Kearny Financial Corp.
Form 10-Q
February 11, 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 December 31, 2012

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	22-3803741
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

120 Passaic Ave., Fairfield, New Jersey	07004-3510
(Address of principal executive offices)	(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: February 8, 2013.

$0.10 par value common stock - 66,751,340 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)

	December 31, 2012 (Unaudited)	June 30, 2012
Assets		
Cash and amounts due from depository institutions	$28,497	$38,028
Interest-bearing deposits in other banks	158,494	117,556
Cash and Cash Equivalents	186,991	155,584
Debt securities available for sale (amortized cost $14,202 and $14,613)	12,761	12,602
Debt securities held to maturity (fair value $147,306 and $34,838)	147,225	34,662
Loans receivable, including unamortized yield adjustments of $(1,240) and $(1,654)	1,302,012	1,284,236
Less allowance for loan losses	(10,594)	(10,117)
Net Loans Receivable	1,291,418	1,274,119
Mortgage-backed securities available for sale (amortized cost $991,726 and $1,188,373)	1,030,906	1,230,104
Mortgage-backed securities held to maturity (fair value $1,010 and $1,159)	941	1,090
Premises and equipment	37,813	38,677
Federal Home Loan Bank of New York (“FHLB”) stock	14,140	14,142
Interest receivable	7,876	8,395
Goodwill	108,591	108,591
Bank owned life insurance	49,894	48,615
Other assets	9,051	10,425
Total Assets	$2,897,607	$2,937,006
Liabilities and Stockholders’ Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$167,400	$165,118
Interest-bearing	1,973,065	2,006,679
Total Deposits	2,140,465	2,171,797
Borrowings	242,145	249,777
Advance payments by borrowers for taxes	6,301	5,974
Deferred income tax liabilities, net	6,295	7,276
Other liabilities	10,614	10,565
Total Liabilities	2,405,820	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; 66,764,740 and 66,936,040 shares outstanding, respectively	7,274	7,274
Paid-in capital	215,609	215,539
Retained earnings	322,498	319,661
Unearned Employee Stock Ownership Plan shares; 606,141 shares and 678,878 shares, respectively	(6,062)	(6,789)
Treasury stock, at cost; 5,972,760 shares and 5,801,460 shares, respectively	(69,299)	(67,664)
Accumulated other comprehensive income	21,767	23,596
Total Stockholders' Equity	491,787	491,617
Total Liabilities and Stockholders' Equity	$2,897,607	$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 December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Interest Income				
Loans	$15,165	$16,216	$30,941	$32,684
Mortgage-backed securities	6,162	7,933	13,165	15,915
Securities:				
Taxable	274	334	500	826
Tax-exempt	6	11	12	55
Other interest-earning assets	195	182	390	377
Total Interest Income	21,802	24,676	45,008	49,857
Interest Expense				
Deposits	3,773	5,223	8,050	10,815
Borrowings	2,035	2,035	4,089	4,077
Total Interest Expense	5,808	7,258	12,139	14,892
Net Interest Income	15,994	17,418	32,869	34,965
Provision for Loan Losses	1,393	1,323	1,732	2,388
Net Interest Income after Provision for Loan Losses	14,601	16,095	31,137	32,577
Non-Interest Income				
Fees and service charges	617	639	1,246	1,265
Gain on sale of loans	-	123	-	309
Gain (loss) on sale of securities	1,097	(5)	1,097	(5)
Loss on sale and write down of real estate owned	(239)	(2,020)	(533)	(2,056)
Income from bank owned life insurance	393	185	776	375
Electronic banking fees and charges	285	236	574	471
Miscellaneous	132	81	325	156
Total Non-Interest Income (Loss)	2,285	(761)	3,485	515
Non-Interest Expenses				
Salaries and employee benefits	8,791	8,383	17,603	16,544
Net occupancy expense of premises	1,655	1,596	3,253	3,181
Equipment and systems	1,896	1,774	3,873	3,743
Advertising and marketing	275	321	561	622
Federal deposit insurance premium	549	496	1,101	981

Directors’ compensation	175	158	342	324
Miscellaneous	1,850	1,964	3,731	3,736
Total Non-Interest Expenses	$15,191	$14,692	$30,464	$29,131

