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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X 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 [X] 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 [X] 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 [X]

Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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)

Assets	March 31, 2013 (Unaudited)	June 30, 2012
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		

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.

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

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

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, 2013	Three Months Ended March 31, 2012	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 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.

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.

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	Nine Months Ended March 31, 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	-

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)

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

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 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.

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

	Three Months Ended March 31, 2013			Nine Months Ended March 31, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)			(In Thousands, Except Per Share Data)		
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 March 31, 2012			Nine Months Ended March 31, 2012		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)			(In Thousands, Except Per Share Data)		
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

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.

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:

    - Fixed-rate, bank-qualified municipal obligations;
    - Floating-rate corporate bonds issued by financial companies;
    - Floating-rate, asset-backed securities comprising education loans with 97% U.S. government guarantees;
    - Fixed-rate agency commercial MBS secured by multifamily mortgage loans; and
    - Fixed-rate agency collateralized mortgage obligations ("CMO").

- During April 2013, the Company modified the terms of its remaining $145.0 million of "putable" 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-putable" 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:

	At March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(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

	At March 31, 2013	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities available for sale:		
Due in one year or less	$-	$-
Due after one year through five years	-	-

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

	At June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(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.

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:

	March 31, 2013			
	Amortized Cost	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	-	-

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

	At June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(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	511	62	-	573
Non-agency securities	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 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
	(In Thousands)					
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 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", repre 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

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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	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	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	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	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	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	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	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	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	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		