	4,341	1,101,805
Total originated and purchased loans	508,910	500,386	7,321	27,008	67,479	10,555	4,341	1,126,000
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	1,253	315	4,652	-	-	-	6,220
Other acquired loans individually evaluated for impairment	412	2,129	935	2,477	551	470	-	6,974
Loans collectively evaluated for impairment	1,325	123,424	4,906	42,176	14,319	16,425	139	202,714
Total loans acquired at fair value	1,737	126,806	6,156	49,305	14,870	16,895	139	215,908
Total loans	\$510,647	\$ 627,192	\$ 13,477	\$ 76,313	\$82,349	\$27,450	\$4,480	1,341,908
Unamortized yield adjustments								(943)
Loans receivable								\$1,340,965

Allowance for Loan Losses and Loans Receivable
at June 30, 2012

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Balance of allowance for loan losses:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$ 1,240	\$ 424	\$ -	\$ -	\$ 105	\$ -	\$ -	\$ 1,769
Loans collectively evaluated for impairment	3,330	2,594	264	223	278	34	13	6,736
Allowance for loan losses on originated and purchased loans	4,570	3,018	264	223	383	34	13	8,505
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	-	-	59	-	-	-	59
Other acquired loans individually evaluated for impairment	-	243	-	717	22	-	-	982
Loans collectively evaluated for impairment	2	182	13	311	42	20	1	571
Allowance for loan losses on loans acquired at fair value	2	425	13	1,087	64	20	1	1,612
Total allowance for loan losses	\$ 4,572	\$ 3,443	\$ 277	\$ 1,310	\$ 447	\$ 54	\$ 14	\$ 10,117

Allowance for Loan Losses and Loans Receivable
at June 30, 2012 (continued)

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Balance of loans receivable:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$ 16,383	\$ 7,979	\$ 507	\$ 1,068	\$ 880	\$ 25	\$ -	\$ 26,842
Loans collectively evaluated for impairment	544,514	330,871	11,737	23,432	75,827	10,016	3,840	1,000,237
Total originated and purchased loans	560,897	338,850	12,244	24,500	76,707	10,041	3,840	1,027,079
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	1,513	480	6,446	-	-	-	8,439
Other acquired loans individually evaluated for impairment	417	3,066	935	1,288	850	168	-	6,724
Loans collectively evaluated for impairment	1,532	141,505	6,633	56,180	18,275	19,321	202	243,648
Total loans acquired at fair value	1,949	146,084	8,048	63,914	19,125	19,489	202	258,811
Total loans	\$ 562,846	\$ 484,934	\$ 20,292	\$ 88,414	\$ 95,832	\$ 29,530	\$ 4,042	1,285,890
Unamortized yield adjustments								(1,654)
Loans receivable								\$ 1,284,236

The following tables present key indicators of credit quality regarding the Company's loan portfolio based upon loan classification and contractual payment status at March 31, 2013 and June 30, 2012.

Credit-Rating Classification of Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Originated and purchased loans								
Non-classified	\$491,459	\$ 489,618	\$ 6,823	\$ 25,679	\$66,361	\$10,435	\$4,315	\$1,094,690
Classified:								
Special mention	1,783	991	-	88	155	29	-	3,046
Substandard	15,668	9,471	498	1,241	963	91	26	27,958
Doubtful	-	306	-	-	-	-	-	306
Loss	-	-	-	-	-	-	-	-
Total classified loans	17,451	10,768	498	1,329	1,118	120	26	31,310
Total originated and purchased loans	508,910	500,386	7,321	27,008	67,479	10,555	4,341	1,126,000
Loans acquired at fair value								
Non-classified	1,325	117,737	820	36,215	13,662	16,308	131	186,198
Classified:								
Special mention	-	4,654	1,300	5,142	657	117	7	11,877
Substandard	412	4,415	4,036	7,859	551	470	1	17,744
Doubtful	-	-	-	89	-	-	-	89
Loss	-	-	-	-	-	-	-	-
Total classified loans	412	9,069	5,336	13,090	1,208	587	8	29,710
Total loans acquired at fair value	1,737	126,806	6,156	49,305	14,870	16,895	139	215,908
Total loans	\$510,647	\$ 627,192	\$ 13,477	\$ 76,313	\$82,349	\$27,450	\$4,480	\$1,341,908

Credit-Rating Classification of Loans Receivable
at June 30, 2012

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Originated and purchased loans								
Non-classified	\$542,704	\$ 324,501	\$ 11,588	\$ 23,114	\$75,602	\$9,897	\$ 3,837	\$991,243
Classified:								
Special mention	971	3,925	149	318	225	30	2	5,620
Substandard	17,222	10,099	507	1,068	880	114	1	29,891
Doubtful	-	325	-	-	-	-	-	325
Loss	-	-	-	-	-	-	-	-
Total classified loans	18,193	14,349	656	1,386	1,105	144	3	35,836
Total originated and purchased loans	560,897	338,850	12,244	24,500	76,707	10,041	3,840	1,027,079
Loans acquired at fair value								
Non-classified	1,532	132,810	5,062	48,131	18,275	19,321	196	225,327
Classified:								
Special mention	-	5,791	1,571	7,314	-	-	1	14,677
Substandard	417	7,483	1,415	7,902	850	168	5	18,240
Doubtful	-	-	-	567	-	-	-	567
Loss	-	-	-	-	-	-	-	-
Total classified loans	417	13,274	2,986	15,783	850	168	6	33,484
Total loans acquired at fair value	1,949	146,084	8,048	63,914	19,125	19,489	202	258,811
Total loans	\$562,846	\$ 484,934	\$ 20,292	\$ 88,414	\$95,832	\$29,530	\$ 4,042	\$1,285,890

Contractual Payment Status of Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Originated and purchased loans								
Current	\$493,759	\$ 493,543	\$ 6,823	\$ 25,705	\$67,238	\$10,284	\$ 4,232	\$1,101,584
Past due:								
30-59 days	2,254	392	-	140	143	271	73	3,273
60-89 days	1,646	2,095	-	38	-	-	10	3,789
90+ days	11,251	4,356	498	1,125	98	-	26	17,354
Total past due	15,151	6,843	498	1,303	241	271	109	24,416
Total originated and purchased loans	508,910	500,386	7,321	27,008	67,479	10,555	4,341	1,126,000
Loans acquired at fair value								
Current	1,325	120,285	4,460	43,875	12,563	16,751	129	199,388
Past due:								
30-59 days	-	1,880	-	1,542	1,463	26	2	4,913
60-89 days	-	2,723	-	1,275	605	118	8	4,729
90+ days	412	1,918	1,696	2,613	239	-	-	6,878
Total past due	412	6,521	1,696	5,430	2,307	144	10	16,520
Total loans acquired at fair value	1,737	126,806	6,156	49,305	14,870	16,895	139	215,908
Total loans	\$510,647	\$ 627,192	\$ 13,477	\$ 76,313	\$82,349	\$27,450	\$ 4,480	\$1,341,908

Contractual Payment Status of Loans Receivable
at June 30, 2012

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Originated and purchased loans								
Current	\$544,772	\$ 332,541	\$ 11,487	\$ 23,319	\$76,366	\$10,016	\$ 3,806	\$1,002,307
Past due:								
30-59 days	3,254	27	-	113	144	-	11	3,549
60-89 days	476	275	250	-	38	-	22	1,061
90+ days	12,395	6,007	507	1,068	159	25	1	20,162
Total past due	16,125	6,309	757	1,181	341	25	34	24,772
Total originated and purchased loans	560,897	338,850	12,244	24,500	76,707	10,041	3,840	1,027,079
Loans acquired at fair value								
Current	1,532	142,439	6,797	56,887	17,895	19,250	183	244,983
Past due:								
30-59 days	-	-	-	2,708	704	71	13	3,496
60-89 days	-	218	-	1,188	-	-	1	1,407
90+ days	417	3,427	1,251	3,131	526	168	5	8,925
Total past due	417	3,645	1,251	7,027	1,230	239	19	13,828
Total loans acquired at fair value	1,949	146,084	8,048	63,914	19,125	19,489	202	258,811
Total loans	\$562,846	\$ 484,934	\$ 20,292	\$ 88,414	\$95,832	\$29,530	\$4,042	\$1,285,890

The following tables present information relating to the Company's nonperforming and impaired loans at March 31, 2013 and June 30, 2012. Loans reported as "90+ days past due accruing" in the table immediately below are also reported in the preceding contractual payment status table under the heading "90+ days past due".

Performance Status of Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Originated and purchased loans								
Performing	\$496,925	\$493,835	\$6,823	\$25,767	\$67,306	\$10,555	\$4,315	\$1,105,526
Nonperforming:								
90+ days past due and accruing	-	-	-	-	-	-	-	-
Nonaccrual	11,985	6,551	498	1,241	173	-	26	20,474
Total nonperforming	11,985	6,551	498	1,241	173	-	26	20,474
Total originated and purchased loans	508,910	500,386	7,321	27,008	67,479	10,555	4,341	1,126,000
Loans acquired at fair value								
Performing	1,325	124,888	4,460	46,180	14,631	16,425	139	208,048
Nonperforming:								
90+ days past due and accruing	-	-	445	-	-	-	-	445
Nonaccrual	412	1,918	1,251	3,125	239	470	-	7,415
Total nonperforming	412	1,918	1,696	3,125	239	470	-	7,860
Total loans acquired at fair value	1,737	126,806	6,156	49,305	14,870	16,895	139	215,908
Total loans	\$510,647	\$627,192	\$13,477	\$76,313	\$82,349	\$27,450	\$4,480	\$1,341,908

Performance Status of Loans Receivable
at June 30, 2012

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Originated and purchased loans								
Performing	\$546,397	\$330,871	\$11,737	\$23,432	\$76,249	\$10,016	\$3,839	\$1,002,541
Nonperforming: 90+ days past due and accruing	-	-	-	-	-	-	-	-
Nonaccrual	14,500	7,979	507	1,068	458	25	1	24,538
Total nonperforming	14,500	7,979	507	1,068	458	25	1	24,538
Total originated and purchased loans	560,897	338,850	12,244	24,500	76,707	10,041	3,840	1,027,079
Loans acquired at fair value								
Performing	1,532	142,657	6,797	60,748	18,599	19,321	197	249,851
Nonperforming: 90+ days past due and accruing	-	398	-	293	-	-	-	691
Nonaccrual	417	3,029	1,251	2,873	526	168	5	8,269
Total nonperforming	417	3,427	1,251	3,166	526	168	5	8,960
Total loans acquired at fair value	1,949	146,084	8,048	63,914	19,125	19,489	202	258,811
Total loans	\$562,846	\$484,934	\$20,292	\$88,414	\$95,832	\$29,530	\$4,042	\$1,285,890

Impairment Status of Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	\$494,064	\$493,739	\$6,823	\$25,767	\$66,516	\$10,555	\$4,341	\$1,101,805
Impaired loans:								
Impaired loans with no allowance for impairment	11,751	4,676	498	1,241	843	-	-	19,009
Impaired loans with allowance for impairment:								
Unpaid principal balance	3,095	1,971	-	-	120	-	-	5,186
Allowance for impairment	(687)	(472)	-	-	(111)	-	-	(1,270)
Balance of impaired loans net of allowance for impairment	2,408	1,499	-	-	9	-	-	3,916
Total impaired loans, excluding allowance	14,846	6,647	498	1,241	963	-	-	24,195
Total originated and purchased loans	508,910	500,386	7,321	27,008	67,479	10,555	4,341	1,126,000
Loans acquired at fair value								
Non-impaired loans	1,325	123,424	4,906	42,176	14,319	16,425	139	202,714
Impaired loans:								
Impaired loans with no allowance for impairment	412	2,858	1,250	5,572	551	470	-	11,113
Impaired loans with allowance for impairment:								
Unpaid principal balance	-	524	-	1,557	-	-	-	2,081
	-	(11)	-	(1,133)	-	-	-	(1,144)

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Allowance for impairment								
Balance of impaired loans net of allowance for impairment	-	513	-	424	-	-	-	937
Total impaired loans, excluding allowance	412	3,382	1,250	7,129	551	470	-	13,194
Total loans acquired at fair value	1,737	126,806	6,156	49,305	14,870	16,895	139	215,908
Total loans	\$510,647	\$ 627,192	\$ 13,477	\$ 76,313	\$82,349	\$27,450	\$4,480	\$1,341,908

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Impairment Status of Loans Receivable
at March 31, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business (in Thousands)	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
Unpaid principal balance of impaired loans:								
Originated and purchased loans	\$20,443	\$ 7,212	\$ 525	\$ 1,280	\$1,055	\$-	\$-	\$30,515
Loans acquired at fair value	417	4,089	1,763	9,949	558	470	-	17,246
Total impaired loans	\$20,860	\$ 11,301	\$ 2,288	\$ 11,229	\$1,613	\$470	\$-	\$47,761
For the three months ended March 31, 2013								
Average balance of impaired loans	\$16,181	\$ 11,522	\$ 1,753	\$ 8,760	\$1,641	\$118	\$-	\$39,975
Interest earned on impaired loans	\$46	\$ 34	\$ -	\$ 137	\$16	\$2	\$-	\$235
For the nine months ended March 31, 2013								
Average balance of impaired loans	\$16,218	\$ 11,994	\$ 1,789	\$ 8,889	\$1,716	\$73	\$-	\$40,679
Interest earned on impaired loans	\$132	\$ 83	\$ -	\$ 395	\$46	\$2	\$-	\$658
For the three months ended March 31, 2012								
Average balance of impaired loans	\$17,886	\$ 11,144	\$ 1,920	\$ 9,718	\$1,738	\$152	\$-	\$42,558
Interest earned on impaired loans	\$16	\$ 29	\$ -	\$ 75	\$5	\$-	\$-	\$125
For the nine months ended March 31, 2012								
	\$17,850	\$ 10,997	\$ 1,903	\$ 10,836	\$1,197	\$155	\$-	\$42,938

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Average balance of
impaired loans
Interest earned on
impaired loans

\$576	\$ 91	\$ -	\$ 226	\$22	\$-	\$-	\$915
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Impairment Status of Loans Receivable
at June 30, 2012

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	\$ 544,514	\$ 330,871	\$ 11,737	\$ 23,432	\$ 75,827	\$ 10,016	\$ 3,840	\$ 1,000,237
Impaired loans:								
Impaired loans with no allowance for impairment	10,779	6,007	507	1,068	755	25	-	19,141
Impaired loans with allowance for impairment:								
Unpaid principal balance	5,604	1,972	-	-	125	-	-	7,701
Allowance for impairment	(1,240)	(424)	-	-	(105)	-	-	(1,769)
Balance of impaired loans net of allowance for impairment	4,364	1,548	-	-	20	-	-	5,932
Total impaired loans, excluding allowance	16,383	7,979	507	1,068	880	25	-	26,842
Total originated and purchased loans	560,897	338,850	12,244	24,500	76,707	10,041	3,840	1,027,079
Loans acquired at fair value								
Non-impaired loans	1,532	141,505	6,633	56,180	18,275	19,321	202	243,648
Impaired loans:								
Impaired loans with no allowance for impairment	417	3,115	1,415	6,849	786	168	-	12,750
Impaired loans with allowance for impairment:								
Unpaid principal balance	-	1,464	-	885	64	-	-	2,413
	-	(243)	-	(776)	(22)	-	-	(1,041)

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Allowance for impairment								
Balance of impaired loans net of allowance for impairment	-	1,221	-	109	42	-	-	1,372
Total impaired loans, excluding allowance	417	4,579	1,415	7,734	850	168	-	15,163
Total loans acquired at fair value	1,949	146,084	8,048	63,914	19,125	19,489	202	258,811
Total loans	\$562,846	\$484,934	\$20,292	\$88,414	\$95,832	\$29,530	\$4,042	\$1,285,890

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Impairment Status of Loans Receivable
at June 30, 2012 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
Unpaid principal balance of impaired loans:								
Originated and purchased loans	\$ 21,995	\$ 8,124	\$ 525	\$ 1,105	\$ 903	\$ 25	\$ -	\$ 32,677
Loans acquired at fair value	417	5,090	1,960	10,937	869	168	-	19,441
Total impaired loans	\$ 22,412	\$ 13,214	\$ 2,485	\$ 12,042	\$ 1,772	\$ 193	\$ -	\$ 52,118

All impaired loans are reviewed individually for impairment in accordance with the Company's allowance for loan loss calculation methodology described earlier. The Company has identified a total of \$30.1 million of impaired loans for which no allowance for impairment was recognized at March 31, 2013. As highlighted in the table above, approximately \$11.1 million of these loans were originally acquired through business combinations. Any impairment identified at the time of acquisition relating to these loans was reflected as an adjustment to their fair value at that time.

