Kearny Financial Corp.
Form 10-Q
November 09, 2011

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 September 30, 2011

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 [ ] 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: November 4, 2011.

$0.10 par value common stock - 67,296,871 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, Unaudited)

	September 30, 2011	June 30, 2011
Assets		
Cash and amounts due from depository institutions	$58,934	$47,332
Interest-bearing deposits in other banks	231,196	175,248
Cash and Cash Equivalents	290,130	222,580
Securities available for sale (amortized cost $20,284 and $46,145)	17,871	44,673
Securities held to maturity (estimated fair value $76,820 and $107,052)	76,218	106,467
Loans receivable, including unamortized yield adjustments of $(917) and $(1,021)	1,243,841	1,268,351
Less allowance for loan losses	(12,040)	(11,767)
Net Loans Receivable	1,231,801	1,256,584
Mortgage-backed securities available for sale (amortized cost $1,047,989 and $1,032,407)	1,084,093	1,060,247
Mortgage-backed securities held to maturity (estimated fair value $1,381 and $1,416)	1,291	1,345
Premises and equipment	39,362	39,556
Federal Home Loan Bank of New York ("FHLB") stock	13,559	13,560
Interest receivable	8,594	9,740
Goodwill	108,591	108,591
Bank owned life insurance	24,660	24,470
Other assets	13,867	16,323
Total Assets	$2,910,037	$2,904,136
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$141,423	$143,087
Interest-bearing	2,007,183	2,006,266
Total Deposits	2,148,606	2,149,353
Borrowings	247,791	247,642
Advance payments by borrowers for taxes	5,780	5,794
Deferred income tax liabilities, net	4,511	1,669
Other liabilities	11,894	11,804
Total Liabilities	2,418,582	2,416,262
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; 67,560,871 and 67,851,077 shares outstanding, respectively	7,274	7,274
Paid-in capital	215,309	215,258
Retained earnings	318,586	317,354
Unearned Employee Stock Ownership Plan shares; 787,989 shares and 824,352 shares, respectively	(7,880)	(8,244)
Treasury stock, at cost; 5,176,629 shares and 4,886,423 shares, respectively	(61,771)	(59,200)
Accumulated other comprehensive income	19,937	15,432
Total Stockholders' Equity	491,455	487,874
Total Liabilities and Stockholders' Equity	$2,910,037	$2,904,136

See notes to consolidated financial statements.

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

	Three Months Ended September 30, 2011	2010
Interest Income		
Loans	$16,468	$13.801
Mortgage-backed securities	7,982	7,398
Securities:		
Taxable	492	1,408
Tax-exempt	44	157
Other interest-earning assets	195	179
Total Interest Income	25,181	22,943
Interest Expense		
Deposits	5,592	6,323
Borrowings	2,042	2,075
Total Interest Expense	7,634	8,398
Net Interest Income	17,547	14,545
Provision for Loan Losses	1,065	1,251
Net Interest Income after Provision for Loan Losses	16,482	13,294
Non-Interest Income		
Fees and service charges	626	342
Gain on sale of loans	186	-
Income from bank owned life insurance	190	163
Electronic banking fees and charges	235	114
Loss from REO operations	(154)	(14)
Miscellaneous	35	26
Total Non-Interest Income	1,118	631
Non-Interest Expenses		
Salaries and employee benefits	8,161	6,953
Net occupancy expense of premises	1,585	1,049
Equipment and systems	1,969	1,177
Advertising and marketing	301	246
Federal deposit insurance premium	485	447
Directors' compensation	166	558
Merger-related expenses	-	40
Miscellaneous	1,614	1,174

Total Non-Interest Expenses	$14,281	$11,644

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Income Before Income Taxes	$3,319	$2,281
Income Taxes	1,301	946
Net Income	$2,018	$1,335
Net Income per Common Share (EPS): Basic and Diluted	$0.03	$0.02
Weighted Average Number of Common Shares Outstanding: Basic and Diluted	66,961	67,219
Dividends Declared Per Common Share	$0.05	$0.05

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended September 30, 2010
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Other Comprehensive Income	Total
Balance - June 30, 2010	68,344	$7,274	$213,529	$312,844	$(9,698)	$(54,738)	$ 16,715	$485,926
Comprehensive income:								
Net income	-	-	-	1,335	-	-	-	1,335
Unrealized loss on securities available for sale, net of deferred income tax benefit of $531	-	-	-	-	-	-	(769)	(769)
Benefit plans, net of deferred income tax benefit of $10	-	-	-	-	-	-	(15)	(15)
Total Comprehensive income								551
ESOP shares committed to be released (36 shares)	-	-	(37)	-	363	-	-	326
Dividends contributed for payment of ESOP loan	-	-	32	-	-	-	-	32
Stock option expense	-	-	477	-	-	-	-	477
Treasury stock purchases	(369)	-	-	-	-	(3,316)	-	(3,316)

Restricted stock plan shares earned (63 shares)	-	-	771	-	-	-	-	771
Tax effect from stock based compensation	-	-	5	-	-	-	-	5
Cash dividends declared ($0.05/ public share)	-	-	-	(800)	-	-	-	(800)
Balance - September 30, 2010	67,975	$7,274	$214,777	$313,379	$(9,335)	$(58,054)	$ 15,931	$483,972

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended September 30, 2011
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Other Comprehensive Income	Total
Balance - June 30, 2011	67,851	$7,274	$215,258	$317,354	$(8,244)	$(59,200)	$ 15,432	$487,874
Comprehensive income:								
Net income	-	-	-	2,018	-	-	-	2,018
Unrealized gain on securities available for sale, net of deferred income tax expense of $2,990	-	-	-	-	-	-	4,332	4,332
Benefit plans, net of deferred income tax expense of $120	-	-	-	-	-	-	173	173
Total Comprehensive income								6,523
ESOP shares committed to be released (36 shares)	-	-	(38)	-	364	-	-	326
Dividends contributed for payment of ESOP loan	-	-	36	-	-	-	-	36
Stock option expense	-	-	11	-	-	-	-	11
Treasury stock purchases	(290)	-	-	-	-	(2,571)	-	(2,571)

Restricted stock plan shares earned (4 shares)	-	-	42	-	-	-	-	42
Cash dividends declared ($0.05/ public share)	-	-	-	(786)	-	-	-	(786)
Balance - September 30, 2011	67,561	$7,274	$215,309	$318,586	$(7,880)	$(61,771)	$ 19,937	$491,455

See notes to consolidated financial statements.