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Income Before Income Taxes	$1,695	$642	$4,158	$3,961
Income Taxes	518	172	1,321	1,473
Net Income	$1,177	$470	$2,837	$2,488
Net Income per Common Share (EPS): Basic and Diluted	$0.02	$0.01	$0.04	$0.04
Weighted Average Number of Common Shares Outstanding: Basic and Diluted	66,188	66,498	66,222	66,733
Dividends Declared Per Common Share	$-	$0.05	$-	$0.10

See notes to consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Net income	$ 1,177	$ 470	$ 2,837	$ 2,488
Other Comprehensive Income (Loss):				
Realized gain on securities available for sale, net of deferred income tax expense of 2012 $(452), $(452) and 2011 $ -, $ -	(651)	-	(651)	-
Unrealized gain (loss) on securities available for sale, net of deferred income tax (benefit) expense of 2012 $(3,305), $(371) and, 2011 $(361), $2,629	(4,860)	(504)	(507)	3,828
Benefit plans, net of deferred income tax (benefit) expense of 2012 $10, $(464) and, 2011 $4, $124	15	6	(671)	179
Total Other Comprehensive Income (Loss)	(5,946)	(498)	(1,829)	4,007
Total Comprehensive Income (Loss)	$ (4,319)	$ (28)	$ 1,008	$ 6,495

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended December 31, 2011
(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	-	-	-	2,488	-	-	-	2,488
Other comprehensive income, net of income tax	-	-	-	-	-	-	4,007	4,007
ESOP shares committed to be released (72 shares)	-	-	(55)	-	728	-	-	673
Dividends contributed for payment of ESOP loan	-	-	73	-	-	-	-	73
Stock option expense	-	-	21	-	-	-	-	21
Treasury stock purchases	(771)	-	-	-	-	(7,094)	-	(7,094)
Restricted stock plan shares earned (8 shares)	-	-	84	-	-	-	-	84
Cash dividends declared ($0.10/ public share)	-	-	-	(1,556)	-	-	-	(1,556)
Balance - December 31, 2011	67,080	$ 7,274	$ 215,381	$ 318,286	$ (7,516)	$ (66,294)	$ 19,439	$ 486,570

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended December 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, 2012	66,936	$ 7,274	$ 215,539	$ 319,661	$ (6,789)	$ (67,664)	$ 23,596	$ 491,617
Net income	-	-	-	2,837	-	-	-	2,837
Other comprehensive income, net of income tax	-	-	-	-	-	-	(1,829)	(1,829)
ESOP shares committed to be released (36 shares)	-	-	(33)	-	727	-	-	694
Dividends contributed for payment of ESOP loan	-	-	(2)	-	-	-	-	(2)
Stock option expense	-	-	21	-	-	-	-	21
Treasury stock purchases	(171)	-	-	-	-	(1,635)	-	(1,635)
Restricted stock plan shares earned (4 shares)	-	-	84	-	-	-	-	84
Balance - December 31, 2012	66,765	$ 7,274	$ 215,609	$ 322,498	$ (6,062)	$ (69,299)	$ 21,767	$ 491,787

See notes to consolidated financial statements.

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

	Six Months Ended December 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	$2,837	$2,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,307	1,310
Net amortization of premiums, discounts and loan fees and costs	5,759	4,086
Deferred income taxes	304	365
Amortization of intangible assets	72	81
Amortization of benefit plans' unrecognized net loss	50	20
Provision for loan losses	1,732	2,388
Loss on write-down and sales of real estate owned	533	2,056
Realized gain on sale of loans	-	(309)
Proceeds from sale of loans	-	3,551
Realized sale gain on mortgage-backed securities available for sale	(1,103)	-
Realized sale loss on mortgage-backed securities held to maturity	6	5
Realized gain on disposition of premises and equipment	(100)	(3)
Increase in cash surrender value of bank owned life insurance	(776)	(375)
ESOP, stock option plan and restricted stock plan expenses	799	778
Decrease in interest receivable	519	979
Decrease (increase) in other assets	685	(437)
Increase (decrease) in interest payable	14	(24)
Decrease in other liabilities	(1,047)	(430)
Net Cash Provided by Operating Activities	11,591	16,529
Cash Flows from Investing Activities:		
Proceeds from calls and maturities of debt securities available for sale	-	30,088
Proceeds from repayments of debt securities available for sale	389	590
Purchase of debt securities held to maturity	(144,163)	(1,068)
Proceeds from calls and maturities of debt securities held to maturity	31,068	61,522
Proceeds from repayments of debt securities held to maturity	518	458
Purchase of loans	(8,085)	(27,907)
Net (increase) decrease in loans receivable	(12,834)	58,011
Proceeds from sale of real estate owned	2,249	224
Purchases of mortgage-backed securities available for sale	(79,603)	(311,817)
Principal repayments on mortgage-backed securities available for sale	200,267	149,045
Principal repayments on mortgage-backed securities held to maturity	134	110
Proceeds from sale of mortgage-backed securities held to maturity	15	27
Proceeds from sale of mortgage-backed securities available for sale	70,739	-
Purchase of FHLB stock	(1,125)	-
Redemption of FHLB stock	1,127	2