The remaining \$19.0 million of loans reported as impaired with no allowance for impairment represent those originated or purchased in the secondary market by the Company. These loans reflect, in part, the Company's practice of identifying all "non-homogeneous" loans on nonaccrual status as impaired in acknowledgment of the probable non-receipt of interest accrued in accordance with the loans' contractual terms. Despite the nonaccrual and impaired statuses, however, the individual analyses performed on these loans indicate that no additional impairment charge is necessary. Such loans also include loans for which previously identified impairments have been fully charged off.

The Company's loans reported above as impaired with no allowance for impairment are primarily secured by real estate and, to a lesser degree, other forms of collateral. As noted earlier, the impairment analyses performed on these loans generally utilize the fair value of the securing collateral, less certain estimated selling costs, as a measurement proxy for the fair value of the loan as a practical expedient. Based upon that assumption, at March 31, 2013 the Company would expect to recover the net carrying value of its loans identified as impaired without allowance for impairment through the liquidation of the collateral. However, continued deterioration in real estate values could result in the identification of impairment in the future attributable to these loans resulting in additional provisions to the allowance for loan losses.

Troubled Debt Restructurings ("TDRs"). A modification to the terms of a loan is generally considered a TDR if the Bank grants a concession to the borrower that it would not otherwise consider for economic or legal reasons related to the debtor's financial difficulties. In granting the concession, the Bank's general objective is to make the best of a difficult situation by obtaining more cash or other value from the borrower or otherwise increase the probability of repayment.

A TDR may include, but is not necessarily limited to, the modification of loan terms such as a temporary or permanent reduction of the loan's stated interest rate, extension of the maturity date and/or reduction or deferral of amounts owed under the terms of the loan agreement. In measuring the impairment associated with restructured loans that qualify as TDRs, the Company compares the cash flows under the loan's existing terms with those that are expected to be received in accordance with its modified terms. The difference between the comparative cash flows is discounted at the loan's effective interest rate prior to modification to measure the associated impairment. The impairment is charged off directly against the allowance for loan loss at the time of restructuring resulting in a reduction in carrying value of the modified loan that is accreted into interest income as a yield adjustment over the remaining term of the modified cash flows.

All restructured loans that qualify as TDRs are placed on nonaccrual status for a period of no less than six months after restructuring, irrespective of the borrower's adherence to a TDR's modified repayment terms during which time TDRs continue to be adversely classified and reported as impaired. TDRs may be returned to accrual status if (1) the borrower has paid timely P&I payments in accordance with the terms of the restructured loan agreement for no less than six consecutive months after restructuring, and (2) the Company expects to receive all P&I payments owed substantially in accordance with the terms of the restructured loan agreement at which time the loan may also be returned to a non-adverse classification while retaining its impaired status.

The following table presents information regarding the restructuring of the Company's troubled debts during the three and nine months ended March 31, 2013 and March 31, 2012 and any defaults during those periods of TDRs that were restructured within 12 months of the date of default.

Troubled Debt Restructurings of Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
Troubled debt restructuring activity for the three months ended March 31, 2013								
Originated and purchased loans								
Number of loans Pre-modification	1	-	-	-	1	-	-	2
outstanding recorded investment	\$113	\$ -	\$ -	\$ -	\$77	\$-	\$-	\$190
Post-modification								
outstanding recorded investment	121	-	-	-	70	-	-	191
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	7	-	-	7
Loans acquired at fair value								
Number of loans Pre-modification	-	-	-	-	-	-	-	-
outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$-	\$-
Post-modification								
outstanding recorded investment	-	-	-	-	-	-	-	-
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	-	-	-	-
Troubled debt restructuring defaults								

Originated and
purchased loans

Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

Loans acquired at fair
value

Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

Troubled Debt Restructurings of Loans Receivable
at March 31, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Troubled debt restructuring activity for the nine months ended March 31, 2013								
Originated and purchased loans								
Number of loans	3	-	-	-	2	-	-	5
Pre-modification outstanding recorded investment	\$444	\$ -	\$ -	\$ -	\$176	\$-	\$-	\$620
Post-modification outstanding recorded investment	390	-	-	-	164	-	-	554
Charge offs against the allowance for loan loss for impairment recognized at modification	63	-	-	-	14	-	-	77
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Pre-modification outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$-	\$-
Post-modification outstanding recorded investment	-	-	-	-	-	-	-	-
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	-	-	-	-
Troubled debt restructuring defaults								
Originated and purchased loans								

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Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

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Troubled Debt Restructurings of Loans Receivable
at March 31, 2012

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Troubled debt restructuring activity for the three months ended March 31, 2012								
Originated and purchased loans								
Number of loans	4	1	-	-	3	-	-	8
Pre-modification outstanding recorded investment	\$694	\$ 1,691	\$ -	\$ -	\$305	\$-	\$-	\$2,690
Post-modification outstanding recorded investment	612	1,691	-	-	280	-	-	2,583
Charge offs against the allowance for loan loss for impairment recognized at modification	102	-	-	-	29	-	-	131
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Pre-modification outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$-	\$-
Post-modification outstanding recorded investment	-	-	-	-	-	-	-	-
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	-	-	-	-
Troubled debt restructuring defaults								
Originated and purchased loans								
Number of loans	-	-	-	-	-	-	-	-

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Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

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Troubled Debt Restructurings of Loans Receivable
at March 31, 2012

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Troubled debt restructuring activity for the nine months ended March 31, 2012								
Originated and purchased loans								
Number of loans	14	1	-	-	6	-	-	21
Pre-modification outstanding recorded investment	\$3,125	\$ 1,691	\$ -	\$ -	\$741	\$-	\$-	\$5,557
Post-modification outstanding recorded investment	2,988	1,691	-	-	676	-	-	5,355
Charge offs against the allowance for loan loss for impairment recognized at modification	300	-	-	-	69	-	-	369
Loans acquired at fair value								
Number of loans	-	-	-	-	2	-	-	2
Pre-modification outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$340	\$-	\$-	\$340
Post-modification outstanding recorded investment	-	-	-	-	284	-	-	284
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	57	-	-	57
Troubled debt restructuring defaults								
Originated and purchased loans								
Number of loans	-	-	-	-	-	-	-	-

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Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	\$-	\$ -	\$ -	\$ -	\$-	\$-	\$ -	\$-

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The manner in which the terms of a loan are modified through a troubled debt restructuring generally includes one or more of the following changes to the loan's repayment terms:

- Interest Rate Reduction: Temporary or permanent reduction of the interest rate charged against the outstanding balance of the loan.
- Capitalization of Prior Past Dues: Capitalization of prior amounts due to the outstanding balance of the loan.
- Extension of Maturity or Balloon Date: Extending the term of the loan past its original balloon or maturity date.
- Deferral of Principal Payments: Temporary deferral of the principal portion of a loan payment.
- Payment Recalculation and Re-amortization: Recalculation of the recurring payment obligation and resulting loan amortization/repayment schedule based on the loan's modified terms.

11. BENEFIT PLANS – COMPONENTS OF NET PERIODIC EXPENSE

The following table sets forth the aggregate net periodic benefit expense for the Bank's Benefit Equalization Plan, Postretirement Welfare Plan and Directors' Consultation and Retirement Plan:

	Three Months		Nine Months	
	Ended March 31,		Ended March 31,	
	2013	2012	2013	2012
	(In Thousands)		(In Thousands)	
Service cost	\$58	\$39	\$173	\$116
Interest cost	77	85	232	256
Amortization of unrecognized past service liability	12	16	36	48
Amortization of unrecognized net actuarial loss (gain)	13	(6)	40	(19)
Net periodic benefit expense	\$160	\$134	\$481	\$401

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The guidance on fair value measurement establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In addition, the guidance requires the Company to disclose the fair value for assets and liabilities on both a recurring and non-recurring basis.

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The assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In Thousands)				
At March 31, 2013:				
Debt securities available for sale:				
U.S. agency securities	\$ -	\$ 5,423	\$ -	\$ 5,423
Obligations of state and political subdivisions	-	54,886	-	54,886
Asset-backed securities	-	10,200	-	10,200
Corporate bonds	-	59,927	-	59,927
Trust preferred securities	-	6,342	1,000	7,342
Total debt securities	-	136,778	1,000	137,778
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	-	16,945	-	16,945
Mortgage pass-through securities:				
Government National Mortgage Association	-	6,835	-	6,835
Federal Home Loan Mortgage Corporation	-	287,942	-	287,942
Federal National Mortgage Association	-	470,557	-	470,557
Total mortgage-backed securities	-	782,279	-	782,279
Total securities available for sale	\$ -	\$ 919,057	\$ 1,000	\$ 920,057

	Fair Value Measurements Using			Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In Thousands)			
At June 30, 2012:				
Debt securities available for sale:				
Trust preferred securities	\$ -	\$ 5,713	\$ 1,000	\$ 6,713
U.S. agency securities	-	5,889	-	5,889
Total debt securities	-	11,602	1,000	12,602
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	-	2,523	-	2,523
M o r t g a g e pass-through securities:				
G o v e r n m e n t National Mortgage Association	-	11,690	-	11,690
F e d e r a l H o m e Loan Mortgage Corporation	-	460,509	-	460,509
Federal National Mortgage Association	-	755,382	-	755,382
Total mortgage-backed securities	-	1,230,104	-	1,230,104
Total securities available for sale	\$ -	\$ 1,241,706	\$ 1,000	\$ 1,242,706

The fair values of securities available for sale (carried at fair value) or held to maturity (carried at amortized cost) are primarily determined by obtaining matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Company holds a trust preferred security with a par value of \$1.0 million, a de-facto obligation of Mercantil Commercebank Florida Bancorp, Inc., whose fair value has been determined by using Level 3 inputs. It is a part of a \$40.0 million private placement with a coupon of 8.90% issued in 1998 and maturing in 2028. Generally management has been unable to obtain a market quote due to a lack of trading activity for this security. Consequently, the security's

fair value as reported at March 31, 2013 and June 30, 2012 is based upon the present value of its expected future cash flows assuming the security continues to meet all its payment obligations and utilizing a discount rate based upon the security's contractual interest rate.

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For the nine months ended March 31, 2013, there were no purchases, sales, issuances, or settlements of assets or liabilities whose fair values are determined based upon Level 3 inputs on a recurring basis. For that same period, there were no transfers of assets or liabilities within the fair valuation measurement hierarchy between Level 1 and Level 2 inputs.

The assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements Using			Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In Thousands)			
At March 31, 2013				
Impaired loans	\$ -	\$ -	\$ 14,771	\$ 14,771
Real estate owned	-	-	1,634	1,634
At June 30, 2012				
Impaired loans	\$ -	\$ -	\$ 14,026	\$ 14,026
Real estate owned	-	-	3,129	3,129

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized adjusted Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			Range
	Fair Value Estimate	Valuation Techniques	Unobservable Input	
At March 31, 2013	(In Thousands)			
Impaired loans	\$ 14,771	Market valuation of underlying collateral (1)	Direct disposal costs (3)	6% - 10%
Real estate owned	\$ 1,634	Market valuation property (2)	Direct disposal costs (3)	6% - 10%
At June 30, 2012				
Impaired loans	\$ 14,026	Market valuation of underlying collateral (1)	Direct disposal costs (3)	6% - 10%
Real estate owned	\$ 3,129	Market valuation property (2)	Direct disposal costs (3)	6% - 10%

- (1) The fair value basis of impaired loans is generally determined based on an independent appraisal of the market value of a loan's underlying collateral.
- (2) The fair value basis of real estate owned is generally determined based upon the lower of an independent appraisal of the property's market value or the applicable listing price or contracted sales price.

- (3) The fair value basis of impaired loans and real estate owned is adjusted to reflect management estimates of disposal costs including, but not necessarily limited to, real estate brokerage commissions and title transfer fees, with such cost estimates generally ranging from 6% to 10% of collateral or property market value.

An impaired loan is evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement, and are not otherwise considered ineligible for individual impairment analysis due to their homogenous nature, are generally considered impaired. Given that the Company's loans are generally secured by real estate or other form of collateral an impaired loan's market value is typically measured based on the value of the collateral securing the loan and is therefore classified at a Level 3 in the fair value hierarchy. Once a loan is identified as individually impaired, management measures impairment in accordance with the FASB's guidance on accounting by creditors for impairment of a loan with the fair value estimated using the market value of the collateral reduced by estimated selling costs. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

At March 31, 2013, impaired loans valued using Level 3 inputs comprised loans with carrying values totaling \$17.2 million and valuation allowances of \$2.4 million reflecting fair values of \$14.8 million. By comparison, at June 30, 2012, impaired loans valued using Level 3 inputs comprised loans with carrying values totaling \$16.8 million and valuation allowances of \$2.8 million reflecting fair values of \$14.0 million.

Once a loan is foreclosed, the fair value of the real estate owned continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan. At March 31, 2013, real estate owned whose carrying value was written down utilizing Level 3 inputs during the first nine months of fiscal 2013 included two properties with fair values totaling \$1.6 million. By comparison, at June 30, 2012 real estate owned whose carrying value was written down utilizing Level 3 inputs during fiscal 2012 included five properties with fair values totaling \$3.1 million.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at March 31, 2013 and June 30, 2012:

Cash and Cash Equivalents, Interest Receivable and Interest Payable. The carrying amounts for cash and cash equivalents, interest receivable and interest payable approximate fair value because they mature in three months or less.

Securities. See the discussion presented on Page 59 concerning assets measured at fair value on a recurring basis.

Loans Receivable. Except for certain impaired loans as previously discussed, the fair value of loans receivable is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, of such loans.

FHLB of New York Stock. The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Deposits. The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.

Advances from FHLB. Fair value is estimated using rates currently offered for advances of similar remaining maturities.

Commitments. The fair value of commitments to fund credit lines and originate or participate in loans is estimated using fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented on Page 89.

The carrying amounts and estimated fair values of financial instruments are as follows:

	Carrying Amount and Fair Value Measurements at March 31, 2013				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$209,899	\$209,899	\$209,899	\$-	\$ -
Securities available for sale	137,778	137,778	-	136,778	1,000
Securities held to maturity	146,892	146,686	-	146,686	-
Loans receivable	1,330,207	1,359,320	-	-	1,359,320
Mortgage-backed securities available for sale	782,279	782,279	-	782,279	-
Mortgage-backed securities held to maturity	881	942	-	942	-
FHLB stock	11,214	11,214	-	-	11,214
Interest receivable	7,549	7,549	7,549	-	-
Financial liabilities:					
Deposits (A)	2,153,001	2,160,099	1,145,616	-	1,014,483
Borrowings	183,206	202,076	-	-	202,076
Interest payable on borrowings	724	724	724	-	-

(A) Includes accrued interest payable on deposits of \$42,056 at March 31, 2013.

	Carrying Amount and Fair Value Measurements at June 30, 2012				
			Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount	Estimated Fair Value			
Financial assets:					
Cash and cash equivalents	\$ 155,584	\$ 155,584	\$ 155,584	\$ -	\$ -
Securities available for sale	12,602	12,602	-	11,602	1,000
Securities held to maturity	34,662	34,838	-	34,838	-
Loans receivable	1,274,119	1,307,948	-	-	1,307,948
Mortgage-backed securities available for sale	1,230,104	1,230,104	-	1,230,104	-
Mortgage-backed securities held to maturity	1,090	1,159	-	1,159	-
FHLB stock	14,142	14,142	-	-	14,142
Interest receivable	8,395	8,395	8,395	-	-
Financial liabilities:					
Deposits (A)	2,171,797	2,182,098	1,066,870	-	1,115,228
Borrowings	249,777	278,296	-	-	278,296
Interest payable on borrowings	967	967	967	-	-

(A) Includes accrued interest payable on deposits of \$59,000 at June 30, 2012.