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Cash Flows from Operating Activities:		
Net income	$2,018	$1,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	642	440
Net amortization of premiums, discounts and loan fees and costs	1,691	468
Deferred income taxes	(268)	(756)
Amortization of intangible assets	41	-
Amortization of benefit plans' unrecognized net loss	10	17
Provision for loan losses	1,065	1,251
Loss on write-down of real estate owned	36	14
Realized gain on sale of loans	(186)	-
Proceeds from sale of loans	2,187	-
Increase in cash surrender value of bank owned life insurance	(190)	(163)
ESOP, stock option plan and restricted stock plan expenses	379	1,574
Decrease in interest receivable	1,146	40
Decrease in other assets	2,379	213
Decrease in interest payable	(26)	(3)
Increase in other liabilities	456	208
Net Cash Provided by Operating Activities	11,380	4,638
Cash Flows from Investing Activities:		
Proceeds from calls and maturities of securities held for sale	25,544	-
Proceeds from repayments of securities available for sale	288	518
Purchase of securities held to maturity	(70)	(64,975)
Proceeds from calls and maturities of securities held to maturity	30,090	90,000
Proceeds from repayments of securities held to maturity	205	-
Purchase of loans	(4,056)	(1,437)
Net decrease in loans receivable	25,784	16,461
Purchases of mortgage-backed securities available for sale	(78,902)	(186,437)
Principal repayments on mortgage-backed securities available for sale	61,329	43,732
Principal repayments on mortgage-backed securities held to maturity	57	82
Redemption of FHLB stock	1	-
Additions to premises and equipment	(448)	(305)
Net Cash Provided by (Used in) Investing Activities	$59,822	$(102,361)

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Cash Flows from Financing Activities:		
Net (decrease) increase in deposits	$(489)	$39,842
Repayment of long-term FHLB advances	(19)	-
Increase in other short-term borrowings	206	-
Decrease in advance payments by borrowers for taxes	(14)	(361)
Dividends paid to stockholders of Kearny Financial Corp.	(801)	(817)
Purchase of common stock of Kearny Financial Corp. for treasury	(2,571)	(3,316)
Dividends contributed for payment of ESOP loan	36	32
Tax effect from stock based compensation	-	5
Net Cash (Used in) Provided by Financing Activities	(3,652)	35,385
Net Increase (Decrease) in Cash and Cash Equivalents	67,550	(62,338)
Cash and Cash Equivalents – Beginning	222,580	181,422
Cash and Cash Equivalents – Ending	$290,130	$119,084
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	$(866)	$2,104
Interest	$7,660	$8,401
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	$-	$449

See notes to consolidated financial statements.

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

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kearny Financial Corp. (the "Company"), its wholly-owned subsidiaries, Kearny Federal Savings Bank (the "Bank") and Kearny Financial Securities, Inc., and the Bank's wholly-owned subsidiaries, KFS Financial Services, Inc., KFS Investment Corp. and CJB Investment Corp. and its wholly owned subsidiary, Central Delaware Investment Corp. Kearny Financial Securities, Inc. and Central Delaware Investment Corp. were each dissolved during the quarter ended September 30, 2011. The Company conducts its business principally through the Bank. Management prepared the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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, changes in stockholders' equity and cash flows in conformity with generally accepted accounting principles ("GAAP"). However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three month period ended September 30, 2011, 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, 2011 was derived from the Company's annual report on Form 10-K. That data, along with the interim financial information presented in the consolidated statements of financial condition, operations, changes in stockholders' equity and cash flows should be read in conjunction with the 2011 consolidated financial statements, including the notes thereto included in the Company's 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 September 30, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)		
Net income	$2,018		
Basic earnings per share, income available to common stockholders	$2,018	66,961	$0.03
Effect of dilutive securities:			
Stock options	-	-	
	$2,018	66,961	$0.03

	Three Months Ended September 30, 2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)		
Net income	$1,335		
Basic earnings per share, income available to common stockholders	$1,335	67,219	$0.02
Effect of dilutive securities:			
Stock options	-	-	
	$1,335	67,219	$0.02

During the three months ended September 30, 2011 and September 30, 2010, the average number of options which were considered anti-dilutive totaled approximately 3,226,000 and 3,233,000, respectively.

4. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of September 30, 2011, 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 January 2010, the FASB issued guidance concerning fair value measurement and disclosures. The guidance mandates additional disclosure requiring that a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers while also requiring that in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The guidance clarifies existing fair value disclosure requirements such that a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position.

A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. Moreover, a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. This guidance also includes conforming amendments regarding employers' disclosures about postretirement benefit plan assets. The conforming amendments change the terminology from “major categories” of assets to “classes” of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. 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 2010, the FASB issued amended guidance concerning goodwill impairment testing. The amended guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and related examples, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. These amendments eliminate an entity’s ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. As a result, goodwill impairments may be reported sooner than under current practice.