Purchase of bank owned life insurance	(503)	-
Proceeds from cash settlement of premises and equipment	200	3
Additions to premises and equipment	(543)	(1,293)
Net Cash Provided by (Used in) Investing Activities	$59,850	$(42,005)

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

	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
Cash Flows from Financing Activities:		
Net decrease in deposits	$(31,167)	$(31,739)
Repayment of long-term FHLB advances	(42)	(39)
Decrease in other short-term borrowings	(7,515)	(9,516)
Increase (decrease) in advance payments by borrowers for taxes	327	(570)
Dividends paid to stockholders of Kearny Financial Corp.	-	(1,587)
Purchase of common stock of Kearny Financial Corp. for treasury	(1,635)	(7,094)
Dividends contributed for payment of ESOP loan	(2)	73
Net Cash Used in Financing Activities	(40,034)	(50,472)
Net Increase (Decrease) in Cash and Cash Equivalents	31,407	(75,948)
Cash and Cash Equivalents – Beginning	155,584	222,580
Cash and Cash Equivalents – Ending	$186,991	$146,632
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	$714	$2,027
Interest	$12,125	$14,916
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	$2,164	$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 six-month periods ended December 31, 2012, 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 statements 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 December 31, 2012			Six Months Ended December 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	$1,177			$2,837		
Basic earnings per share, income available to common stockholders	$1,177	66,188	$0.02	$2,837	66,222	$0.04
Effect of dilutive securities:						
Stock options	-	-		-	-	
	$1,177	66,188	$0.02	$2,837	66,222	$0.04

	Three Months Ended December 31, 2011			Six Months Ended December 31, 2011		
	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	$470			$2,488		
Basic earnings per share, income available to common stockholders	$470	66,498	$0.01	$2,488	66,733	$0.04
Effect of dilutive securities:						
Stock options	-	-		-	-	
	$470	66,498	$0.01	$2,488	66,733	$0.04

During the three and six months ended December 31, 2012, the average number of options which were considered anti-dilutive totaled approximately 3,193,000. During the three and six months ended December 31, 2011, the average number of options which were considered anti-dilutive totaled approximately 3,233,000.

4. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of December 31, 2012, 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.

5. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Accounting Standards Update 2011-05 which amends FASB ASC Topic 220, Comprehensive Income, to facilitate the continued alignment of U.S. GAAP with International Accounting Standards. The ASU prohibits the presentation of the components of comprehensive income

in the statement of stockholder's equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate, but consecutive, statements of net income and other comprehensive income. Under previous GAAP, all three presentations were acceptable. Regardless of the presentation selected, the Reporting Entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this ASU are effective for fiscal years, and interim periods within those years, beginning after December 31, 2011 for public entities. As the two remaining options for presentation existed prior to the issuance of this ASU, early adoption is permitted. The implementation of the new pronouncement did not have a material impact on the Company's consolidated financial position or results of operations.

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. In response to stakeholder concerns regarding the operational ramifications of the presentation of these reclassifications for current and previous years, the FASB has deferred the implementation date of this provision to allow time for further consideration. The requirement in ASU 2011-05, Presentation of Comprehensive Income, for the presentation of a combined statement of comprehensive income or separate, but consecutive, statements of net income and other comprehensive income is still effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 for public companies. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

6. 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 December 31, 2012 the Company has repurchased a total of 207,100 shares in accordance with this repurchase plan at a total cost of approximately $1,969,000 and at an average cost per share of $9.51.