Limitations. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value estimates are based on existing on-and-off balance sheet financial instruments without attempting to value anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment, and advances from borrowers for taxes and insurance. In addition, the ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

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

Forward-Looking Statements

This Form 10-Q may include certain forward-looking statements based on current management expectations. Such forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as “may”, “will”, “believe”, “expect”, “estimate”, “anticipate”, “continue”, or similar terms, variations on those terms, or the negative of those terms. The actual results of the Company could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities. Additional potential factors include changes in interest rates, deposit flows, cost of funds, demand for loan products and financial services, competition, changes in the quality or composition of loan and investment portfolios of the Company. Other factors that could cause future results to vary from current management expectations include changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in the Company's other filings with the Securities and Exchange Commission.

Restructuring Transaction

During the two month period ended April 30, 2013, the Company successfully completed a series of balance sheet restructuring transactions that are expected to result in improvements in the financial position and expected operating results of the Company and the Bank. The Company expects such improvements to be reflected in an expanded net interest margin resulting in an immediate improvement in net interest income and earnings.

Through these restructuring transactions, the Company reduced its concentration in agency mortgage-backed securities (“MBS”) in favor of other investment sectors within the portfolio. As a result, the Company reduced its exposure to residential mortgage prepayment and extension risk while enhancing the overall yield of the investment portfolio and providing some additional protection to earnings against potential movements in market interest rates. Gains recognized through the sale of MBS enabled the Company to fully offset the costs of prepaying a portion of its high-rate Federal Home Loan Bank (“FHLB”) advances. Additionally, the Company modified the terms of its remaining high-rate FHLB advances to a lower interest rate while extending the duration of the modified funding to better protect against potential increases in interest rates in the future.

The restructuring was initiated by the Company in March 2013 and completed during April 2013. Consequently, only a portion of the applicable transactions were completed by the close of the Company's third quarter ended March 31, 2013, with the remaining transactions being reflected in the Company's financial results for the quarter and fiscal-year ending June 30, 2013.

Given the effects of the restructuring, the Company continues to maintain high levels of on-balance sheet liquidity while the sensitivity of its Economic Value of Equity (“EVE”) to movements in interest rates - a key measure of long-term exposure to interest rate risk - remains substantially unchanged. Moreover, the Company is evaluating additional opportunities to utilize capital through

effective deployment of wholesale growth and diversification strategies designed to improve earnings further while prudently managing its exposure to interest rate, credit and liquidity risk.

Additional information regarding the noted restructuring transaction is presented in Note 5 to the consolidated financial statements.

Comparison of Financial Condition at March 31, 2013 and June 30, 2012

General. Total assets decreased by \$70.5 million to \$2.87 billion at March 31, 2013 from \$2.94 billion at June 30, 2012. The decrease in total assets was primarily reflected in the decline in the balance of mortgage-backed securities that was partially offset by an increase in the balances of loans, debt securities, cash and cash equivalents and bank-owned life insurance. The net decrease in total assets was complemented by a decrease in the balances of deposits and borrowings as well as a decline in the balance of total stockholders' equity.

Cash and Cash Equivalents. Cash and cash equivalents, which consist primarily of interest-earning and non-interest-earning deposits in other banks, increased by \$54.3 million to \$209.9 million at March 31, 2013 from \$155.6 million at June 30, 2012. The increase in the balance was largely attributable to cash inflows arising from the sale of investment securities in conjunction with the restructuring transaction noted earlier. As discussed below, a portion of the cash inflows from such sales were redeployed into the investment portfolio or used to prepay selected borrowings by March 31, 2013. However, a portion of such proceeds remained in cash and cash equivalents as of that date pending their redeployment into additional investment securities during the following quarter.

In light of the historically low level of short term interest rates, the Company generally expects to continue maintaining the average balance of interest-earning cash and equivalents at comparatively lower levels than those reported at the close of the current quarter. Management will continue to monitor the level of short term, liquid assets in relation to the expected need for such liquidity to fund the Company's strategic initiatives – particularly those relating to the expansion of its commercial lending functions. The Company may alter its liquidity reinvestment strategies based upon the timing and relative success of those initiatives.

Debt Securities Available for Sale. Debt securities classified as available for sale increased by \$125.2 million to \$137.8 million at March 31, 2013 from \$12.6 million at June 30, 2012. The net increase primarily reflected purchases of securities during the most recent quarter ended March 31, 2013. Non-mortgage-backed securities purchased during the current period were primarily acquired in conjunction with the restructuring transaction noted earlier. As previously discussed, such securities included corporate and municipal obligations as well as asset-backed securities collateralized by government guaranteed student loans. The Company expects that diversification of its investments into these sectors will enable it to enhance earnings and more effectively manage the business risks inherent in its investment portfolio and overall balance sheet.

The increase in the portfolio also reflected an overall decrease in the net unrealized loss within the portfolio that was partially offset by the repayment of amortizing securities during the first nine months of fiscal 2013. The net unrealized loss for this portfolio decreased by \$211,000 to \$1.8 million at March 31, 2013 from \$2.0 million at June 30, 2012. The decrease in the net unrealized loss was primarily attributable to an increase in the fair value of the Company's investment in single issuer, trust preferred securities whose unrealized losses decreased by \$623,000 to \$1.5 million at March 31, 2013 from \$2.2 million at June 30, 2012. The decline in the unrealized loss in these securities was partially offset by additional unrealized losses within other segments of the portfolio.

Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at March 31, 2013.

Additional information regarding debt securities available for sale at March 31, 2013 is presented in Note 7 and Note 9 to consolidated financial statements.

Debt Securities Held to Maturity. Debt securities classified as held to maturity increased by \$112.2 million to \$146.9 million at March 31, 2013 from \$34.7 million at June 30, 2012. The net increase in the balance of the portfolio primarily reflected the purchase of U.S. agency debentures, separate from the restructuring transaction noted earlier, that were partially offset by the repayment of such securities upon being called by the issuers prior to their maturities. At March 31, 2013, the held to maturity debt securities portfolio primarily included U.S. agency debentures maturing within one to five years. Debt securities held to maturity at March 31, 2013 also included a nominal balance of short term municipal obligations that generally mature within one year. As noted earlier, these securities represent short term, bond anticipation notes (“BANs”) issued by New Jersey municipalities with whom the Bank also maintains deposit relationships.

Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at March 31, 2013.

Additional information regarding debt securities held to maturity at March 31, 2013 is presented in Note 8 and Note 9 to the consolidated financial statements.

Loans Receivable. Loans receivable, net of unamortized premiums, deferred costs and the allowance for loan losses, increased by \$56.1 million to \$1.33 billion at March 31, 2013 from \$1.27 billion at June 30, 2012. The increase in net loans receivable was primarily attributable to new loan acquisitions outpacing loan repayments during the first nine months of fiscal 2013.

Residential mortgage loans, including home equity loans and lines of credit, decreased by \$67.8 million to \$620.4 million at March 31, 2013 from \$688.2 million at June 30, 2012. The components of the aggregate decrease included a net reduction in the balance of one-to-four family first mortgage loans of \$52.2 million to \$510.6 million at March 31, 2013 from \$562.8 million at June 30, 2012 as well as a net reduction in the balance of home equity loans of \$13.5 million to \$82.3 million from \$95.8 million for those same comparative periods. Additionally, the balance of home equity lines of credit decreased by \$2.1 million to \$27.4 million at March 31, 2013 from \$29.5 million at June 30, 2012.

The aggregate decline in the residential mortgage loan portfolio for the nine months ended March 31, 2013 continues to reflect a diminished level of “new purchase” loan demand resulting from a weak economy and lower real estate values. The decline in the outstanding balance of the portfolio was exacerbated by accelerating refinancing activity resulting primarily from longer-term mortgage rates falling to new historical lows during the quarter. Such declines in mortgage rates were largely attributable to the Federal Reserve’s efforts to stimulate the economy by driving longer term interest rates lower through quantitative easing. Through this policy, the Federal Reserve has continued to aggressively purchase mortgage-backed securities in the open market thereby driving the yield on such securities, and their underlying mortgage loans, to historical lows.

As a portfolio lender cognizant of potential exposure to interest rate risk, the Bank has generally refrained from lowering its long term, fixed rate residential mortgage rates to the levels available in the marketplace. Consequently, a portion of the Company’s residential mortgage borrowers may continue to seek long term, fixed rate refinancing opportunities from other market resources resulting in further declines in the outstanding balance of its residential mortgage loan portfolio.

In total, residential mortgage loan origination and purchase volume for the nine months ended March 31, 2013 was \$49.0 million and \$9.7 million, respectively, while aggregate originations of home equity loans and home equity lines of credit totaled \$19.0 million for that same period.

Commercial loans, in aggregate, increased by \$130.2 million to \$703.5 million at March 31, 2013 from \$573.3 million at June 30, 2012. The components of the aggregate increase included an increase in commercial mortgage loans totaling \$142.3 million that was partially offset by a decline in commercial business loans of \$12.1 million. The ending balances of commercial mortgage loans and commercial business loans at March 31, 2013 were \$627.2 million and \$76.3 million, respectively. Commercial loan origination volume for the first nine months of fiscal 2013 totaled \$220.8 million comprising \$202.3 million and \$18.5 million of commercial mortgage and commercial business loans originations, respectively. No commercial loans were acquired through purchase of participations during the nine months ended March 31, 2013.

The outstanding balance of construction loans, net of loans-in-process, decreased by \$6.8 million to \$13.5 million at March 31, 2013 from \$20.3 million at June 30, 2012. Construction loan disbursements for the first nine months of fiscal 2013 totaled \$2.1 million.

Finally, other loans, primarily comprising account loans, deposit account overdraft lines of credit and other consumer loans, increased \$438,000 to \$4.5 million at March 31, 2013 from \$4.0 million at June 30, 2012. Other loan originations for the first nine months of fiscal 2013 totaled approximately \$1.5 million.

Nonperforming Loans. At March 31, 2013, nonperforming loans decreased by \$5.2 million to \$28.3 million or 2.11% of total loans from \$33.5 million or 2.61% of total loans as of June 30, 2012. The balance of nonperforming loans at March 31, 2013 included \$27.9 million of “nonaccrual” loans and \$445,000 of loans reported as “over 90 days past due and accruing”. By comparison, nonperforming loans at June 30, 2012 included \$32.8 million and \$691,000 of “nonaccrual” loans and loans reported as “over 90 days past due and accruing”, respectively.

The composition of nonperforming loans at March 31, 2013 continued to include a disproportionate balance of residential mortgage loans originally acquired from Countrywide Home Loans, Inc. (“Countrywide”) which continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP (“BOA”). In total, nonperforming Countrywide loans included 37 loans totaling \$10.3 million or 36.3% of total nonperforming loans at March 31, 2013. As of that same date, the Company owned a total of 96 residential mortgage loans with an aggregate outstanding balance of \$42.7 million that were originally acquired from Countrywide. Of these loans, an additional seven loans totaling \$2.6 million are 30-89 days past due and are in various stages of collection.

Including the Countrywide loans noted above, nonperforming residential first mortgage loans at March 31, 2013 included a total of 48 nonaccrual mortgage loans with aggregate outstanding balances of \$12.4 million.

As of that same date, nonperforming loans also included a total of nine nonaccrual home equity loans totaling \$412,000 and one home equity line of credit totaling \$470,000 reported as nonperforming as of that date.

A total of five nonaccrual construction loans with an aggregate outstanding balance of \$1.8 million were reported as nonperforming at March 31, 2013 while one additional construction loan with an outstanding balance of \$445,000 was reported as over 90 days past due and accruing.

Nonperforming commercial mortgage loans at March 31, 2013 included 19 nonaccrual loans with aggregate outstanding balances totaling \$8.5 million.

Commercial business loans reported as nonperforming at March 31, 2013 included 31 nonaccrual loans totaling \$4.4 million.

Finally, nonperforming loans at March 31, 2013 included two nonaccrual consumer loans totaling \$26,000.

Allowance for Loan Losses. During the nine months ended March 31, 2013, the balance of the allowance for loan losses increased by approximately \$641,000 to \$10.8 million or 0.80% of total loans at March 31, 2013 from \$10.1 million or 0.79% of total loans at June 30, 2012. The increase resulted from provisions of \$3,139,000 during the nine months ended March 31, 2013 that were partially offset by charge offs, net of recoveries, totaling approximately \$2,498,000.

With regard to loans individually evaluated for impairment, the balance of the Company's allowance for loan losses attributable to such loans decreased by \$396,000 to \$2.4 million at March 31, 2013 from \$2.8 million at June 30, 2012. The balance at March 31, 2013 reflected the allowance for impairment identified on \$7.3 million of impaired loans while an additional \$30.1 million of impaired loans had no allowance for impairment as of that date. By comparison, the balance of the allowance at June 30, 2012 reflected the impairment identified on \$10.1 million of impaired loans while an additional \$31.9 million of impaired loans had no impairment as of that date. The outstanding balances of impaired loans reflect the cumulative effects of various adjustments including, but not limited to, purchase accounting valuations and prior charge offs, where applicable, which are considered in the evaluation of impairment.

With regard to loans evaluated collectively for impairment, the balance of the Company's allowance for loan losses attributable to such loans increased by \$1,037,000 to \$8.3 million at March 31, 2013 from \$7.3 million at June 30, 2012. The increase in the balance of this portion of the allowance partly reflected the additional allowance attributable to an overall increase of \$60.6 million in the non-impaired portion of the loan portfolio. This increase in the allowance also reflected changes in the Company's historical and environmental loss factors made in accordance with its allowance for loan loss calculation methodology as discussed earlier.

Specifically, the Company's loan portfolio experienced a net annualized average charge-off rate of 26 basis points during the nine months ended March 31, 2013 representing a decrease of 33 basis points from the 59 basis points of charge offs reported for fiscal 2012. The historical loss factors used in the Company's allowance for loan loss calculation methodology were updated to reflect the effect of these charge offs on the average annualized historical charge off rates by loan segment over the two year look-back period used by that methodology. Such updates, in conjunction with the change in the balance of the unimpaired portion of the loan portfolio, resulted in a net decrease of \$114,000 in the applicable portion of the allowance to \$2,174,000 as of March 31, 2013 compared to \$2,288,000 at June 30, 2012.

Regarding environmental loss factors, changes to such factors during the nine months ended March 31, 2013 primarily reflected increases to those factors applicable to the Company's acquired loans. All such loans were initially recorded at fair value at acquisition reflecting any impairment identified on such loans at that time. In general, the aggregate level of realized losses on the acquired impaired loans

has not exceeded the level of impairment originally ascribed to the loans at the time of acquisition. However, the Company has identified and recognized some degree of “post-acquisition” impairment and charge offs attributable to acquired loans that were performing at the time of acquisition. While the level of this “post-acquisition” impairment has generally been limited, the Company considers such losses in developing the environmental loss factors used to calculate the required allowance applicable to the non-impaired portion of its acquired loan portfolio. In recognition of these considerations, the Company has modified the following environmental loss factors applicable to the acquired loans during the nine months ended March 31, 2013 from those levels that were in effect at June 30, 2012:

- Level of and trends in nonperforming loans: Increased (+6) from “3” to “9” reflecting continuing increases in the level of nonperforming loans and associated losses within the portfolio segment coupled with the potentially adverse effects of Hurricane Sandy on borrower repayment ability.
- National and local economic trends and conditions: Increased (+3) from “3” to “6” reflecting the continuing effects of adverse national and regional economic conditions affecting the loans within the portfolio segment.
- Changes in the value of underlying collateral: Increased (+3) from “3” to “6” reflecting the continuing weakness in real estate values applicable to the loans within the portfolio segment coupled with the potentially adverse effects of Hurricane Sandy on the values of the collateral securing such loans.

Given their prior acquisition at fair value, the environmental loss factors established for the loans acquired through business combinations generally reflect a comparatively lower level of risk than those applicable to the remaining portfolio. In accordance with the methodology described earlier, the Company has assigned the risk values to the three environmental loss factors noted above resulting in a reported number of basis points of allowance being allocated to the applicable loans at March 31, 2013. The level of environmental loss factors attributable to these loans will continue to be monitored and adjusted to reflect the Company’s best judgment as to the level of incurred losses on the acquired loans that are collectively evaluated for impairment.

In conjunction with the net changes to the outstanding balance of the applicable loans, the increase in the environmental loss factors during the nine months ended March 31, 2013 resulted in a net increase of \$1,150,000 in the applicable valuation allowances to \$6,169,000 at March 31, 2013 from \$5,019,000 at June 30, 2012.