For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. Upon adoption of the amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units’ goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings as required by existing guidance. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In January 2011, the FASB issued amendments that temporarily delay the effective date of the disclosures about troubled debt restructurings that are required in conjunction with a prior update relating to public entities. Under the existing effective date in that prior update, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay was intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. In April 2011, the FASB has issued an Update to clarify the accounting principles applied to loan modifications. The Update clarifies guidance on a creditor's evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than a focus on specific criteria, such as the effective interest rate test, to determine a concession. The Update goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor's evaluation of whether or not a debtor is experiencing financial difficulties. For public entities, the amendments in the Update, including providing disclosure in regard to troubled debt restructuring, are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The implementation of the new pronouncement did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2011, the FASB issued Accounting Standards Update 2011-03 which clarifies the accounting principles applied to repurchase agreements, as set forth by FASB ASC Topic 860, Transfers and Servicing. This ASU, entitled Reconsideration of Effective Control for Repurchase Agreements, amends one of three criteria used to determine whether or not a transfer of assets may be treated as a sale by the transferor. Under Topic 860, the transferor may not maintain effective control over the transferred assets in order to qualify as a sale. This ASU eliminates the criteria under which the transferor must retain collateral sufficient to repurchase or redeem the collateral on substantially agreed upon terms as a method of maintaining effective control. This ASU is effective for interim and annual reporting periods beginning on or after December 31, 2011, and requires prospective application to transactions or modifications of transactions which occur on or after the effective date. Early adoption is not permitted. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

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 3 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 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 Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In September, 2011, the FASB issued Accounting Standards Update (ASU) 2011-08, Testing Goodwill for Impairment. The purpose of this ASU is to simplify how entities test goodwill for impairment by adding a new first step to the preexisting goodwill impairment test under ASC Topic 350, Intangibles – Goodwill and other. This amendment gives the entity the option to first assess a variety of qualitative factors such as economic conditions, cash flows, and competition to determine whether it was more likely than not that the fair value of goodwill has fallen below its carrying value. If the entity determines that it is not likely that the fair value has fallen below its carrying value, then the entity will not have to complete the original two-step test under Topic 350. The amendments in this ASU are effective for impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In September, 2011, the FASB issued ASU 2011-09, Disclosures about an Employer's Participation in a Multiemployer Plan. This ASU creates additional disclosures for employers participating in multiemployer pension plans to provide clarity with regard to the employer's involvement in the plan, as well as the financial health of the plan itself. Participating employers will now be required to disclose plan names, contribution amounts, funded status, minimum contribution requirements, and other relevant plan information for all years presented on the statement of income. The ASU does not amend the accounting requirements for such contributions and liabilities, and as such will only impact the level of disclosure made with regard to the plan. For public companies, the amendments of this ASU are effective for annual periods for fiscal years ending after December 15, 2011. For nonpublic companies, the amendments are effective for annual periods for fiscal years ending after December 15, 2012. Early adoption by both public and nonpublic entities is permitted. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

6. STOCK REPURCHASE PLANS

On August 17, 2011, the Company announced the completion of its stock repurchase plan originally announced on May 26, 2010 through which it repurchased a total of 889,506 shares at an average cost of $9.07 per share. On that same day, the Company announced that the Board of Directors authorized a new stock repurchase plan to acquire up to 845,031 shares, or 5% of the Company's outstanding stock held by persons other than Kearny MHC. Through September 30, 2011 the Company has repurchased a total of 256,000 shares in accordance with this repurchase plan at a total cost of $2.3 million and at an average cost per share of $8.79.

7. DIVIDEND WAIVER

During the three months ended September 30, 2011, Kearny MHC, the federally chartered mutual holding company of the Company waived its right, in accordance with the non-objection previously granted by the Federal Reserve Bank ("FRB"), to receive cash dividends of approximately $2.5 million declared on the 50,916,250 shares of Company common stock it owns.

8. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated fair values of securities at September 30, 2011 and June 30, 2011 and stratification by contractual maturity of securities at September 30, 2011 are presented below:

	At September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
	(In Thousands)			
Securities:				
Debt securities:				
Trust preferred securities	$8,865	$-	$2,399	$6,466
U.S. agency securities	6,361	-	15	6,346
Obligations of state and political subdivisions	5,058	1	-	5,059
Total securities	20,284	1	2,414	17,871
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	3,181	45	-	3,226
Total collateralized mortgage obligations	3,181	45	-	3,226
Mortgage pass-through securities:				
Government National Mortgage Association	12,125	1,031	20	13,136
Federal Home Loan Mortgage Corporation	357,257	11,654	30	368,881
Federal National Mortgage Association	675,426	23,447	23	698,850
Total mortgage pass-through securities	1,044,808	36,132	73	1,080,867
Total mortgage-backed securities	1,047,989	36,177	73	1,084,093
Total securities available for sale	$1,068,273	$36,178	$2,487	$1,101,964

	At September 30, 2011	
	Amortized Cost	Carrying Value
	(In Thousands)	
Debt securities:		
Due in one year or less	$ 5,058	$ 5,059
Due after one year through five years	-	-
Due after five years through ten years	62	62
Due after ten years	15,164	12,750

Total	$ 20,284	$ 17,871

	At June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
	(In Thousands)			
Securities:				
Debt securities:				
Trust preferred securities	$8,863	$-	$1,416	$7,447
U.S. agency securities	6,657	-	66	6,591
Obligations of state and political subdivisions	30,625	10	-	30,635
Total securities	46,145	10	1,482	44,673
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	3,437	28	-	3,465
Total collateralized mortgage obligations	3,437	28	-	3,465
Mortgage pass-through securities:				
Government National Mortgage Association	12,614	991	24	13,581
Federal Home Loan Mortgage Corporation	380,387	10,092	31	390,448
Federal National Mortgage Association	635,969	17,175	391	652,753
Total mortgage pass-through securities	1,028,970	28,258	446	1,056,782
Total mortgage-backed securities	1,032,407	28,286	446	1,060,247
Total securities available for sale	$1,078,552	$28,296	$1,928	$1,104,920

There were no sales of securities from the available for sale portfolio during the three months ended September 30, 2011 and September 30, 2010. At September 30, 2011 and June 30, 2011, securities available for sale with carrying value of approximately $319.3 million and $317.8 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 $9.7 million and $10.6 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.

9. SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and estimated fair values of securities at September 30, 2011 and June 30, 2011 and stratification by contractual maturity of securities at September 30, 2011 are presented below:

	At September 30, 2011			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities:				
Debt securities:				
U.S. agency securities	$73,229	$595	$-	$73,824
Obligations of state and political subdivisions	2,989	7	-	2,996
Total securities	76,218	602	-	76,820
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	60	9	-	69
Federal National Mortgage Association	592	83	-	675
Non-agency securities	198	1	18	181
Total collateralized mortgage obligations	850	93	18	925
Mortgage pass-through securities:				
Federal Home Loan Mortgage Corporation	138	5	-	143
Federal National Mortgage Association	303	10	-	313
Total mortgage pass-through securities	441	15	-	456
Total mortgage-backed securities	1,291	108	18	1,381
Total securities held to maturity	$77,509	$710	$18	$78,201

	At September 30, 2011	
	Carrying Value	Fair Value
	(In Thousands)	
Debt securities:		
Due in one year or less	$ 2,989	$ 2,996
Due after one year through five years	33,245	33,770
Due after five years through ten years	5,000	5,006

Due after ten years	34,984	35,048
Total	$ 76,218	$ 76,820

	At June 30, 2011			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities:				
Debt securities:				
U.S. agency securities	$103,458	$576	$1	$104,033
Obligations of state and political subdivisions	3,009	10	-	3,019
Total securities	106,467	586	1	107,052
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	67	5	-	72
Federal National Mortgage Association	618	68	-	686
Non-agency securities	203	1	17	187
Total collateralized mortgage obligations	888	74	17	945
Mortgage pass-through securities:				
Federal Home Loan Mortgage Corporation	145	4	-	149
Federal National Mortgage Association	312	10	-	322
Total mortgage pass-through securities	457	14	-	471
Total mortgage-backed securities	1,345	88	17	1,416
Total securities held to maturity	$107,812	$674	$18	$108,468

There were no sales of securities from the held to maturity portfolio during the three months ended September 30, 2011 and September 30, 2010. At September 30, 2011 and June 30, 2011, held to maturity securities were not 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.

10. 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 September 30, 2011 and June 30, 2011. 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.

The tables are followed by a discussion that summarizes the Company's rationale for recognizing the reported impairments 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.

	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 September 30, 2011:						
Trust preferred securities	$-	$-	$5,466	$2,399	$5,466	$2,399
U.S. agency securities	3,675	13	1,288	2	4,963	15
Mortgage pass-through securities	17	1	1,192	72	1,209	73
Total	$3,692	$14	$7,946	$2,473	$11,638	$2,487
At June 30, 2011:						
Trust preferred securities	$-	$-	$6,447	$1,416	$6,447	$1,416
U.S. agency securities	3,631	63	2,896	3	6,527	66
Mortgage pass-through securities	85,831	366	1,221	80	87,052	446
Total	$89,462	$429	$10,564	$1,499	$100,026	$1,928

The number of available for sale securities with unrealized losses at September 30, 2011 totaled 27 comprising four single-issuer trust preferred securities, five U.S. agency securities, and 18 mortgage pass-through securities. The number of available for sale securities with unrealized losses at June 30, 2011 totaled 42 comprising four single-issuer trust preferred securities, six U.S. agency securities and 32 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 September 30, 2011:						
Collateralized mortgage obligations	$-	$-	$147	$18	$147	$18
Total	$-	$-	$147	$18	$147	$18
At June 30, 2011:						
U.S. agency securities	$13,388	$1	$-	$-	$13,388	$1
Collateralized mortgage obligations	-	-	149	17	149	17
Total	$13,388	$1	$149	$17	$13,537	$18

The number of held to maturity securities with unrealized losses at September 30, 2011 totaled 11 collateralized mortgage obligations. The number of held to maturity securities with unrealized losses at June 30, 2011 totaled 13 comprising 11 collateralized mortgage obligations and two U.S. agency securities.

Mortgage-backed Securities. The carrying value of the Company's mortgage-backed securities totaled $1.09 billion at September 30, 2011 and comprised 92.0% of total investments and 37.3% 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. 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.

During fiscal 2010 and fiscal 2011, however, institutional demand for mortgage-backed securities 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, including the Bank, are experiencing the effect of diminished loan origination volume resulting in increased institutional demand for mortgage-backed securities as investment alternatives to loans. These factors have continued into fiscal 2012 with market prices of agency mortgage-backed securities generally reflecting the increased institutional demand for such securities.

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. Inasmuch as such market conditions fluctuate over time, 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. Moreover, the Company has both the ability and intent, as of the periods presented, to hold 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. As such, the Company has not decided to sell the securities as of September 30, 2011 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. Moreover, 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 its amortized cost.

In light of the factors noted above, the Company does not consider its U.S. agency mortgage-backed securities with unrealized losses at September 30, 2011 to be "other-than-temporarily" impaired as of that date.

In addition to those mortgage-backed securities issued by U.S. agencies, the Company also maintains a nominal balance of non-agency mortgage-backed securities at September 30, 2011. 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 the ratings assigned to its specific tranches by one or more credit rating agencies. 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 from investment grade to below investment grade 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 fiscal 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 investment grade. 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 during the year from “hold to recovery of amortized cost” to “sell” and sold such securities during the year ended June 30, 2011.