7. SECURITIES AVAILABLE FOR SALE

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

	At December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available for sale:				
Debt securities:				
Trust preferred securities	$8,875	$-	$1,608	$7,267
U.S. agency securities	5,327	168	1	5,494
Total debt securities	14,202	168	1,609	12,761
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	2,100	41	-	2,141
Total collateralized mortgage obligations	2,100	41	-	2,141
Mortgage pass-through securities:				
Government National Mortgage Association	9,959	780	18	10,721
Federal Home Loan Mortgage Corporation	361,929	11,985	16	373,898
Federal National Mortgage Association	617,738	26,456	48	644,146
Total mortgage pass-through securities	989,626	39,221	82	1,028,765
Total mortgage-backed securities	991,726	39,262	82	1,030,906
Total securities available for sale	$1,005,928	$39,430	$1,691	$1,043,667

	At December 31, 2012	
	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	323	324
Due after ten years	13,879	12,437

Total	$ 14,202	$ 12,761

	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 six months ended December 31, 2012, proceeds from sales of securities available for sale totaled $70.7 million and resulted in gross gains of $1,150,000 and gross losses of $47,000. There were no sales of securities available for sale during the six months ended December 31, 2011. At December 31, 2012 and June 30, 2012, securities available for sale with carrying values of approximately $257.5 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 $5.8 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-though 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 December 31, 2012 and June 30, 2012 and stratification by contractual maturity of such securities at December 31, 2012 are presented below:

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities held to maturity:				
Debt securities:				
U.S. agency securities	$145,210	$99	$21	$145,288
Obligations of state and political subdivisions	2,015	3	-	2,018
Total debt securities	147,225	102	21	147,306
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	31	5	-	36
Federal National Mortgage Association	433	50	-	483
Non-agency securities	116	1	4	113
Total collateralized mortgage obligations	580	56	4	632
Mortgage pass-through securities:				
Federal Home Loan Mortgage Corporation	107	6	-	113
Federal National Mortgage Association	254	11	-	265
Total mortgage pass-through securities	361	17	-	378
Total mortgage-backed securities	941	73	4	1,010
Total securities held to maturity	$148,166	$175	$25	$148,316

	At December 31, 2012	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities held to maturity:		
Due in one year or less	$ 2,015	$ 2,018
Due after one year through five years	120,216	120,289
Due after five years through ten years	24,994	24,999

Due after ten years		-		-
Total	$	147,225	$	147,306

	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 six months ended December 31, 2012 and December 31, 2011, 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 December 31, 2012 and June 30, 2012, no held to maturity securities were utilized as collateral for borrowings nor 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-though

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 December 31, 2012 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 December 31, 2012:						
Trust preferred securities	$-	$-	$6,267	$1,608	$6,267	$1,608
U.S. agency securities	-	-	95	1	95	1
Mortgage pass-through securities	6,969	38	390	44	7,359	82
Total	$6,969	$38	$6,752	$1,653	$13,721	$1,691
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 December 31, 2012 totaled 24 comprising four single-issuer trust preferred securities, one U.S. agency security, and 19 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 December 31, 2012:						
U.S. agency securities	$34,974	$21	$-	$-	$34,974	$21
Collateralized mortgage obligations	$-	$-	$66	$4	$66	$4
Total	$34,974	$21	$66	$4	$35,040	$25
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 December 31, 2012 totaled eight comprising two U.S. agency securities and six 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 $1.03 billion at December 31, 2012 and comprised 86.6% of total investments and 35.6% 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, as noted above. 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.

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 December 31, 2012 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 December 31, 2012. 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 2012 and 2011, 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 December 31, 2012, the Company's remaining portfolio comprised eight non-agency CMOs held-to-maturity totaling $116,000 of which six 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 December 31, 2012 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 December 31, 2012 to be "other-than-temporarily" impaired as of that date.

U.S. Agency Securities. The carrying value of the Company's U.S. agency debt securities totaled $150.7 million at December 31, 2012 and comprised 12.6% of total investments and 5.2% of total assets as of that date. Such securities are comprised of $145.2 million of U.S. agency debentures and $5.5 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 impaired portion of the Company's SBA securities are variable rate investments whose interest coupons are 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 adverse effects of the historically low short term, market interest rates at December 31, 2012.