The tables on the following pages present the historical and environmental loss factors, reported as a percentage of outstanding loan principal, that were the basis for computing the portion of the allowance for loan losses attributable to loans collectively evaluated for impairment at March 31, 2013, and June 30, 2012.

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at March 31, 2013

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
Residential mortgage loans			
Originated	0.08%	0.30%	0.38%
Purchased	2.63%	0.75%	3.38%
Acquired in merger	0.15%	0.21%	0.36%
Home equity loans			
Originated	0.15%	0.36%	0.51%
Acquired in merger	0.30%	0.21%	0.51%
Home equity lines of credit			
Originated	0.00%	0.36%	0.36%
Acquired in merger	0.00%	0.21%	0.21%
Construction loans			
1-4 family			
Originated	0.57%	0.72%	1.29%
Acquired in merger	0.00%	0.21%	0.21%
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.21%	0.21%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.21%	0.21%
Commercial mortgage loans			
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.21%	0.21%
Nonresidential			
Originated	0.05%	0.72%	0.77%
Acquired in merger	0.09%	0.21%	0.30%
Commercial business loans			
Secured (1-4 family)			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.21%	0.21%
Secured (Other)			
Originated	0.01%	0.72%	0.73%
Acquired in merger	0.15%	0.21%	0.36%
Unsecured			
Originated	0.00%	0.57%	0.57%
Acquired in merger	0.00%	0.15%	0.15%

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at March 31, 2013 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
SBA 7A			
Originated	0.00%	0.72%	0.72%
Acquired in merger	1.41%	0.21%	1.62%
SBA Express			
Originated	0.00%	0.72%	0.72%
Acquired in merger	1.52%	0.21%	1.73%
SBA Line of Credit			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.21%	0.21%
SBA Other			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.21%	0.21%
Other consumer loans (1)	-	-	-

(1) The Company generally maintains an environmental loss factor of 0.27% on other consumer loans while historical loss factors range from 0.00% to 100.00% based on loan type. Resulting balances in the allowance for loan losses are immaterial and therefore excluded from the presentation.

(2) "Base" environmental factors reported excluding the effect of "weights" attributable to internal credit-rating classification as follows: "Pass-1": 70%, "Pass-2": 80%, "Pass-3": 90%, "Pass-4": 100%, "Watch": 200%, "Special Mention": 400%, "Substandard": 600%, "Doubtful": 800%. (e.g. Environmental loss factor applicable to originated residential mortgage loan rated as "Substandard": 0.30% X 600% = 1.8%)

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at June 30, 2012

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
Residential mortgage loans			
Originated	0.07%	0.30%	0.37%
Purchased	2.25%	0.75%	3.00%
Acquired in merger	0.00%	0.09%	0.09%
Home equity loans			
Originated	0.05%	0.36%	0.41%
Acquired in merger	0.11%	0.09%	0.20%
Home equity lines of credit			
Originated	0.00%	0.36%	0.36%
Acquired in merger	0.00%	0.09%	0.09%
Construction loans			
1-4 family			
Originated	2.81%	0.72%	3.53%
Acquired in merger	0.00%	0.09%	0.09%
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Commercial mortgage loans			
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Commercial business loans			
Secured (1-4 family)			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Secured (Other)			
Originated	0.04%	0.72%	0.76%
Acquired in merger	0.36%	0.09%	0.45%
Unsecured			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at June 30, 2012 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
SBA 7A			
Originated	0.00%	0.72%	0.72%
Acquired in merger	2.10%	0.09%	2.19%
SBA Express			
Originated	0.00%	0.72%	0.72%
Acquired in merger	6.10%	0.09%	6.19%
SBA Line of Credit			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
SBA Other			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Other consumer loans (1)	-	-	-

(1) The Company generally maintains an environmental loss factor of 0.27% on other consumer loans while historical loss factors range from 0.00% to 100.00% based on loan type. Resulting balances in the allowance for loan losses are immaterial and therefore excluded from the presentation.

(2) "Base" environmental factors reported excluding the effect of "weights" attributable to internal credit-rating classification as follows: "Pass-1": 70%, "Pass-2": 80%, "Pass-3": 90%, "Pass-4": 100%, "Watch": 200%, "Special Mention": 400%, "Substandard": 600%, "Doubtful": 800%. (e.g. Environmental loss factor applicable to originated residential mortgage loan rated as "Substandard": 0.30% X 600% = 1.8%)

Additional information regarding loan quality and allowance for loan losses is presented in Note 10 to the consolidated financial statements.

Mortgage-backed Securities Available for Sale. Mortgage-backed securities available for sale, including agency pass-through securities and agency CMOs, decreased by \$477.8 million to \$782.3 million at March 31, 2013 from \$1.23 billion at June 30, 2012. The net decrease primarily reflected the sale of securities, cash repayment of principal, net of discount accretion and premium amortization coupled with a net decrease in the unrealized gain on the portfolio. These decreases in the portfolio were partially offset by purchases of securities during the period.

Securities sold from this segment of the portfolio included \$330.0 million of mortgage-backed securities sold in conjunction with the restructuring transaction noted earlier. Such sales resulted in the recognition of sale gains totaling approximately \$9.1 million during the quarter ended March 31, 2013. These sales were augmented by the sale of an additional \$70.7 million of securities earlier in the year through which \$1.1 million of additional net sale gains were recognized. The recognition of these gains contributed to the decline in the net unrealized gains within the portfolio which decreased by \$17.4 million to \$24.4 million at March 31, 2013 from \$41.7 million at June 30, 2012.

The purchases of the mortgage-backed securities during the nine months ended March 31, 2013 were comprised of agency, fixed-rate, pass-through securities and CMOs with maturities ranging from 10 through 30 years totaling \$262.3 million. Such securities included MBS secured by residential mortgage loans as well as commercial MBS secured by multifamily mortgage loans. Residential MBS purchases included 30 year, fixed-rate agency pass-through securities totaling \$22.9 million that are eligible to meet the Community Reinvestment Act investment test.

Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at March 31, 2013.

Additional information regarding mortgage-backed securities available for sale at March 31, 2013 is presented in Note 7 and Note 9 to the consolidated financial statements.

Mortgage-backed Securities Held to Maturity. Mortgage-backed securities held to maturity, including agency pass-through securities as well as agency and non-agency collateralized mortgage obligations, decreased \$209,000 to \$881,000 at March 31, 2013 from \$1.1 million at June 30, 2012. The decrease was primarily attributable to cash repayment of principal, net of discount accretion and premium amortization, coupled with the sale of two non-agency collateralized mortgage obligations whose credit quality had deteriorated below investment grade making them eligible for sale from the held to maturity portfolio. At March 31, 2013, the Company's remaining non-agency CMOs comprised eight securities totaling \$115,000.

Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at March 31, 2013.

Additional information regarding mortgage-backed securities held to maturity at March 31, 2013 is presented in Note 8 and Note 9 to the consolidated financial statements.

Other Assets. The aggregate balance of other assets, including premises and equipment, FHLB stock, interest receivable, goodwill, bank owned life insurance, deferred income taxes and other miscellaneous assets, increased by \$29.8 million to \$258.6 million at March 31, 2013 from \$228.8 million at June 30, 2012. The net increase in other assets was primarily attributable to a \$36.8 million increase in the Company's balance of bank owned life insurance that was partially offset by a \$2.9 million decline in its investment in FHLB stock. The increase in bank owned life insurance partly reflected the Company's purchase of an additional \$35.0 million in policies during the quarter ended March 31, 2013 coupled with the normal growth in the cash surrender value of the applicable policies. The decline in FHLB stock reflected a reduction in the Bank's mandatory investment attributable to the decline in the balance of borrowings with the FHLB. The change in the remaining categories of other assets resulted from normal operating fluctuations in such balances.

The balance of real estate owned ("REO"), included in other assets, decreased by \$556,000 to \$3.3 million at March 31, 2013 from \$3.8 million at June 30, 2012 while the number of properties held in REO increased to nine from eight as of the same dates, respectively. The net change in the carrying value and number of REO properties reflected the acquisition and sale of several properties during the period coupled with the cumulative write downs of properties, where applicable, to reflect reductions in expected sales prices below the fair values at which the properties were previously being carried. Two REO properties with aggregate carrying values totaling \$1.6 million were under contract for sale at March 31, 2013 with such values reflecting the net sale proceeds that the Company expects to receive based upon the terms of those contracts.

Deposits. The balance of total deposits decreased by \$18.8 million to \$2.15 billion at March 31, 2013 from \$2.17 billion at June 30, 2012. The net decrease in deposit balances primarily reflected a decline in the balance of interest-bearing deposits of \$32.9 million that was partially offset by an increase in non-interest-bearing deposits of \$14.1 million. The decrease in interest-bearing deposit accounts reflected a decline in certificates of deposit totaling \$97.5 million which was partially offset by an increase in the balance of interest-bearing checking accounts and savings accounts of \$38.4 million and \$26.2 million, respectively. The decline in the balance of certificates of deposit was largely attributable to the Company's active management of deposit pricing during the nine months ended March 31, 2013 to support net interest rate spread and margin which continued to allow for some degree of controlled outflow of time deposits.

Borrowings. The balance of borrowings decreased by \$66.6 million to \$183.2 million at March 31, 2013 from \$249.8 million at June 30, 2012. The net decrease was largely attributable to a \$65.3 million decline in the balance of FHLB advances that primarily reflected the prepayment of \$60.0 million of advances in conjunction with the restructuring transaction noted earlier. The decrease in the balance also reflected the repayment of \$5.0 million of maturing FHLB advances coupled with the scheduled repayments on an amortizing advance.

The decline in borrowing balances also reflected a \$1.3 million decrease in the balance of customer sweep accounts to \$37.2 million at March 31, 2013, from \$38.5 million at June 30, 2012. Sweep accounts are short-term borrowings representing funds that are withdrawn from a customer's non-interest-bearing deposit account and invested in an uninsured overnight investment account that is collateralized by specified investment securities owned by the Company.

Other Liabilities. The balance of other liabilities increased by \$28.1 million to \$38.7 million at March 31, 2013 from \$10.6 million at June 30, 2012. The increase in other liabilities primarily reflected an increase in the Company's outstanding funding obligations to securities dealers with respect to investment security purchases executed by the Company during March 2013 that settled during the following month. Such purchases were generally executed in conjunction with the restructuring transaction noted earlier.

Stockholders' Equity. Stockholders' equity decreased by \$7.9 million to \$483.7 million at March 31, 2013 from \$491.6 million at June 30, 2012. The decrease reflected a \$10.9 million decline in accumulated other comprehensive income primarily reflecting declines in the net unrealized gains in investment securities available for sale. The noted decrease in unrealized gains was partly attributable to the recognition of actual sale gains realized during the current year, most of which were recognized in conjunction with the restructuring transaction noted earlier. The decrease in stockholders' equity also reflected a \$2.8 million increase in Treasury stock reflecting the Company's repurchase of 288,200 shares of its common stock during the period at an average price of \$9.83 per share.

The noted decreases were partially offset by net income of \$4.6 million for the nine months ended March 31, 2013 coupled with a reduction of unearned ESOP shares for plan shares earned during the period.

Comparison of Operating Results for the Three Months Ended March 31, 2013 and March 31, 2012

General. The Company reported net income of \$1,744,000 for the three months ended March 31, 2013 or \$0.03 per diluted share; an increase of \$352,000 compared to net income of \$1,392,000 or \$0.02 per diluted share for the three months ended March 31, 2012. The increase in net income between comparative quarters reflected an increase in non-interest income that was partially offset by a decrease in net interest income and increases in the provision for loan losses and non-interest expense. In total, these

factors resulted in an overall increase in pre-tax income that was augmented by a decline in the provision for income taxes.

Net Interest Income. Net interest income for the three months ended March 31, 2013 was \$16.3 million, a decrease of \$1.3 million from \$17.7 million for the three months ended March 31, 2012. The decrease in net interest income between the comparative periods resulted from a decrease in interest income that was partially offset by a decline in interest expense. In general, the decrease in interest income was attributable to a decrease in the average yield on interest-earning assets coupled with a decline in their average balance. The decrease in interest expense primarily reflected a continued decline in the cost of interest-bearing liabilities coupled with a decline in their average balance.

As a result of these factors, the Company's net interest rate spread decreased by 16 basis points to 2.34% for the three months ended March 31, 2013 from 2.50% for the three months ended March 31, 2012. The decrease in the net interest rate spread reflected a decline in the yield on earning assets of 43 basis points to 3.30% from 3.73% that was partially offset by a 27 basis point decrease in the cost of interest-bearing liabilities to 0.96% from 1.23% for the same comparative periods. A discussion of the factors contributing to the overall change in yield on earning assets and cost of interest-bearing liabilities is presented in the separate discussion and analysis of interest income and interest expense below.

The factors contributing to the decrease in net interest rate spread were also reflected in the Company's net interest margin. Those effects were exacerbated by other factors resulting in a 20 basis point decline in the Company's net interest margin to 2.49% for the three months ended March 31, 2013 from 2.69% for the three months ended March 31, 2012. The additional factors resulting in the comparatively larger decline in net interest margin include the foregone interest income associated with use of earning assets to fund the Company's purchases of bank owned life insurance and share repurchase programs. For the three months ended March 31, 2013, the average balance of bank owned life insurance increased by \$38.2 million to \$63.1 million from \$24.9 million for the three months ended March 31, 2012. For those same comparative periods, the average balance of treasury stock increased by \$2.4 million to \$69.7 million from \$67.3 million.

Interest Income. Total interest income decreased by \$2.9 million to \$21.6 million for the three months ended March 31, 2013 from \$24.5 million for the three months ended March 31, 2012. As noted above, the decrease in interest income reflected a 43 basis point decline in the average yield on interest earning assets to 3.30% for the quarter ended March 31, 2013 from 3.73% for the quarter ended March 31, 2012. The effect on interest income from the decline in average yield was exacerbated by a \$6.3 million decrease in the average balance of interest-earning assets to \$2.62 billion from \$2.63 billion for those same comparative periods.

Interest income from loans decreased \$364,000 to \$15.4 million for the three months ended March 31, 2013 from \$15.8 million for the three months ended March 31, 2012. The decrease in interest income on loans was attributable to a decrease in their average yield that was partially offset by an increase in their average balance.

The average yield on loans decreased by 42 basis points to 4.69% for the three months ended March 31, 2013 from 5.11% for the three months ended March 31, 2012. The reduction in the overall yield on the Company's loan portfolio partly reflects the effect of lower market interest rates which provides "rate reduction" refinancing incentive to existing borrowers while also contributing to the downward re-pricing of adjustable rate loans. Additionally, the average yield of the newly originated loans that have provided the incremental growth in the portfolio between periods reflects the historically low interest rates prevalent in the marketplace which further reduces the overall yield of the loan portfolio.

The effect on interest income attributable to the decline in the average yield on loans was partially offset by the noted increase in their average balance. The average balance of loans increased by \$80.2 million to \$1.32 billion for the three months ended March 31, 2013 from \$1.24 billion for the three months ended March 31, 2012. The reported increase in the average balance of loans reflected an aggregate increase of \$154.4 million in the average balance of commercial loans to \$664.0 million for the three months ended March 31, 2013 from \$509.5 million for the three months ended March 31, 2012. The Company's commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans.

The increase in the average balance of commercial loans was partially offset by a decline in the average balance of residential mortgage loans which decreased by \$67.1 million to \$635.5 million for the three months ended March 31, 2013 from \$702.6 million for the three months ended March 31, 2012. The Company's residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit.

In general, because the Company's commercial loans comprise comparatively higher yielding multi-family mortgages, nonresidential mortgage loans and business loans, the continued reallocation within the loan portfolio from residential mortgages into commercial loans partially offset the adverse impact of lower market interest rates on the overall yield of the loan portfolio between the comparative periods.

The net increase in the average balance of loans also reflected a \$7.4 million decline in the average balance of construction loans whose aggregate average balances decreased to \$15.0 million for the three months ended March 31, 2013 from \$22.4 million for the three months ended March 31, 2012. For those same comparative periods, the average balance of consumer loans increased by \$147,000 to \$4.5 million from \$4.4 million.