At September 30, 2011, the Company's remaining portfolio of non-agency CMOs included 12 held-to-maturity securities totaling $197,000 of which 11 securities totaling $164,000 were impaired but retained their investment grade rating by one or more rating agencies. One non-agency CMO totaling $33,000 was not impaired at September 30, 2011. The Company has not decided to sell the impaired securities as of September 30, 2011 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 September 30, 2011 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 $79.6 million at September 30, 2011 and comprised 6.7% of total investments and 2.7% of total assets as of that date. Such securities are comprised of $73.3 million of U.S. agency debentures and $6.3 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 are variable rate investments whose interest coupons are generally based on the Prime index minus a margin. Based upon the historically low level of short term market interest rates, of which the Prime index is one measure, the current yields on these securities are comparatively low. Consequently, the fair value of the 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 September 30, 2011.

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 reflect movements in comparatively longer term market interest rates. At September 30, 2011, the unrealized losses applicable to those securities portfolio are generally attributable to movements in longer term market 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. Inasmuch as such market conditions fluctuate over time, the "noncredit-related" impairments of value arising from these changing market conditions are "temporary" in nature.

The Company has the stated ability and intent to "hold to maturity" those securities so designated. Moreover, the Company has both the ability and intent, as of the periods presented, to hold 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. As such, the Company has not decided to sell the securities as of September 30, 2011 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. Moreover, 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 its 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 September 30, 2011 to be "other-than-temporarily" impaired as of that date.

Trust Preferred Securities. The outstanding balance of the Company's trust preferred securities totaled $6.5 million at September 30, 2011 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 September 30, 2011, 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.

The Company generally evaluates the level of credit risk for each of its trust preferred securities based upon ratings assigned by one or more credit rating agencies where such ratings are available. For those trust preferred securities that are impaired, the Company uses such ratings as a practical expedient to identify those securities whose impairments are potentially "credit-related" versus "noncredit-related".

Specifically, impairments associated with investment-grade trust preferred securities are generally categorized as "noncredit-related" given the nominal level of credit losses that would be expected based upon such ratings. At September 30, 2011, the Company owned two securities at an amortized cost of $2.9 million that were consistently rated as investment grade by Moody's and Standard & Poor's Financial Services ("S&P"). 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 September 30, 2011.

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 sum, the factors influencing the fair value of the Company's investment-grade trust preferred 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. Inasmuch as such market conditions fluctuate over time, the "noncredit-related" impairments of value arising from these changing market conditions are "temporary" in nature.

The impairments of the Company's trust preferred securities with one or more non-investment grade ratings are further evaluated to determine if such impairments are "credit-related". Factors considered in this evaluation include, but may not be limited to, 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.

At September 30, 2011, the Company owned two securities at an amortized cost of $4.9 million that were rated as below investment grade by both S&P and Moody's. 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.

In evaluating the impairment associated with these securities, 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.

While all of its trust preferred securities are classified as available for sale, the Company has both the ability and intent, as of the periods presented, to hold the impaired securities until their fair values recover to a level equal to or greater than the Company's amortized cost. As such, the Company has not decided to sell the securities as of September 30, 2011 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. 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 its amortized cost.

In light of the factors noted above, the Company does not consider its investments in trust preferred securities with unrealized losses at September 30, 2011 to be "other-than-temporarily" impaired as of that date.

11. 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 past due, 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 classification. 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.

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 September 30, 2011, the remaining outstanding principal balance and carrying amount of the credit-impaired loans acquired from Central Jersey totaled approximately $14,141,000 and $10,267,000, respectively. By comparison, at June 30, 2011, the remaining outstanding principal balance and carrying amount of such loans totaled approximately $14,379,000 and $10,636,000, respectively.

The carrying amount of credit-impaired loans acquired from Central Jersey for which interest is not being recognized due to the uncertainty of the cash flows relating to such loans totaled $5,355,000 and $3,601,000 at September 30, 2011 and June 30, 2011, respectively.

The balance of the allowance for loan losses at September 30, 2011 included approximately $31,000 of specific valuation allowances attributable to the credit-impaired loans acquired from Central Jersey. The net increase in the valuation allowances were recorded through the provision for loan losses in recognition of the additional impairment recognized on the applicable loans subsequent to their acquisition. The amount of that impairment totaled $40,000 at June 30, 2011 and declined by $9,000 to approximately $31,000 during the quarter ended September 30, 2011 resulting from payments received from borrowers which reduced the carrying value of the applicable loans thereby reducing the amount of the impairment.

The following table presents the changes in the accretable yield relating to the impaired loans acquired from Central Jersey for the three months ended September 30, 2011. Based upon the closing date of the Central Jersey acquisition, no comparable activity for the three months ended September 30, 2010 is reported:

	Three Months Ended September 30, 2011 (in thousands)
Beginning balance	$ 1,718
Additions resulting from acquisition	-
Accretion to interest income	(97)
Disposals	-
Reclassifications from/(to) nonaccretable difference	-
Ending balance	$ 1,621

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. Impairment identified through these evaluations is classified as "Loss" through which either a specific valuation allowance equal to 100% of the impairment is established or the loan is charged off. In general, loans that are classified as "Loss" in their entirety are charged off directly against the allowance for loan loss. In a limited number of cases, the net carrying value of an impaired loan may be classified as "Loss" based on regulatory expectations supported by a collateral-dependent impairment analysis. However, the borrower's adherence to contractual repayment terms precludes the recognition of an actual charge off. In these limited cases, a specific valuation allowance equal to 100% of the impaired loan's carrying value may be maintained against the net carrying value of the asset.