Like the mortgage-backed securities described earlier, the currently diminished 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 “below market” 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.

Unlike its SBA securities, the Company's U.S. agency debentures are fixed rate investments whose fair values over time generally reflect movements in comparatively longer term market interest rates. At December 31, 2012, 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, as noted above. 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.

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 December 31, 2012 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 December 31, 2012 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 December 31, 2012, 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 December 31, 2012, the Company owned two securities at an amortized cost of $2.9 million that were consistently rated by Moody's and Standard & Poor's Financial Services ("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 December 31, 2012.

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 December 31, 2012. 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, as noted above. 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 December 31, 2012 to be "other-than-temporarily" impaired as of that date.

At December 31, 2012 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. The sum of nonaccrual loans plus accruing loans that are 90 days or more past due are generally defined 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 December 31, 2012, the remaining outstanding principal balance and carrying amount of the acquired credit-impaired loans totaled approximately $10,594,000 and $6,723,000, 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 $1,669,000 and $2,967,000 at December 31, 2012 and June 30, 2012, respectively.

The balance of the allowance for loan losses at December 31, 2012 and June 30, 2012 included approximately $21,000 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 six months ended December 31, 2012 and December 31, 2011.

	Three Months Ended December 31, 2012 (in thousands)	Three Months Ended December 31, 2011 (in thousands)
Beginning balance	$ 1,182	$ 1,621
Accretion to interest income	(94)	(67)
Disposals	-	-
Reclassifications from nonaccretable difference	-	-
Ending balance	$ 1,088	$ 1,554

	Six Months Ended December 31, 2012 (in thousands)	Six Months Ended December 31, 2011 (in thousands)
Beginning balance	$ 1,461	$ 1,718
Accretion to interest income	(282)	(164)
Disposals	(91)	-
Reclassifications from nonaccretable difference	-	-
Ending balance	$ 1,088	$ 1,554

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 December 31, 2012 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 December 31, 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	$ 1,086	$ 359	$ -	$ -	$ 113	$ -	$ -	$ 1,558
Loans collectively evaluated for impairment	3,013	3,153	147	219	280	35	14	6,861
Allowance for loan losses on originated and purchased loans	4,099	3,512	147	219	393	35	14	8,419
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	-	-	21	-	-	-	21
Other acquired loans individually evaluated for impairment	-	226	-	1,046	35	-	-	1,307
Loans collectively evaluated for impairment	4	401	40	304	57	40	1	847
Allowance for loan losses on loans acquired at fair value	4	627	40	1,371	92	40	1	2,175
Total allowance for loan losses	$ 4,103	$ 4,139	$ 187	$ 1,590	$ 485	$ 75	$ 15	$ 10,594

Allowance for Loan Losses and Loans Receivable
at December 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 three months ended December 31, 2012:								
At September 30, 2012:								
Allocated	$ 4,115	$ 3,592	$ 232	$ 1,401	$ 429	$ 67	$ 13	$ 9,849
Unallocated	-	-	-	-	-	-	-	-
Total allowance for loan losses	4,115	3,592	232	1,401	429	67	13	9,849
Total charge offs	(405)	(187)	-	-	(63)	-	(1)	(656)
Total recoveries	-	-	-	-	8	-	-	8
Total allocated provisions	393	734	(45)	189	111	8	3	1.393
Total unallocated provisions	-	-	-	-	-	-	-	-
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

Allowance for Loan Losses and Loans Receivable
at December 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 six months ended December 31, 2012:								
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	(903)	(200)	-	(116)	(70)	-	(2)	(1,291)
Total recoveries	9	-	-	18	9	-	-	36
Total allocated provisions	425	896	(90)	378	99	21	3	1,732
Total unallocated provisions	-	-	-	-	-	-	-	-
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

Allowance for Loan Losses and Loans Receivable
at December 31, 2011

	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 December 31, 2011:								
At September 30, 2011:								
Allocated	$ 6,745	$ 3,306	$ 241	$ 1,104	$ 340	$ 55	$ 16	$ 11,807
Unallocated	-	-	-	-	-	-	-	233
Total allowance for loan losses								