Interest income from mortgage-backed securities decreased \$2.7 million to \$5.5 million for the three months ended March 31, 2013 from \$8.2 million for the three months ended March 31, 2012. The decrease in interest income reflected decreases in both the average yield and average balance of mortgage-backed securities between comparative periods. The average yield on mortgage-backed securities declined 38 basis points to 2.30% for the three months ended March 31, 2013 from 2.68% for the three months ended March 31, 2012. For those same comparative periods, the average balance of these securities decreased by \$267.9 million to \$962.0 million from \$1.23 billion.

The reduction in the overall yield of the mortgage-backed securities portfolio is attributable to many of the same factors affecting the yield on the Company's loan portfolio. That is, lower market interest rates have continued to provide a "rate reduction" refinancing incentive to mortgagors resulting in the payoff of comparatively higher rate mortgage loans underlying the Company's mortgage-backed securities which have been replaced by lower yielding securities. The decline in yield also reflects an increase in purchased premium amortization during the current quarter primarily arising from a comparatively higher level of loan prepayments.

The decrease in the average balance of mortgage-backed securities largely reflects principal repayments and security sales that have outpaced the level of security purchases. Such sales include those effected in conjunction with the restructuring transaction noted earlier.

Interest income from debt securities increased by \$184,000 to \$462,000 for the three months ended March 31, 2013 from \$278,000 for the three months ended March 31, 2012. The increase in interest income reflected an increase in the average balance of debt securities that was partially offset by a

decline in their average yield. The average balance of these securities increased \$121.4 million to \$174.7 million for the three months ended March 31, 2013 from \$53.3 million for the three months ended March 31, 2012. For those same comparative periods, the average yield on debt securities decreased by 102 basis points to 1.06% from 2.08%.

The increase in the average balance of debt securities was largely attributable to a \$117.4 million increase in the average balance of taxable securities to \$168.3 million during the three months ended March 31, 2013 from \$50.9 million for the three months ended March 31, 2012. For those same comparative periods, the average balance of tax-exempt securities increased by \$4.0 million to \$6.4 million from \$2.4 million. The decrease in the average yield on debt securities reflected a decrease of 109 basis points in the yield of taxable securities to 1.03% during the three months ended March 31, 2013 from 2.12% during the three months ended March 31, 2012. This decrease was partially offset by a 28 basis points increase in the average yield on tax-exempt securities to 1.62% from 1.34% between those same comparative periods.

The increase in the average balance in debt securities and the corresponding decline in their average yield largely reflected the effects of the restructuring transaction noted earlier. However, the changes also reflect the reinvestment during prior periods of a portion of mortgage-backed security cash flows into this segment of the portfolio separate from that restructuring transaction. Those earlier security purchases were generally limited to callable agency debentures with final stated maturities of five years or less.

Interest income from other interest-earning assets was stable at \$205,000 for the three months ended March 31, 2013 and March 31, 2012 reflecting an increase in their average balance that was largely offset by a decrease in their average yield. The average balance of other interest-earning assets increased by \$60.1 million to \$167.9 million for the three months ended March 31, 2013 from \$107.8 million for the three months ended March 31, 2012. For those same comparative periods, the average yield on other interest-earning assets decreased by 27 basis points to 0.49% from 0.76%.

The changes in the average balance and average yield on other interest-earning assets between comparative periods largely reflects the temporary accumulation of excess short-term liquidity arising from the restructuring transaction noted earlier through which proceeds from MBS sales during the current quarter were not fully redeployed by March 31, 2013. Consequently, the Company reported an increase in the average balance of interest-earning cash which generally represents the lowest yielding asset within this category of interest-earning assets.

Interest Expense. Total interest expense decreased \$1.6 million to \$5.3 million for the three months ended March 31, 2013 from \$6.9 million for the three months ended March 31, 2012. As noted earlier, the decrease in interest expense reflected a decrease in the average cost of interest-bearing liabilities which declined 27 basis points to 0.96% for the three months ended March 31, 2013 from 1.23% for the three months ended March 31, 2012. The decrease in the average cost was coupled with a \$32.9 million decline in the average balance of interest-bearing liabilities to \$2.20 billion from \$2.24 billion for the same comparative periods.

Interest expense attributed to deposits decreased \$1.5 million to \$3.4 million for the three months ended March 31, 2013 from \$4.9 million for the three months ended March 31, 2012. The decrease in interest expense was attributable to a decline in the average cost of deposits coupled with a decline in their average balance.

The cost of interest-bearing deposits declined by 29 basis points to 0.69% for the three months ended March 31, 2013 from 0.98% for the three months ended March 31, 2012. The reported decrease in

the average cost was reflected across all categories of interest-bearing deposits and was primarily attributable to the overall declines in market interest rates. For those comparative periods, the average cost of interest-bearing checking accounts decreased by 22 basis points to 0.33% from 0.55% and the average cost of savings and club accounts decreased 13 basis points to 0.17% from 0.30% while the average cost of certificates of deposit declined 30 basis points to 1.10% from 1.40%.

The decrease in the average cost was coupled with a \$21.5 million decline in the average balance of interest-bearing deposits to \$1.97 billion for the three months ended March 31, 2013 from \$1.99 billion for the three months ended March 31, 2012. The reported decrease in the average balance was primarily attributable to a \$100.9 million decline in the average balance of certificates of deposit to \$1.02 billion for the three months ended March 31, 2013 from \$1.12 billion for the three months ended March 31, 2012. The decline in the average balance of certificates of deposit was partially offset by increases in the average balances of interest-bearing checking and savings accounts. For the same comparative periods, the average balance of interest-bearing checking accounts increased \$46.9 million to \$499.6 million from \$452.7 million while the average balance of savings and club accounts increased \$32.5 million to \$451.8 million from \$419.3 million.

Interest expense attributed to borrowings decreased by \$113,000 to \$1.9 million for the three months ended March 31, 2013 from \$2.0 million for the three months ended March 31, 2012. The decrease in interest expense on borrowings reflected the combined effects of decreases in both their average balance and average cost. The average balance of borrowings decreased \$11.4 million to \$235.3 million for the three months ended March 31, 2013 from \$246.8 million for the three months ended March 31, 2012. For those same comparative periods, the average cost of borrowings decreased by three basis points to 3.23% from 3.26%.

The decrease in the average balance of borrowings largely reflected a \$12.5 million decline in the average balance of FHLB advances which decreased to \$202.8 million for the three months ended March 31, 2013 from \$215.3 million for the three months ended March 31, 2012. For those same comparative periods, the average cost of FHLB advances increased two basis points to 3.66% from 3.64%. The noted decrease in the average balance of borrowings was partially offset by a \$1.1 million increase in the average balance of other borrowings, comprised primarily of depositor sweep accounts, to \$32.5 million from \$31.4 million whose average cost declined 13 basis points to 0.51% from 0.64% for those same comparative periods.

Provision for Loan Losses. The provision for loan losses totaled \$1,407,000 for the three months ended March 31, 2013 compared to a provision of \$1,257,000 for the three months ended March 31, 2012. The provisions for both periods partly reflected impairment losses identified on specific impaired loans while also reflecting the impact of changes in the balance of the non-impaired portion of the loan portfolio which is evaluated collectively for impairment using historical and environmental loss factors. Such factors were updated during each period in accordance with the Company's allowance for loan loss calculation methodology. Additional information regarding the allowance for loan losses and the associated provisions recognized during the three months ended March 31, 2013 is presented in Note 10 of the consolidated financial statements as well as the Comparison of Financial Condition at March 31, 2013 and June 30, 2012 presented earlier.

Non-Interest Income. Non-interest income, excluding gains and losses on the sale of securities and real estate owned ("REO"), increased by \$405,000 to \$2.0 million for the quarter ended March 31, 2013 from \$1.6 million for the quarter ended March 31, 2012. The increase in non-interest income was partly attributable to an increase in income from bank owned life insurance resulting from a comparative increase in its average balance between periods. The increase also reflected an increase in loan sale gains resulting from an increase in SBA loan origination and sale activities during the current quarter ending

March 31, 2013. Such activities are the Company's primary source of loan sale gains included in non-interest income. The increase in non-interest income also reflected increases in electronic banking fees and charges arising from an increase in ATM and debit card usage by customers.

Non-interest income also includes gains and losses on sale of REO. For the quarter ended March 31, 2013, net REO sale losses totaled \$8,000 compared to \$1.2 million for the quarter ended March 31, 2012 with losses during both comparative periods being primarily attributed to reducing the carrying value of various REO properties to reflect reductions in expected sales prices below the fair values at which the properties were previously being carried. Where applicable, such losses were partially offset by REO sale gains.

At March 31, 2013, the Company held a total of nine REO properties with an aggregate carrying value of \$3.3 million. Two properties with aggregate carrying values totaling \$1.6 million were under contract for sale at March 31, 2013 with such values reflecting the net sale proceeds that the Company expects to receive based upon the terms of those contracts.

Finally, non-interest income during the quarter ended March 31, 2013 reflected net gains on sale of securities totaling \$9.1 million for which no such gains were recognized during the earlier comparative quarter. The sale gains in the current period were attributable to the sale of approximately \$330.0 million of mortgage-backed securities in conjunction with the restructuring transaction noted earlier.

Non-Interest Expenses. Non-interest expense, excluding debt extinguishment expense, increased \$493,000 to \$15.3 million for the three months ended March 31, 2013 from \$14.8 million for the three months ended March 31, 2012. The net increase in non-interest expense primarily reflected increases in salary and employee benefit expense, premises occupancy expense and equipment and systems expense that were partially offset by decreases in federal deposit insurance expense and miscellaneous expenses. Less noteworthy increases and decreases in other categories of non-interest expense reflected normal operating fluctuations within those categories.

Salaries and employee benefits increased by \$439,000 to \$9.0 million from \$8.5 million reflecting increases in expenses resulting, in part, from annual wage and salary increases as well as the Company's strategic efforts to expand its commercial lending origination and support staff. The increase also reflected increases in health care benefit costs that went into effect in January 2013.

The reported increase in occupancy expenses was largely attributable to an increase in facility repairs and maintenance costs arising from seasonal fluctuations in such expenses as well as the recognition of certain non-recurring repairs to bank facilities during the current period.

The reported increase in equipment and systems expense reflects, in part, temporary redundancy of data communication service provider charges associated with the ongoing upgrades to the Company's wide area network infrastructure. The increase also reflects an increase in overall information technology repairs and maintenance costs between periods that includes a comparative increase in software maintenance expenses. Finally, equipment and systems expense during the earlier comparative period also reflected one-time adjustments reducing certain estimated expenses relating to the conversion and integration of systems and data acquired from Central Jersey Bancorp, Inc. ("Central Jersey") for which no such adjustments were recorded during the current period.

The increases in non-interest expenses noted above were partially offset by declines in federal deposit insurance expense and miscellaneous expense. The reported decrease in federal deposit insurance expense largely reflects changes in the Bank's assessment rates charged by the FDIC as well as modest fluctuations in the assessment base used in the calculation of the Bank's deposit insurance premiums.

The reduction in federal deposit insurance expense was augmented by a decline in miscellaneous expense reflecting reductions across several categories including, but not limited to, legal expense, loan and REO-related expenses as well as a variety of other less noteworthy general and administrative expense categories.

Provision for Income Taxes. The provision for income taxes decreased by \$319,000 to \$323,000 for the three months ended March 31, 2013 from \$642,000 for the three months ended March 31, 2012. The variance in income taxes between comparative quarters was partly attributable to the underlying differences in the taxable portion of pre-tax income between comparative periods. However, the variance also reflected the Bank's recognition of an income tax benefit during the current quarter arising from the recognition of capital gains resulting from the restructuring transaction noted earlier. Such gains enabled the Company to recognize the income tax benefits attributable to capital losses incurred during prior years for which no deferred benefit had been previously recognized.

The Company's effective tax rate during the three months ended March 31, 2013 was 15.4% which, in relation to statutory income tax rates, reflected the combined effects of recurring tax-favored income sources included in pre-tax income as well as the tax benefit recognized from prior capital losses noted above. By comparison, the Company's effective tax rate for the three months ended March 31, 2012 was 31.6%.

Comparison of Operating Results for the Nine Months Ended March 31, 2013 and March 31, 2012

General. The Company reported net income of \$4,581,000 for the nine months ended March 31, 2013 or \$0.07 per diluted share; an increase of \$701,000 compared to net income of \$3,880,000 or \$0.06 per diluted share for the nine months ended March 31, 2012. The increase in net income between comparative periods reflected an increase in non-interest income and a decline in the provision for loan losses that was partially offset by a decrease in net interest income and an increase in non-interest expense. The increase in net income also reflected a decline in the provision for income taxes.

Net Interest Income. Net interest income for the nine months ended March 31, 2013 was \$49.2 million, a decrease of \$3.4 million from \$52.6 million for the nine months ended March 31, 2012. The decrease in net interest income between the comparative periods resulted from a decrease in interest income that was partially offset by a decline in interest expense. In general, the decrease in interest income was attributable to a decrease in the average yield on interest-earning assets that was partially offset by an increase in their average balance. The decrease in interest expense primarily reflected a decline in the cost of interest-bearing liabilities coupled with a decline in their average balance.

As a result of these factors, the Company's net interest rate spread decreased 15 basis points to 2.32% for the nine months ended March 31, 2013 from 2.47% for the nine months ended March 31, 2012. The decrease in the net interest rate spread reflected a decline in the yield on earning assets of 39 basis points to 3.37% from 3.76% that was partially offset by a 24 basis point decrease in the cost of interest-bearing liabilities to 1.05% from 1.29% for the same comparative periods. A discussion of the factors contributing to the overall change in yield on earning assets and cost of interest-bearing liabilities is presented in the separate discussion and analysis of interest income and interest expense below.

The factors contributing to the decrease in net interest rate spread were also reflected in the Company's net interest margin. Those effects were exacerbated by other factors resulting in a 17 basis point decline in the Company's net interest margin to 2.49% for the nine months ended March 31, 2013 from 2.66% for the nine months ended March 31, 2012. The additional factors resulting in the comparatively larger decline in net interest margin include the foregone interest income associated with use of earning assets to fund the Company's purchases of bank owned life insurance and share repurchase

programs. For the nine months ended March 31, 2013, the average balance of bank owned life insurance increased by \$29.1 million to \$53.8 million from \$24.7 million for the nine months ended March 31, 2012. For those same comparative periods, the average balance of treasury stock increased by \$4.9 million to \$68.8 million from \$63.9 million.

Interest Income. Total interest income decreased \$7.7 million to \$66.7 million for the nine months ended March 31, 2013 from \$74.4 million for the nine months ended March 31, 2012. As noted above, the decrease in interest income reflected a 39 basis point decline in the average yield on interest earning assets to 3.37% for the nine months ended March 31, 2013 from 3.76% for the nine months ended March 31, 2012. The effect on interest income from the decline in average yield was partially offset by a \$2.2 million increase in the average balance of interest-earning assets to \$2.64 billion for the nine months ended March 31, 2013.

Interest income from loans decreased \$2.1 million to \$46.4 million for the nine months ended March 31, 2013 from \$48.5 million for the nine months ended March 31, 2012. The decrease in interest income on loans was attributable to a decrease in their average yield that was partially offset by an increase in their average balance.

The average yield on loans decreased by 43 basis points to 4.77% for the nine months ended March 31, 2013 from 5.20% for the nine months ended March 31, 2012. The reduction in the overall yield on the Company's loan portfolio partly reflects the effect of lower market interest rates which provides "rate reduction" refinancing incentive to existing borrowers while also contributing to the downward re-pricing of adjustable rate loans. Additionally, the average yield of the newly originated loans that have provided the incremental growth in the portfolio between periods reflects the historically low interest rates prevalent in the marketplace which further reduces the overall yield of the loan portfolio.

The effect on interest income attributable to the decline in the average yield on loans was partially offset by the noted increase in their average balance. The average balance of loans increased by \$51.3 million to \$1.30 billion for the nine months ended March 31, 2013 from \$1.24 billion for the nine months ended March 31, 2012. The reported increase in the average balance of loans reflected an aggregate increase of \$124.0 million in the average balance of commercial loans to \$617.1 million for the nine months ended March 31, 2013 from \$493.1 million for the nine months ended March 31, 2012. The Company's commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans.