More typically, the Company's impaired loans with impairment are characterized by "split classifications" (ex. Substandard/Loss) with charge offs being recorded against the allowance for loan loss at the time such losses are realized. For loans primarily secured by real estate, which comprise over 90% of the Company's loan portfolio at September 30, 2011, the recognition of impairments as "charge offs" typically coincides with the foreclosure of the property securing the impaired loan at which time the property is 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 is charged off against the ALLL.

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 as

either “Pass” or “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 losses on loans against the allowance as such losses are actually incurred. 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 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, classification status, past due and/or nonaccrual status, size of loan, type and condition of collateral and the financial condition of the borrower.

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. During fiscal 2011, the Company expanded the scope of loans that it considers eligible for individual impairment review to also include 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 we 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 measures 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 status with such values updated approximately every six to twelve months thereafter throughout the foreclosure process. Appraised values are typically updated at the point of foreclosure 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 specific valuation allowances in the fiscal period during which the loan impairments are identified. The results of management's specific loan impairment evaluation 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 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. 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 five primary categories: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans and consumer loans. Within the consumer loan category, the Company distinguishes between home equity loans, home equity lines of credit and other consumer loans. Beyond these primary categories, the Company further delineates commercial business loans into secured and unsecured loans while loans may also be identified and grouped based on origination source to distinguish those with unique risk characteristics associated with certain purchased loans and participations.

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 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 is ultimately charged off varies by loan type due to the applicable collection, foreclosure and/or collateral repossession processes and timeframes. For example, unsecured consumer and commercial loans are classified as "loss" at 120 days past due and are generally charged off at that time.

By contrast, the Company's secured loans are primarily comprised 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. As noted above, impairment is first measured at the time the loan is initially classified as nonperforming, which generally coincides with initiation of the foreclosure process. However, such impairment measurements are updated at least quarterly which may result in the identification of additional impairment and loss classifications arising from deteriorating collateral values or other factors effecting the estimated fair value of collateral-dependent loans. Charge offs of the cumulative portion of secured loans classified as loss, where applicable, are generally recognized upon completion of foreclosure at which time: (a) the

property is 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 is charged off against the ALLL, and (c) the historical loss factors used in the Company's ALLL calculations are updated to reflect that actual loss.

Accordingly, the historical loss factors used in the Company's allowance for loan loss calculations do not reflect the probable losses on impaired loans until such time that the losses are realized as charge offs. Consideration of these probable losses in the Company's historical loss factors would otherwise increase the portion of the allowance for loan losses attributable to such factors. However, the environmental loss factors utilized by the Company in its allowance for loan loss calculation methodology, as described below, generally serve to recognize the probable losses within the portfolio that have not yet been realized as charge offs.

Inasmuch as impairment is generally first measured concurrent with an eligible loan's initial classification as "nonperforming", as described earlier, the timeframes between "nonperforming classification and charge off" and "initial impairment/loss measurement and charge off" are generally consistent.

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). 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 category. The outstanding principal balance of each loan category is multiplied by the applicable environmental loss factor to estimate the level of probable losses based upon the qualitative risk criteria.

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 direct charge offs as well as the portions of impaired assets classified as loss for which specific valuation allowances have been recognized through provisions to the allowance for loan losses. 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 specific valuation allowances in the fiscal period during which additional loan impairments are identified. This step is generally performed by transferring the required additions to specific valuation allowances on impaired loans from the balance of the Company's general valuation allowances. After establishing all specific valuation allowances relating to impaired loans, the Company then compares the remaining actual balance of its general valuation allowance to the targeted balance calculated at the end of the fiscal period. The Company adjusts its balance of general 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. Any balance of general valuation allowances in excess of the targeted balance is reported as unallocated with such balances attributable to probable losses within the loan portfolio relating to environmental factors within one or more non-specified loan segments. Notwithstanding calculation methodology and the noted distinction between specific and general valuation allowances, the Company's entire allowance for loan losses is available to cover all charge-offs that arise from the loan portfolio.

The labels "specific" and "general" used herein to define and distinguish the Company's valuation allowances have substantially the same meaning as those used in the regulatory nomenclature applicable to the valuation allowances of insured financial institutions. As such, the portion of the allowance for loan losses categorized herein as "general valuation allowance" is considered "supplemental capital" for the regulatory capital calculations applicable to the Company and its wholly owned bank subsidiary. By contrast, the Company's "specific valuation allowance" maintained against impaired loans is excluded from all forms of regulatory capital and is instead netted against the balance of the applicable assets for regulatory reporting purposes.

Although management believes that specific and general loan losses are 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 September 30, 2011 and June 30, 2011 based upon the calculation methodology described above. The table identifies the specific valuation allowances attributable to identified impairments on individually evaluated loans, including those acquired with deteriorated credit quality, and the general 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 September 30, 2011

	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	$3,916	$ 1,484	$ 105	$ -	$-	$-	$ -	$5,505
Loans collectively evaluated for impairment	2,827	1,685	127	142	305	34	12	5,132
Total allocated allowance for loan losses	6,743	3,169	232	142	305	34	12	10,637
Unallocated allowance	-	-	-	-	-	-	-	233
Allowance for loan losses on originated and purchased loans	6,743	3,169	232	142	305	34	12	10,870
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	-	-	31	-	-	-	31
Other acquired loans individually evaluated for impairment	-	-	-	869	-	-	-	869
Loans collectively evaluated for impairment	2	137	9	62	35	21	4	270
Allowance for loan losses on loans acquired at fair value	2	137	9	962	35	21	4	1,170
	$6,745	$ 3,306	$ 241	$ 1,104	$340	$55	$ 16	$12,040

Total allowance for loan losses

Allowance for Loan Losses and Loans Receivable
at September 30, 2011 (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:								
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
Charge offs against general valuation allowances	(135)	-	-	(6)	(41)	-	(2)	(184)
Charge offs against specific valuation allowances	(610)	-	-	-	-	-	-	(610)
Total charge offs	(745)	-	-	(6)	(41)	-	(2)	(794)
Total recoveries	-	-	-	-	2	-	-	2
Allocated provisions	846	(30)	(48)	230	57	6	4	1,065
Unallocated provisions	-	-	-	-	-	-	-	-
Total provisions	846	(30)	(48)	230	57	6	4	1,065
At September 30, 2011:								
Allocated	6,745	3,306	241	1,104	340	55	16	11,807
Unallocated	-	-	-	-	-	-	-	233
Total allowance for loan losses	$6,745	$ 3,306	$ 241	$ 1,104	$340	$55	$ 16	$12,040

Allowance for Loan Losses and Loans Receivable
at September 30, 2011 (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	$20,447	$ 5,276	$ 613	$ 2,346	$347	$90	$ -	$29,119
Loans collectively evaluated for impairment	578,996	215,709	6,569	19,500	80,701	9,425	3,154	914,054
Total originated and purchased loans	599,443	220,985	7,182	21,846	81,048	9,515	3,154	943,173
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	2,525	155	7,587	-	-	-	10,267
Other acquired loans individually evaluated for impairment	-	4,902	936	1,547	599	-	-	7,984
Loans collectively evaluated for impairment	2,497	152,629	9,963	69,006	26,159	22,655	425	283,334
Total loans acquired at fair value	2,497	160,056	11,054	78,140	26,758	22,655	425	301,585
Total loans	$601,940	$ 381,041	$ 18,236	$ 99,986	$107,806	$32,170	$ 3,579	$1,244,758

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Allowance for Loan Losses and Loans Receivable
at June 30, 2011

	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	$4,061	$ 1,503	$ 105	$ 275	$-	$-	$ -	$5,944
Loans collectively evaluated for impairment	2,581	1,738	177	147	304	36	10	4,993
Total allocated allowance for loan losses	6,642	3,241	282	422	304	36	10	10,937
Unallocated allowance	-	-	-	-	-	-	-	223
Allowance for loan losses on originated and purchased loans	6,642	3,241	282	422	304	36	10	11,170
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	-	-	40	-	-	-	40
Other acquired loans individually evaluated for impairment	-	-	-	377	-	-	-	377
Loans collectively evaluated for impairment	2	95	7	41	18	13	4	180
Allowance for loan losses on loans acquired at fair value	2	95	7	458	18	13	4	597
	$6,644	$ 3,336	$ 289	$ 880	$322	$49	$ 14	$11,767

Total allowance for loan losses

Allowance for Loan Losses and Loans Receivable
at June 30, 2011 (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	$16,051	$ 3,064	$ 612	$ 2,625	$167	$93	$ -	$22,612
Loans collectively evaluated for impairment	592,209	216,885	7,666	20,203	81,731	9,874	3,288	931,856
Total originated and purchased loans	608,260	219,949	8,278	22,828	81,898	9,967	3,288	954,468
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	-	2,583	316	7,737	-	-	-	10,636
Other acquired loans individually evaluated for impairment	-	2,123	726	1.198	37	-	-	4,084
Loans collectively evaluated for impairment	2,641	159,035	12,278	73,238	29,543	22,958	491	300,184
Total loans acquired at fair value	2,641	163,741	13,320	82,173	29,580	22,958	491	314,904
Total loans	$610,901	$ 383,690	$ 21,598	$ 105,001	$111,478	$32,925	$ 3,779	$1,269,372

The following tables present key indicators of credit quality regarding the Company's loan portfolio based upon loan classification and contractual payment status at September 30, 2011 and June 30, 2011.

Credit-Rating Classification of Loans Receivable
at September 30, 2011

	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	$578,246	$ 212,340	$ 6,570	$ 19,500	$80,614	$9,402	$3,148	$909,820
Classified:								
Special mention	1,356	2,437	-	-	201	-	-	3,994
Substandard	15,925	4,724	507	2,346	233	113	4	23,852
Doubtful	-	-	-	-	-	-	-	-
Loss	3,916	1,484	105	-	-	-	2	5,507
Total classified loans	21,197	8,645	612	2,346	434	113	6	33,353
Total originated and purchased loans	599,443	220,985	7,182	21,846	81,048	9,515	3,154	943,173
Loans acquired at fair value								
Non-classified	2,497	150,111	9,962	65,447	25,919	21,636	424	275,996
Classified:								
Special mention	-	1,504	-	2,931	423	849	-	5,707
Substandard	-	8,441	1,092	8,256	416	170	1	18,376
Doubtful	-	-	-	606	-	-	-	606
Loss	-	-	-	900	-	-	-	900
Total classified loans	-	9,945	1,092	12,693	839	1,019	1	25,589
Total loans acquired at fair value	2,497	160,056	11,054	78,140	26,758	22,655	425	301,585
Total loans	$601,940	$ 381,041	$ 18,236	$ 99,986	$107,806	$32,170	$3,579	$1,244,758