The increase in the average balance of commercial loans was partially offset by a decline in the average balance of residential mortgage loans which decreased by \$69.4 million to \$658.2 million for the nine months ended March 31, 2013 from \$727.6 million for the nine months ended March 31, 2012. The Company's residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit.

In general, because the Company's commercial loans comprise comparatively higher yielding multi-family mortgages, nonresidential mortgage loans and business loans, the continued reallocation within the loan portfolio from residential mortgages into commercial loans partially offset the adverse impact of lower market interest rates on the overall yield of the loan portfolio between the comparative periods.

The net increase in the average balance of loans also reflected a \$3.6 million decline in the average balance of construction loans whose aggregate average balances decreased to \$17.1 million for the nine months ended March 31, 2013 from \$20.7 million for the nine months ended March 31, 2012.

For those same comparative periods, the average balance of consumer loans increased by \$531,000 to \$4.5 million from \$3.9 million.

Interest income from mortgage-backed securities decreased by \$5.5 million to \$18.7 million for the nine months ended March 31, 2013 from \$24.2 million for the nine months ended March 31, 2012. The decrease in interest income reflected a decrease in the average yield of mortgage-backed securities coupled with a decline in their average balance between comparative periods. The average yield on mortgage-backed securities declined 52 basis points to 2.28% for the nine months ended March 31, 2013 from 2.80% for the nine months ended March 31, 2012. For those same comparative periods, the average balance of these securities decreased \$57.1 million to \$1.09 billion from \$1.15 billion.

The reduction in the overall yield of the mortgage-backed securities portfolio is attributable to many of the same factors affecting the yield on the Company's loan portfolio. That is, lower market interest rates have continued to provide a "rate reduction" refinancing incentive to mortgagors resulting in the payoff of comparatively higher rate mortgage loans underlying the Company's mortgage-backed securities which have been replaced by lower yielding securities. The decline in yield also reflects an increase in purchased premium amortization during the current quarter primarily arising from a comparatively higher level of loan prepayments.

The decrease in the average balance of mortgage-backed securities largely reflects principal repayments and security sales that have outpaced the level of security purchases. Such sales include those effected in conjunction with the restructuring transaction noted earlier.

Interest income from debt securities decreased by \$185,000 to \$974,000 for the nine months ended March 31, 2013 from \$1.2 million for the nine months ended March 31, 2012. The decrease in interest income reflected a decrease in the average yield that was partially offset by an increase in the average balance of debt securities. The average yield of these securities decreased 66 basis points to 1.20% for the nine months ended March 31, 2013 from 1.86% for the nine months ended March 31, 2012. For those same comparative periods, the average balance of debt securities increased \$25.4 million to \$108.5 million from \$83.1 million.

The decrease in the average yield on debt securities reflected a 77 basis points decline in the yield on taxable securities to 1.19% during the nine months ended March 31, 2013 from 1.96% during the nine months ended March 31, 2012. For those same comparative periods, the yield on tax-exempt securities increased 43 basis points to 1.41% from 0.98%. The increase in the average balance of debt securities was partly attributable to a \$30.5 million increase in the average balance of taxable securities to \$105.0 million during the nine months ended March 31, 2013 from \$74.5 million for the nine months ended March 31, 2012. For those same comparative periods, the average balance of tax-exempt securities decreased by \$5.0 million to \$3.6 million from \$8.6 million.

Interest income from other interest-earning assets increased by \$13,000 to \$595,000 for the nine months ended March 31, 2013 from \$582,000 for the nine months ended March 31, 2012 reflecting an increase in their average yield that was partially offset by a decline in their average balance. The average yield of other interest-earning assets increased by seven basis points to 0.56% for the nine months ended March 31, 2013 from 0.49% for the nine months ended March 31, 2012. For those same comparative periods, the average balance of other interest-earning assets decreased by \$17.4 million to \$142.0 million from \$159.4 million.

The changes in the average balance and average yield on other interest-earning assets between comparative periods largely reflects the reinvestment of a portion of the Company's excess liquidity that had been maintained during the earlier comparative period into the investment securities portfolio. Such

reinvestment reduced the average balance of interest-earning cash which generally represents the lowest yielding asset within this category of interest-earning assets. The effect of that strategy was partially offset by the temporary accumulation of excess short-term liquidity arising from the restructuring transaction noted earlier through which proceeds from MBS sales during the current quarter were not fully redeployed by March 31, 2013.

Interest Expense. Total interest expense decreased by \$4.3 million to \$17.4 million for the nine months ended March 31, 2013 from \$21.8 million for the nine months ended March 31, 2012. As noted earlier, the decrease in interest expense reflected a decrease in the average cost of interest-bearing liabilities which declined 24 basis points to 1.05% for the nine months ended March 31, 2013 from 1.29% for the nine months ended March 31, 2012. The decrease in the average cost was coupled with a \$21.8 million decline in the average balance of interest-bearing liabilities to \$2.22 billion from \$2.24 billion for the same comparative periods.

Interest expense attributed to deposits decreased \$4.2 million to \$11.4 million for the nine months ended March 31, 2013 from \$15.7 million for the nine months ended March 31, 2012. The decrease in interest expense was attributable to a decline in the average cost of deposits coupled with a decline in their average balance.

The cost of interest-bearing deposits declined by 28 basis points to 0.77% for the nine months ended March 31, 2013 from 1.05% for the nine months ended March 31, 2012. The reported decrease in the average cost was reflected across all categories of interest-bearing deposits and was primarily attributable to the overall declines in market interest rates. For those comparative periods, the average cost of interest-bearing checking accounts decreased by 22 basis points to 0.39% from 0.61% and the average cost of savings and club accounts decreased 13 basis points to 0.21% from 0.34% while the average cost of certificates of deposit declined 29 basis points to 1.18% from 1.47%.

The decrease in the average cost was coupled with a \$20.7 million decline in the average balance of interest-bearing deposits to \$1.98 billion for the nine months ended March 31, 2013 from \$2.00 billion for the nine months ended March 31, 2012. The reported decrease in the average balance was primarily attributable to an \$84.7 million decline in the average balance of certificates of deposit to \$1.05 billion for the nine months ended March 31, 2013 from \$1.14 billion for the nine months ended March 31, 2012. The decline in the average balance of certificates of deposit was partially offset by increases in the average balances of interest-bearing checking and savings accounts. For the same comparative periods, the average balance of interest-bearing checking accounts increased \$33.8 million to \$485.1 million from \$451.3 million while the average balance of savings and club accounts increased \$30.2 million to \$439.7 million from \$409.5 million.

Interest expense attributed to borrowings decreased by \$101,000 to \$6.0 million for the nine months ended March 31, 2013 from \$6.1 million for the nine months ended March 31, 2012. The decrease in interest expense on borrowings reflected the combined effects of decreases in both their average balance and their average cost. The average balance of borrowings decreased \$1.1 million to \$245.4 million for the nine months ended March 31, 2013 from \$246.6 million for the nine months ended March 31, 2012. For those same comparative periods, the average cost of borrowings decreased by four basis points to 3.25% from 3.29%.

The decrease in the average balance of borrowings partly reflected a \$2.3 million decrease in the average balance of FHLB advances which declined to \$210.3 million for the nine months ended March 31, 2013 from \$212.6 million for the nine months ended March 31, 2012. For those same comparative periods, the average cost of FHLB advances decreased one basis point to 3.70% from 3.71%. The noted decrease in the average balance of borrowings was partially offset by a \$1.2 million increase in the

average balance of other borrowings, comprised primarily of depositor sweep accounts, to \$35.2 million from \$34.0 million whose average cost declined 12 basis points to 0.55% from 0.67% for those same comparative periods.

Provision for Loan Losses. The provision for loan losses totaled \$3,139,000 for the nine months ended March 31, 2013 compared to a provision of \$3,645,000 for the nine months ended March 31, 2012. The provisions for both periods partly reflected impairment losses identified on specific impaired loans while also reflecting the impact of changes in the balance of the non-impaired portion of the loan portfolio which is evaluated collectively for impairment using historical and environmental loss factors. Such factors were updated during each period in accordance with the Company's allowance for loan loss calculation methodology. Additional information regarding the allowance for loan losses and the associated provisions recognized during the nine months ended March 31, 2013 is presented in Note 10 to the consolidated financial statements as well as the Comparison of Financial Condition at March 31, 2013 and June 30, 2012 presented earlier.

Non-Interest Income. Non-interest income, excluding gains and losses on the sale of securities and real estate owned ("REO"), increased by \$752,000 to \$4.9 million for the nine months ended March 31, 2013 from \$4.2 million for the nine months ended March 31, 2012. The increase in non-interest income was primarily attributable to an increase in income from bank owned life insurance resulting from a comparative increase in its average balance between periods. The increase in non-interest income also reflected increases in electronic banking fees and charges arising from an increase in ATM and debit card usage by customers coupled with an increase in REO income included in miscellaneous income. Additionally, miscellaneous income for the nine months ended March 31, 2013 included a gain on the sale of a parcel of vacant land adjacent to one of the Company's branches. The parcel had originally been acquired for branch expansion purposes, but was ultimately sold after the Company was unable to procure the required approvals for the expansion.

The noted increases in non-interest income were partially offset by the absence in the current period of a \$245,000 payment received by the Bank during the earlier comparative period from a tenant in return for the discharge of their future obligations under the terms of a commercial lease agreement where the Bank served as lessor.

Non-interest income also includes gains and losses on sale of REO. For the nine months ended March 31, 2013, net REO sale losses totaled \$541,000 compared to \$3.3 million for the nine months ended March 31, 2012 with losses during both comparative periods being primarily attributed to reducing the carrying value of various REO properties to reflect reductions in expected sales prices below the fair values at which the properties were previously being carried. Where applicable, such losses were partially offset by REO sale gains.

At March 31, 2013, the Company held a total of nine REO properties with an aggregate carrying value of \$3.3 million. Two properties with aggregate carrying values totaling \$1.6 million were under contract for sale at March 31, 2013 with such values reflecting the net sale proceeds that the Company expects to receive based upon the terms of those contracts.

Finally, non-interest income during the nine months ended March 31, 2013 reflected net gains on sale of securities totaling \$10.2 million attributable to the sale of mortgage-backed securities totaling approximately \$400.7 million during the period. The securities sold during the current period included \$330.0 million of agency mortgage backed securities sold during the quarter ended March 31, 2013 in conjunction with the restructuring transaction noted earlier through which the Company recognized \$9.1 million in gains on sale. Those sale gains were augmented by an additional \$1.1 million of sale gains

resulting from the sale of an additional \$70.7 million of agency mortgage-backed securities earlier in the year that were separate from the restructuring transaction.

The sale gains during the current year were partially offset by losses totaling \$6,000 arising from the sale of \$15,000 of non-agency collateralized mortgage obligations that had fallen below the Company's investment grade thresholds. The Company recognized \$5,000 in losses during the earlier comparative period ended March 31, 2012 that resulted from a sale of \$27,000 of non-agency collateralized mortgage obligations on that same basis.

Non-Interest Expenses. Non-interest expense, excluding debt extinguishment expense, increased \$1.8 million to \$45.7 million for the nine months ended March 31, 2013 from \$43.9 million for the nine months ended March 31, 2012. The net increase in non-interest expense primarily reflected increases in salary and employee benefit expense, premises occupancy expense, equipment and systems expense and federal deposit insurance expense that were partially offset by decreases in advertising and marketing expense. Less noteworthy increases and decreases in other categories of non-interest expense reflected normal operating fluctuations within those categories.

Salaries and employee benefits increased by \$1.5 million to \$26.6 million from \$25.1 million reflecting increases in expenses resulting, in part, from annual wage and salary increases as well as the Company's strategic efforts to expand its commercial lending origination and support staff. The increase also reflected increases in health care benefit costs that went into effect in January 2013.

The noted increase in premises occupancy expense largely reflected non-recurring facility-related repairs and maintenance expenses, a portion of which were necessitated by damage caused by Hurricane Sandy at a limited number of the Company's branches located in or near certain New Jersey shore communities. In general, the facility-related damages caused by the hurricane were cosmetic in nature as evidenced by all 41 of the Company's branches re-opening within two weeks of the hurricane. The increase in occupancy expenses also reflected a higher level of seasonal facility maintenance costs during the current period, including those relating to snow removal, arising from the extraordinarily mild winter that was experienced during a portion of the earlier comparative period.

The reported increase in equipment and systems expense reflects, in part, temporary redundancy of data communication service provider charges associated with the ongoing upgrades to the Company's wide area network infrastructure. The increase also reflects an increase in overall information technology repairs and maintenance costs between periods that includes a comparative increase in software maintenance expenses. Finally, equipment and systems expense during the earlier comparative period also reflected one-time adjustments reducing certain estimated expenses relating to the conversion and integration of systems and data acquired from Central Jersey Bancorp, Inc. ("Central Jersey") for which no such adjustments were recorded during the current period.

The reported increase in federal deposit insurance expense largely reflects changes in the Bank's assessment rates charged by the FDIC as well as modest fluctuations in the assessment base used in the calculation of the Bank's deposit insurance premiums.

The increases in non-interest expenses noted above were partially offset by a decline in advertising and marketing expense that largely reflected a reduction in print advertising expenses that was partially offset by an increase in outdoor and electronic advertising expenses. The reduction in advertising and marketing expenses was augmented by a net decline in miscellaneous expense reflecting reductions across several categories including, but not limited to, legal expense, printing and office supplies as well as a variety of other less noteworthy general and administrative expense categories.

Provision for Income Taxes. The provision for income taxes decreased \$471,000 to \$1.6 million for the nine months ended March 31, 2013 from \$2.1 million for the nine months ended March 31, 2012. The variance in income taxes between comparative quarters was partly attributable to the underlying differences in the taxable portion of pre-tax income between comparative periods. However, the variance also reflected the Bank's recognition of income tax benefits during the current period arising from the recognition of capital gains resulting from the restructuring transaction and sale of land noted earlier. Such gains enabled the Company to recognize the income tax benefits attributable to capital losses incurred during prior years for which no deferred benefit had been previously recognized.

The Company's effective tax rate during the nine months ended March 31, 2013 was 26.4% which, in relation to statutory income tax rates, reflected the combined effects of recurring tax-favored income sources included in pre-tax income as well as the tax benefit recognized from prior capital losses noted above. By comparison, the Company's effective tax rate for the nine months ended March 31, 2012 was 35.3%.

Liquidity and Capital Resources

Our liquidity, represented by cash and cash equivalents, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, borrowings, amortization, prepayments and maturities of mortgage-backed securities and outstanding loans, maturities and calls of debt securities and funds provided from operations. In addition to cash and cash equivalents, we invest excess funds in short-term interest-earning assets such as overnight deposits or U.S. agency securities, which provide liquidity to meet lending requirements. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, general interest rates, economic conditions and competition greatly influence deposit flows and prepayments on loans and mortgage-backed securities.

The Bank is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe operation. Management generally maintains cash and cash equivalents for this purpose. Investments that qualify as liquid assets are supplemented by those securities classified as available for sale at March 31, 2013, which included \$782.3 million of mortgage-backed securities and \$137.8 million of debt securities that can readily be sold if necessary.

As noted earlier, the balance of the Company's cash and cash equivalents increased by \$54.3 million to \$209.9 million at March 31, 2013 from \$155.6 million at June 30, 2012. The increase in the balance was largely attributable to cash inflows arising from the sale of investment securities in conjunction with the restructuring transaction noted earlier. A portion of the cash inflows from such sales were redeployed into the investment portfolio or used to prepay selected borrowings by March 31, 2013. However, a portion of such proceeds remained in cash and cash equivalents as of that date pending their redeployment into additional investment securities during the following quarter.

In light of the historically low level of short term interest rates, the Company generally expects to continue maintaining the average balance of interest-earning cash and equivalents at comparatively lower levels than those reported at the close of the current quarter. Management will continue to monitor the level of short term, liquid assets in relation to the expected need for such liquidity to fund the Company's strategic initiatives – particularly those relating to the expansion of its commercial lending functions. The Company may alter its liquidity reinvestment strategies based upon the timing and relative success of those initiatives.

At March 31, 2013, the Company had outstanding commitments to acquire loans totaling approximately \$101.8 million compared to \$82.5 million at June 30, 2012. Construction loans in process

and unused lines of credit were \$12.6 million and \$72.1 million, respectively, at March 31, 2013 compared to \$13.0 million and \$73.5 million, respectively, at June 30, 2012. The Company is also subject to the contingent liabilities resulting from letters of credit whose outstanding balances totaled \$743,000 and \$880,000 at March 31, 2013 and June 30, 2012, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

As noted earlier, for the nine months ended March 31, 2013, the balance of total deposits decreased by \$18.8 million to \$2.15 billion reflecting the Company's active management of deposit pricing during the period to support net interest spread and margin. The balance of certificates of deposit with maturities of greater than 12 months also decreased to \$355.4 million at March 31, 2013 compared to \$391.3 million at June 30, 2012 with such balances representing 35.3% and 35.4% of total certificates of deposit at the close of each period, respectively.

Borrowings from the FHLB of New York are available to supplement the Company's liquidity position and, to the extent that maturing deposits do not remain with the Company, management may replace such funds with advances. As of March 31, 2013, the Company's outstanding balance of FHLB advances, excluding fair value adjustments, totaled \$145.9 million. Of these advances, \$145.0 million represent fixed rate advances maturing in 2017 that have terms enabling the FHLB to call the borrowing at their option prior to maturity. The remaining \$875,000 represents an amortizing advance maturing in 2021. In conjunction with the restructuring transaction noted earlier, the terms of the \$145.0 million of non-amortizing advances were modified during April 2013 including an extension of their maturity dates to 2023. Under their modified terms, such advances are "putable" back to the Bank at the FHLB's option beginning in April 2018 which may require full repayment to the FHLB at par prior to maturity.

The Company has the capacity to borrow additional funds from the FHLB, through a line of credit or by taking additional short-term or long-term advances. Such borrowings are an option available to management if funding needs change or to lengthen liabilities. Most of the Bank's mortgage-backed and debt securities are held in safekeeping at the FHLB of New York with a majority being available as collateral if necessary. In addition to the FHLB advances, the Bank has other borrowings totaling \$37.2 million representing overnight "sweep account" balances linked to customer demand deposits.

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Bank's facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At March 31, 2013, we had no significant off-balance sheet commitments to purchase securities or for capital expenditures.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of March 31, 2013, the Bank exceeded all capital requirements of federal banking regulators.

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The following tables set forth the Bank's capital position at March 31, 2013 and June 30, 2012, as compared to the minimum regulatory capital requirements:

At March 31, 2013

	Actual		For Capital Adequacy Purposes (Dollars in Thousands)				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Total Capital (to risk-weighted assets)	\$350,881	24.08	% \$116,586	8.00	% \$145,732	10.00	%	
Tier 1 Capital (to risk-weighted assets)	\$340,123	23.34	% \$58,293	4.00	% \$87,439	6.00	%	
Core (Tier 1) Capital (to adjusted total assets)	\$340,123	12.50	% \$108,817	4.00	% \$136,022	5.00	%	
Tangible Capital (to adjusted total assets)	\$340,123	12.50	% \$40,807	1.50	% \$-	-		

At June 30, 2012

	Actual		For Capital Adequacy Purposes (Dollars in Thousands)				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Total Capital (to risk-weighted assets)	\$344,492	25.37	% \$108,641	8.00	% \$135,802	10.00	%	
Tier 1 Capital (to risk-weighted assets)	\$334,375	24.62	% \$54,321	4.00	% \$81,481	6.00	%	
Core (Tier 1) Capital (to adjusted total assets)	\$334,375	12.06	% \$110,902	4.00	% \$138,628	5.00	%	
Tangible Capital (to adjusted total assets)	\$334,375	12.06	% \$41,588	1.50	% \$-	-		

Recent Accounting Pronouncements

For a discussion of the expected impact of recently issued accounting pronouncements that have yet to be adopted by the Company, please refer to Note 6 to the consolidated financial statements.

ITEM 3.
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Qualitative Analysis. The majority of our assets and liabilities are sensitive to changes in interest rates. Consequently, interest rate risk is a significant form of business risk that must be managed by the Company. Interest rate risk is generally defined in regulatory nomenclature as the risk to the Company's earnings or capital arising from the movement of interest rates. It arises from several risk factors including: the differences between the timing of rate changes and the timing of cash flows (re-pricing risk); the changing rate relationships among different yield curves that affect bank activities (basis risk); the changing rate relationships across the spectrum of maturities (yield curve risk); and the interest-rate-related options embedded in bank products (option risk).

Regarding the risk to the Company's earnings, movements in interest rates significantly influence the amount of net interest income recognized by the Company. Net interest income is the difference between:

- The interest income recorded on our earning assets, such as loans, securities and other interest-earning assets; and
- The interest expense recorded on our costing liabilities, such as interest-bearing deposits and borrowings.

Net interest income is, by far, the Company's largest revenue source to which the Company adds its noninterest income and from which it deducts its provision for loan losses, noninterest expense and income taxes to calculate net income. Movements in market interest rates, and the effect of such movements on the risk factors noted above, significantly influence the "spread" between the interest earned by the Company on its loans, securities and other interest-earning assets and the interest paid on its deposits and borrowings. Movements in interest rates that increase, or "widen", that net interest spread enhance the Company's net income. Conversely, movements in interest rates that reduce, or "tighten", that net interest spread adversely impact the Company's net income.

For any given movement in interest rates, the resulting degree of movement in an institution's yield on interest earning assets compared with that of its cost of interest-bearing liabilities determines if an institution is deemed "asset sensitive" or "liability sensitive". An asset sensitive institution is one whose yield on interest-earning assets reacts more quickly to movements in interest rates than its cost of interest-bearing liabilities. In general, the earnings of asset sensitive institutions are enhanced by upward movements in interest rates through which the yield on its earning assets increases faster than its cost of interest-bearing liabilities resulting in a widening of its net interest spread. Conversely, the earnings of asset sensitive institutions are adversely impacted by downward movements in interest rates through which the yield on its earning assets decreases faster than its cost of interest-bearing liabilities resulting in a tightening of its net interest spread.

In contrast, a liability sensitive institution is one whose cost of interest-bearing liabilities reacts more quickly to movements in interest rates than its yield on interest-earning assets. In general, the earnings of liability sensitive institutions are enhanced by downward movements in interest rates through which the cost of interest-bearing liabilities decreases faster than its yield on its earning assets resulting in a widening of its net interest spread. Conversely, the earnings of liability sensitive institutions are adversely impacted by upward movements in interest rates through which the cost of interest-bearing liabilities increases faster than its yield on its earning assets resulting in a tightening of its net interest spread.

The degree of an institution's asset or liability sensitivity is traditionally represented by its "gap position". In general, gap is a measurement that describes the net mismatch between the balance of an institution's earning assets that are maturing and/or re-pricing over a selected period of time compared to that of its costing liabilities. Positive gaps represent the greater dollar amount of earning assets maturing or re-pricing over the selected period of time than costing liabilities. Conversely, negative gaps represent the greater dollar amount of costing liabilities maturing or re-pricing over the selected period of time than earning assets. The degree to which an institution is asset or liability sensitive is reported as a negative or positive percentage of assets, respectively. The industry commonly focuses on cumulative one-year and three-year gap percentages as fundamental indicators of interest rate risk sensitivity.

Based upon the findings of the Company's internal interest rate risk analysis, the Company is considered to be liability sensitive. Liability sensitivity characterizes the balance sheets of many thrift institutions and is generally attributable to the comparatively shorter contractual maturity and/or re-pricing characteristics of the institution's deposits and borrowings versus those of its loans and investment securities.

With respect to the maturity and re-pricing of its interest-bearing liabilities, at March 31, 2013, \$652.0 million or 64.7% of our certificates of deposit mature within one year with an additional \$195.4 million or 19.4% maturing in greater than one year but less than or equal to two years. Based on current market interest rates, the majority of these certificates are projected to re-price downward to the extent they remain with the Company at maturity and are renewed at the same original term to maturity. Of the \$146.0 million of FHLB borrowings at March 31, 2013, all have fixed interest rates with \$145.0 million maturing during fiscal 2018, but callable on a quarterly basis prior to maturity. Given current market interest rates, the call options would not currently be expected to be exercised by the FHLB. Notwithstanding, the terms of these advances were modified during the following quarter ending June 30, 2013 in conjunction with the restructuring transaction noted earlier. The modified terms included extending the "non-putable" period of the advance to five years from the date of modification. The remaining \$876,000 of FHLB borrowings represents one amortizing advance maturing in 2021 whose terms were unaffected by the restructuring transaction.

With respect to the maturity and re-pricing of the Company's interest-earning assets, at March 31, 2013, \$46.0 million, or 3.4% of our total loans will reach their contractual maturity dates within one year with the remaining \$1.30 billion, or 96.6% of total loans having remaining terms to contractual maturity in excess of one year. Of loans maturing after one year, \$925.2 million or 68.9% had fixed rates of interest while the remaining \$370.7 million or 27.6% had adjustable rates of interest.

Regarding investment securities, at March 31, 2013, \$2.0 million or 0.2% of our securities will reach their contractual maturity dates within one year with the remaining \$1.07 billion, or 99.8% of total securities, having remaining terms to contractual maturity in excess of one year. Of the latter category, \$955.4 million comprising 89.5% of our total securities had fixed rates of interest while the remaining \$110.4 million comprising 10.3% of our total securities had adjustable or floating rates of interest.

At March 31, 2013, mortgage-related assets, including mortgage loans and mortgage-backed securities, total \$2.0 billion and comprise 77.1% of total earning assets. In addition to remaining term to maturity and interest rate type as discussed above, other factors contribute significantly to the level of interest rate risk associated with mortgage-related assets. In particular, the scheduled amortization of principal and the borrower's option to prepay any or all of a mortgage loan's principal balance, where applicable, has a significant effect on the average lives of such assets and, therefore, the interest rate risk associated with them. In general, the prepayment rate on lower yielding assets tends to slow as interest rates rise due to the reduced financial incentive for borrowers to refinance their loans. By contrast, the prepayment rate of higher yielding assets tends to accelerate as interest rates decline due to the increased

financial incentive for borrowers to prepay or refinance their loans to comparatively lower interest rates. These characteristics tend to diminish the benefits of falling interest rates to liability sensitive institutions while exacerbating the adverse impact of rising interest rates.

The Company generally retained its liability sensitivity during the first nine months of fiscal 2013 while the degree of that sensitivity, as measured internally by the institution's one-year and three-year gap percentages, changed modestly during the period. Specifically, the Company's cumulative one-year gap percentage changed from +1.87% at June 30, 2012 to +2.96% at March 31, 2013 while the Company's cumulative three-year gap percentage changed from +7.70% to +3.28% over those same comparative periods.

The change in the Company's one-year and three-year gaps largely reflect the effects of the restructuring transaction noted earlier. Specifically, the balance of cash and equivalents at the close of the current quarter was greater than that held at June 30, 2012 due to the proceeds received through the noted sales of MBS that had not yet been reinvested at March 31, 2013. This temporary increase in short-term liquidity contributed significantly to a net increase in the balance of assets projected to reprice within the first year of the analysis in relation to the projected liabilities repricing over that time.

Conversely, reduced cash flows arising from the Company's reallocation of a portion of its investments out of MBS and into non-amortizing securities reduced the expected cash flows generated by the portfolio over a projected three-year period. The decline in these cash flows more than offset the effects of the temporary increase in short term liquidity noted earlier. Consequently, the Company's cumulative three-year gap reflects a net decrease in the portion of assets projected to reprice within a three-year timeframe in relation to the projected liabilities repricing over that time.

As a liability sensitive institution, the Company's net interest spread is generally expected to benefit from overall reductions in market interest rates. Conversely, its net interest spread is generally expected to be adversely impacted by overall increases in market interest rates. However, the general effects of movements in market interest rates can be diminished or exacerbated by "nonparallel" movements in interest rates across a yield curve. Nonparallel movements in interest rates generally occur when shorter term and longer term interest rates move disproportionately in a directionally consistent manner. For example, shorter term interest rates may decrease faster than longer term interest rates which would generally result in a "steeper" yield curve. Alternately, nonparallel movements in interest rates may also occur when shorter term and longer term interest rates move in a directionally inconsistent manner. For example, shorter term interest rates may rise while longer term interest rates remain steady or decline which would generally result in a "flatter" yield curve.

At its extreme, a yield curve may become "inverted" for a period of time during which shorter term interest rates exceed longer term interest rates. While inverted yield curves do occasionally occur, they are generally considered a "temporary" phenomenon portending a change in economic conditions that will restore the yield curve to its normal, positively sloped shape.

In general, the interest rates paid on the Company's deposits tend to be determined based upon the level of shorter term interest rates. By contrast, the interest rates earned on the Company's loans and investment securities tend to be based upon the level of longer term interest rates. As such, the overall "spread" between shorter term and longer interest rates when earning assets and costing liabilities re-price greatly influences the Company's overall net interest spread over time. In general, a wider spread between shorter term and longer term interest rates, implying a "steeper" yield curve, is beneficial to the Company's net interest spread. By contrast, a narrower spread between shorter term and longer term interest rates, implying a "flatter" yield curve, or a negative spread between those measures, implying an inverted yield curve, adversely impacts the Company's net interest spread.

The effects of interest rate risk on the Company's earnings are best demonstrated through a review of changes in market interest rates over the past several years and their impact on the Company's net interest spread. Following a period of historically low interest rates, the Federal Reserve Board of Governors steadily increased its target federal funds rate by 425 basis points from 1.00% in June 2004 to 5.25% in June 2007. During that three-year period, federal funds rate and other shorter term market interest rates increased by a far greater degree than longer term market interest rates. For example, the market yield on the one-year U.S. Treasury bill increased 284 basis points from 2.07% at June 30, 2004 to 4.91% at June 30, 2007. By comparison, the market yield on the 10-year U.S. Treasury note increased by only 41 basis points from 4.62% to 5.03% over those same time periods. The flattening yield curve during that three year period had an adverse impact on the Company's net interest spread which decreased 67 basis points from 2.37% for the year ended June 30, 2004 to 1.70% for the year ended June 30, 2007.

The upward trend in shorter term interest rates was reversed in September 2007 as the Federal Reserve began to lower the target rate for federal funds in reaction to the threat of a looming recession triggered by growing volatility and instability in the housing and credit markets. The effects of those isolated crises rapidly grew to threaten the viability of the domestic and international financial markets as a whole. In reaction to that larger threat, the Federal Reserve reduced the target federal funds rate by a total of over 500 basis points from 5.25% at June 2007 to a range between 0.00% and 0.25% which have remained in effect through March 31, 2013.

For the four year period ended June 30, 2011, federal funds rate and other shorter term market interest rates decreased by a far greater degree than longer term market interest rates. For example, the market yield on the one-year U.S. Treasury bill decreased 382 basis points from 4.01% at June 30, 2007 to 0.19% at June 30, 2011. By comparison, the market yield on the 10-year U.S. Treasury note decreased by only 185 basis points from 5.03% to 3.18% over those same time periods. The steepening yield curve during that four year period had a beneficial impact on the Company's net interest spread which increased 86 basis points from 1.70% for the year ended June 30, 2007 to 2.56% for the year ended June 30, 2011.

During fiscal 2012, short term interest rates generally remained stable at their historical lows with the yield on the one year U.S. Treasury bill measuring 0.21% and 0.19%, respectively, at June 30, 2012 and June 30, 2011. However, over that same period, the market yield on the 10-year U.S. Treasury note decreased by 151 basis points from 3.18% to 1.67%. The substantial flattening of the yield curve during that period contributed significantly to the decline in the Company's net interest spread which decreased to 2.46% for the year ended June 30, 2012 compared to 2.56% for the prior year ended June 30, 2011.

The yield curve generally remained flat, but steepened slightly, during the first nine months of fiscal 2013 with the yield on the one year U.S. Treasury bill declining an additional seven basis points to 0.14% as of March 31, 2013 while the market yield on the 10-year U.S. Treasury note increased by 20 basis points to 1.87% as of that same date. The flattened yield curve continued to have an adverse impact in the Company's net interest spread which decreased to 2.32% for the nine months ended March 31, 2013 compared to 2.46% for the year ended June 30, 2012.

As noted earlier, the Company is pursuing various strategies to mitigate the adverse effects of the flattening yield curve on its net interest spread and margin. Such strategies include deploying excess liquidity in higher yielding interest-earning assets, such as commercial loans and investment securities, while continuing to lower its cost of interest-bearing liabilities by reducing deposit offering rates. However, the risk of additional net interest rate spread and margin compression is significant as the yield on Company's interest-earning assets continues to reflect the impact of the recent greater declines in longer term market interest rates compared to the lesser concurrent reductions in shorter term market interest rates that affect its cost of interest-bearing liabilities. In particular, the Company's ability to

further reduce the cost of its interest-bearing deposits is increasingly limited based on most deposit offering rates already falling below 1.00% at March 31, 2013. Moreover, the Company's liability sensitivity may adversely affect net income in the future when market interest rates ultimately increase from their historical lows and its cost of interest-bearing liabilities may rise faster than its yield on interest-earning assets.

The Company maintains an Asset/Liability Management ("ALM") Program to address all matters relating to the management of interest rate risk and liquidity risk. In support of that program, the Board of Directors has established an Interest Rate Risk Management Committee comprising five members of the Board with our Chief Operating Officer, Chief Financial Officer, Chief Risk/Investment Officer participating as management's liaison to the committee. The committee meets quarterly to address management of our assets and liabilities, including review of our short term liquidity position; loan and deposit pricing and production volumes and alternative funding sources; current investments; average lives, durations and re-pricing frequencies of loans and securities; and a variety of other asset and liability management topics. The results of the committee's quarterly review are reported to the full Board, which adjusts the investment policy and strategies, as it considers necessary and appropriate.

The Board of Directors has assigned the responsibility for the operational aspects of the ALM program to the Company's Asset/Liability Management Committee ("ALCO"). The ALCO is a management committee comprising the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Lending Officer, Branch Administrator, Chief Risk/Investment Officer, Treasurer and Controller. Additional members of the Company's management team may be asked to participate on the ALCO, as appropriate.

Responsibilities conveyed to the ALCO by the Board of Directors include:

- Developing ALM-related policies and associated operating procedures and controls that will identify and measure the risks associated with ALM while establishing the limits and thresholds relating thereto;
- Developing ALM-related operating strategies and tactics designed to manage the relevant risks within the applicable policy thresholds and limits while supporting the achievement of the goals and objectives of the Company's strategic business plan;
- Developing, implementing and maintaining a management- and Board-level ALM monitoring and reporting system;
- Ensuring that the ALCO and the Board of Directors are kept abreast of current technologies, procedures and industry best practices that may be utilized to carry out their ALM-related duties and responsibilities;
- Ensuring the periodic independent validation of the Bank's ALM risk management policies and operating practices and controls; and
- Conducting periodic ALCO committee meetings to review all matters relating to ALM strategies and risk management activities.

Quantitative Analysis. The quantitative analysis regularly conducted by management measures interest rate risk from both a capital and earnings perspective. With regard to capital, the Company's internal interest rate risk analysis calculates the sensitivity of the Company's economic value of equity ("EVE") ratio to movements in interest rates. EVE represents the present value of the expected cash flows from the Bank's assets less the present value of the expected cash flows arising from its liabilities adjusted for the value of off-balance sheet contracts. The EVE ratio represents the dollar amount of the Bank's EVE divided by the present value of its total assets for a given interest rate scenario. In essence, EVE attempts to quantify the economic value of the Company using a discounted cash flow methodology

while the EVE ratio reflects that value as a form of capital ratio. The degree to which the EVE ratio changes for any hypothetical interest rate scenario from its “base case” measurement is a reflection of an institution’s sensitivity to interest rate risk.

The Company’s EVE ratio is first calculated in a “base case” scenario that assumes no change in interest rates as of the measurement date. The model then measures the change in the EVE ratio throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve up and down 100, 200 and 300 basis points. The model requires that interest rates remain positive for all points along the yield curve for each rate scenario which may preclude the modeling of certain “down rate” scenarios during periods of lower market interest rates. The Company’s interest rate risk management policy establishes acceptable floors for the EVE ratio and caps for the maximum change in the EVE ratio throughout the scenarios modeled.

As illustrated in the tables below, the Company’s EVE would be negatively impacted by an increase in interest rates. This result is expected given the Company’s liability sensitivity noted earlier. Specifically, based upon the comparatively shorter maturity and/or re-pricing characteristics of its interest-bearing liabilities compared with that of its interest-earning assets, an upward movement in interest rates would have a disproportionately adverse impact on the present value of the Company’s assets compared to the beneficial impact arising from the reduced present value of its liabilities. Hence, the Company’s EVE and EVE ratio decline in the increasing interest rate scenarios. Historically low interest rates at March 31, 2013 preclude the modeling of certain scenarios as parallel downward shifts in the yield curve of 100 basis points or more would result in negative interest rates for many points along that curve.

The following tables present the results of the Company’s internal EVE analysis as of March 31, 2013 and June 30, 2012, respectively.

At March 31, 2013

Changes in Rates (1)	Net Portfolio Value		Net Portfolio Value as % of Present Value of Assets			
	\$ Amount (In Thousands)	\$ Change	% Change	Net Portfolio Value Ratio		Basis Point Change
+300 bps	232,555	-189,277	-45 %	9.24 %		-578 bps
+200 bps	313,744	-108,088	-26 %	11.95 %		-307 bps
+100 bps	379,621	-42,211	-10 %	13.93 %		-109 bps
0 bps	421,832	-	-	15.02 %		-

At June 30, 2012

Changes in Rates (1)	Net Portfolio Value		Net Portfolio Value as % of Present Value of Assets			
	\$ Amount (In Thousands)	\$ Change	% Change	Net Portfolio Value Ratio		Basis Point Change
+300 bps	241,451	-177,339	-42 %	9.30 %		-523 bps
+200 bps	324,768	-94,022	-22 %	11.99 %		-254 bps
+100 bps	387,699	-31,091	-7 %	13.80 %		-72 bps
0 bps	418,790	-	-	14.53 %		-

A comparative industry benchmark regarding interest rate risk is the “sensitivity measure” which is generally defined as the change in an institution’s NPV ratio, measured in basis points, in an immediate and permanent, adverse parallel shift in interest rates of plus or minus 200 basis points. Based upon the

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tables above, the Company's sensitivity measure increased by 53 basis points from -254 basis points at June 30, 2012 to -307 basis points at March 31, 2013 which indicates an increase in the Bank's sensitivity to movements in interest rates from period to period.

There are numerous internal and external factors that may contribute to changes in an institution's sensitivity measure. Internally, changes in the composition and allocation of an institution's balance sheet and the interest rate risk characteristics of its components can significantly alter the exposure to interest rate risk as quantified by the changes in the sensitivity measure. However, changes to certain external factors, most notably changes in the level of market interest rates and overall shape of the yield curve, can significantly alter the projected cash flows of the institution's interest-earning assets and interest-costing liabilities and the associated present values thereof. Changes in internal and external factors from period to period can complement one another's effects to reduce overall sensitivity, partly or wholly offset one another's effects, or exacerbate one another's adverse effects and thereby increase the institution's exposure to interest rate risk as quantified by the sensitivity measure.

In general, the noted change in the Company's sensitivity measure generally indicates an increase in the level of long-term interest rate risk between comparative periods resulting from various changes to the composition and allocation of the Company's balance sheet from June 30, 2012 to March 31, 2013 coupled with generally consistent assumptions between periods. In particular, the ongoing reallocation of earning assets from the investment portfolio into comparatively longer duration loans in accordance with the Company's business plan has contributed to the reported increase in the level of long-term interest rate risk, as measured by the sensitivity of EVE to movements in interest rates. The Company is evaluating a variety of business strategies to manage its exposure to long-term interest rate risk including, but not limited to, extending the duration of its wholesale borrowing and retail deposit funding sources while expanding its investment in non-capped, variable rate assets including, but not limited to, certain floating rate investment security sectors.

As noted earlier, the Company's internal interest rate risk analysis also includes an "earnings-based" component which, compared to EVE-based analysis, generally focuses on shorter-term exposure to interest rate risk. A quantitative, earnings-based approach to measuring interest rate risk is strongly encouraged by bank regulators as a complement to the "EVE-based" methodology. However, there are no commonly accepted "industry best practices" that specify the manner in which "earnings-based" interest rate risk analysis should be performed with regard to certain key modeling variables. Such variables include, but are not limited to, those relating to rate scenarios (e.g., immediate and permanent rate "shocks" versus gradual rate change "ramps", "parallel" versus "nonparallel" yield curve changes), measurement periods (e.g., one year versus two year, cumulative versus noncumulative), measurement criteria (e.g., net interest income versus net income) and balance sheet composition and allocation ("static" balance sheet, reflecting reinvestment of cash flows into like instruments, versus "dynamic" balance sheet, reflecting internal budget and planning assumptions).

The Company is aware that absence of a commonly shared, industry-standard set of analysis criteria and assumptions on which to base an "earnings-based" analysis could result in inconsistent or misinterpreted disclosure concerning an institution's level of interest rate risk. Consequently, the Company limits the presentation of its earnings-based interest rate risk analysis to the scenarios presented in the table below. Consistent with the EVE analysis above, such scenarios utilize immediate and permanent rate "shocks" that result in parallel shifts in the yield curve. For each scenario, projected net interest income is measured over a one year period utilizing a static balance sheet assumption through which incoming and outgoing asset and liability cash flows are reinvested into the same instruments. Product pricing and earning asset prepayment speeds are appropriately adjusted for each rate scenario.

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As illustrated in the tables below, the Company's net interest income would be negatively impacted by a parallel upward shift in the yield curve. Like the EVE results presented earlier, this result is expected given the Company's liability sensitivity noted earlier. While the tables below reflect an overall decrease in the sensitivity of net interest income to movements in interest rates between the comparative periods, the comparative reductions in the projected interest income across each scenario forecasted generally reflects the continuing adverse effects of the current interest rate environment on the Company's net interest margin.

At March 31, 2013

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Change in Rates	Measurement Period	Net Interest Income (In Thousands)	Change in Net Interest Income	Change in Net Interest Income
Base case (No change)	-	Static	0 bps	One Year	\$ 67,023	\$ -	- %
Immediate and permanent	Parallel	Static	+100 bps	One Year	66,154	-869	-1.30
Immediate and permanent	Parallel	Static	+200 bps	One Year	64,569	-2,454	-3.66
Immediate and permanent	Parallel	Static	+300 bps	One Year	62,430	-4,593	-6.85

At June 30, 2012

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Change in Rates	Measurement Period	Net Interest Income (In Thousands)	Change in Net Interest Income	Change in Net Interest Income
Base case (No change)	-	Static	0 bps	One Year	\$ 69,856	\$ -	- %
Immediate and permanent	Parallel	Static	+100 bps	One Year	68,855	-1,001	-1.43
Immediate and permanent	Parallel	Static	+200 bps	One Year	66,686	-3,169	-4.54
Immediate and permanent	Parallel	Static	+300 bps	One Year	62,710	-7,146	-10.23

Notwithstanding the rate change scenarios presented in the EVE and earnings-based analyses above, future interest rates and their effect on net portfolio value or net interest income are not predictable. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, prepayments and deposit run-offs and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in this type of computation. Although certain assets and liabilities may have similar maturity or periods of re-pricing, they may react at different times and in different degrees to changes in market interest rates. The interest rate on certain types of assets and liabilities, such as demand deposits and savings accounts, may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, generally have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making

calculations set forth above. Additionally, an increased credit risk may result as the ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

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ITEM 4.
CONTROLS AND PROCEDURES

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's principal executive officer and the principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

During the quarter under report, there was no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. Legal Proceedings

At March 31, 2013, neither the Company nor the Bank were involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company and the Bank.

ITEM 1A. Risk Factors

Our recent investments in corporate and municipal debt securities expose us to additional credit risks.

During the quarter ended March 31, 2013, we commenced a balance sheet restructuring in which we sold approximately \$330.0 million in mortgage backed securities, including, but not limited to, those issued by the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association and invested a portion of the proceeds in bank-qualified municipal obligations and bonds issued by financial institutions. Unlike the securities sold, which have been effectively backed by the U.S. government since the noted issuers were placed in receivership, the municipal and corporate debt securities acquired are backed only by the credit of their issuers. While the Company has invested primarily in investment grade securities, these municipal and corporate obligations are not backed by the federal government and expose the Company to a degree of credit risk that has not previously been present in its investment portfolio, which has historically consisted of U.S. and government agency securities. Our municipal bond investments also include unrated, short-term bond anticipation notes issued by three local municipalities with which the Bank has deposit relationships. Any decline in the credit quality of the issuers exposes us to the risk that the market value of the securities could fall which may require us to write down their value on our books and could lead to a possible default in payment.

Beyond the additional risk factor noted above, Management of the Company does not believe there have been any other material changes with regard to the Risk Factors previously disclosed under Items 1A. of the Company's Form 10-K for the year ended June 30, 2012 and the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, previously filed with the Securities and Exchange Commission.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

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ISSUER PURCHASES OF EQUITY SECURITIES

The following table reports information regarding repurchases of the Company's common stock during the quarter ended March 31, 2013.

1

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1-31, 2013	12,800	\$ 9.81	12,800	582,880
February 1-28, 2013	27,200	\$ 10.37	27,200	555,680
March 1-31, 2013	76,900	\$ 10.28	76,900	478,780
Total	116,900	\$ 10.25	116,900	478,780

(1) On March 23, 2012, the Company announced the authorization of a seventh repurchase program for up to 802,780 shares or 5% of shares outstanding.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

The following Exhibits are filed as part of this report:

3.1	Charter of Kearny Financial Corp. (1)
3.2	By-laws of Kearny Financial Corp. (2)
4.0	Specimen Common Stock Certificate of Kearny Financial Corp. (1)
10.1	Employment Agreement between Kearny Federal Savings Bank and Albert E. Gossweiler (2)
10.2	Employment Agreement between Kearny Federal Savings Bank and Sharon Jones (2)
10.3	Employment Agreement between Kearny Federal Savings Bank and William C. Ledgerwood (2)
10.4	Employment Agreement between Kearny Federal Savings Bank and Erika K. Parisi (2)
10.5	Employment Agreement between Kearny Federal Savings Bank and Patrick M. Joyce (2)
10.6	Employment Agreement between Kearny Federal Savings Bank and Craig L. Montanaro (2)
10.7	Directors Consultation and Retirement Plan (1)
10.8	Benefit Equalization Plan (1)
10.9	Benefit Equalization Plan for Employee Stock Ownership Plan (1)
10.10	Kearny Financial Corp. 2005 Stock Compensation and Incentive Plan (3)
10.11	Kearny Federal Savings Bank Director Life Insurance Agreement (4)
10.12	Kearny Federal Savings Bank Executive Life Insurance Agreement (4)
10.13	Kearny Financial Corp. Directors Incentive Compensation Plan (5)
10.14	Employment Agreement between Kearny Federal Savings Bank and Eric B. Heyer (6)
11.0	Statement regarding computation of earnings per share (Filed herewith).
31.0	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document *
101.SCH	XBRL Schema Document *

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101.CAL	XBRL Calculation Linkbase Document *
101.LAB	XBRL Labels Linkbase Document *
101.PRE	XBRL Presentation Linkbase Document *
101.DEF	XBRL Definition Linkbase Document *

- * Submitted as Exhibits 101 to this Form 10-Q are documents formatted in XBRL (Extensible Business Reporting Language). Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus

- * for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.
- (1) Incorporated by reference to the identically numbered exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-118815).
 - (2) Incorporated by reference to the exhibit to the Registrant's Annual Report on Form 10-K filed for the year ended June 30, 2008 (File No. 000-51093).
 - (3) Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-130204).
 - (4) Incorporated by reference to the exhibits to the Registrant's Form 8-K filed on August 18, 2005 (File No. 000-51093).
 - (5) Incorporated by reference to the exhibit to the Registrant's Form 8-K filed on December 9, 2005 (File No. 000-51093).
 - (6) Incorporated by reference to the exhibit to the Registrant's Form 8-K filed on June 30, 2011 (File No. 000-51093).

SIGNATURES

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

KEARNY FINANCIAL CORP.

Date: May 10, 2013

By: /s/ Craig L. Montanaro
Craig L. Montanaro
President and Chief Executive Officer
(Duly authorized officer and principal executive officer)

Date: May 10, 2013

By: /s/ Eric B. Heyer
Eric B. Heyer
Senior Vice President and
Chief Financial Officer
(Principal financial and accounting officer)