Credit-Rating Classification of Loans Receivable
at June 30, 2011

	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	$586,813	$ 213,042	$ 7,666	$ 20,203	$81,454	$9,850	$3,284	$922,312
Classified:								
Special mention	1,084	1,052	-	151	277	24	-	2,588
Substandard	16,302	4,352	507	2,199	167	93	4	23,624
Doubtful	-	-	-	-	-	-	-	-
Loss	4,061	1,503	105	275	-	-	-	5,944
Total classified loans	21,447	6,907	612	2,625	444	117	4	32,156
Total originated and purchased loans	608,260	219,949	8,278	22,828	81,898	9,967	3,288	954,468
Loans acquired at fair value								
Non-classified	2,641	153,231	11,698	70,544	29,136	22,111	490	289,851
Classified:								
Special mention	-	4,791	580	2,135	200	847	-	8,553
Substandard	-	5,719	1,042	8,463	244	-	1	15,469
Doubtful	-	-	-	614	-	-	-	614
Loss	-	-	-	417	-	-	-	417
Total classified loans	-	10,510	1,622	11,629	444	847	1	25,053
Total loans acquired at fair value	2,641	163,741	13,320	82,173	29,580	22,958	491	314,904
Total loans	$610,901	$ 383,690	$ 21,598	$ 105,001	$111,478	$32,925	$3,779	$1,269,372

Contractual Payment Status of Loans Receivable
September 30, 2011

	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	$576,254	$ 214,707	$ 6,570	$ 18,803	$80,463	$9,425	$ 3,040	$909,262
Past due:								
30-59 days	4,495	895	-	676	371	-	79	6,516
60-89 days	1,962	1,234	-	-	-	-	31	3,227
90+ days	16,732	4,149	612	2,367	214	90	4	24,168
Total past due	23,189	6,278	612	3,043	585	90	114	33,911
Total originated and purchased loans	599,443	220,985	7,182	21,846	81,048	9,515	3,154	943,173
Loans acquired at fair value								
Current	2,497	152,975	9,963	73,222	25,447	22,462	416	286,982
Past due:								
30-59 days	-	719	-	57	667	-	8	1,451
60-89 days	-	747	-	196	172	193	-	1,308
90+ days	-	5,615	1,091	4,665	472	-	1	11,844
Total past due	-	7,081	1,091	4,918	1,311	193	9	14,603
Total loans acquired at fair value	2,497	160,056	11,054	78,140	26,758	22,655	425	301,585
Total loans	$601,940	$ 381,041	$ 18,236	$ 99,986	$107,806	$32,170	$ 3,579	$1,244,758

Contractual Payment Status of Loans Receivable
June 30, 2011

	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	$586,028	$ 215,220	$ 7,432	$ 20,203	$81,416	$9,850	$ 3,183	$923,332
Past due:								
30-59 days	2,608	2,624	234	-	235	-	10	5,711
60-89 days	1,084	61	-	-	99	24	74	1,342
90+ days	18,540	2,044	612	2,625	148	93	21	24,083
Total past due	22,232	4,729	846	2,625	482	117	105	31,136
Total originated and purchased loans	608,260	219,949	8,278	22,828	81,898	9,967	3,288	954,468
Loans acquired at fair value								
Current	2,641	156,066	11,698	75,351	28,698	21,898	456	296,808
Past due:								
30-59 days	-	416	-	1,510	496	683	34	3,139
60-89 days	-	4,642	580	2,237	349	377	-	8,185
90+ days	-	2,617	1,042	3,075	37	-	1	6,772
Total past due	-	7,675	1,622	6,822	882	1,060	35	18,096
Total loans acquired at fair value	2,641	163,741	13,320	82,173	29,580	22,958	491	314,904
Total loans	$610,901	$ 383,690	$ 21,598	$ 105,001	$111,478	$32,925	$ 3,779	$1,269,372

The following tables present information relating to the Company's nonperforming and impaired loans at September 30, 2011 and June 30, 2011. Loans reported as "90+ days past due and 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 September 30, 2011

	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	$580,688	$ 215,710	$ 6,569	$ 19,479	$80,701	$9,425	$3,148	$915,720
Nonperforming:								
90+ days past due accruing	14,148	-	-	21	-	-	-	14,169
Nonaccrual	4,607	5,275	613	2,346	347	90	6	13,284
Total nonperforming	18,755	5,275	613	2,367	347	90	6	27,453
Total originated and purchased loans	599,443	220,985	7,182	21,846	81,048	9,515	3,154	943,173
Loans acquired at fair value								
Performing	2,497	152,399	9,962	72,655	26,159	22,655	424	286,751
Nonperforming:								
90+ days past due accruing	-	561	-	934	-	-	-	1,495
Nonaccrual	-	7,096	1,092	4,551	599	-	1	13,339
Total nonperforming	-	7,657	1,092	5,485	599	-	1	14,834
Total loans acquired at fair value	2,497	160,056	11,054	78,140	26,758	22,655	425	301,585
Total loans	$601,940	$ 381,041	$ 18,236	$ 99,986	$107,806	$32,170	$3,579	$1,244,758

Performance Status of Loans Receivable
at June 30, 2011

	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	$589,281	$ 216,885	$ 7,666	$ 20,203	$81,731	$9,874	$3,267	$928,907
Nonperforming:								
90+ days past due accruing	14,923	-	-	-	-	-	-	14,923
Nonaccrual	4,056	3,064	612	2,625	167	93	21	10,638
Total nonperforming	18,979	3,064	612	2,625	167	93	21	25,561
Total originated and purchased loans	608,260	219,949	8,278	22,828	81,898	9,967	3,288	954,468
Loans acquired at fair value								
Performing	2,641	159,376	12,278	78,214	29,543	22,958	490	305,500
Nonperforming:								
90+ days past due accruing	-	-	-	1,718	-	-	-	1,718
Nonaccrual	-	4,365	1,042	2,241	37	-	1	7,686
Total nonperforming	-	4,365	1,042	3,959	37	-	1	9,404
Total loans acquired at fair value	2,641	163,741	13,320	82,173	29,580	22,958	491	314,904
Total loans	$610,901	$ 383,690	$ 21,598	$ 105,001	$111,478	$32,925	$3,779	$1,269,372

Impairment Status of Loans Receivable
at September 30, 2011

	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	$ 578,996	$ 215,709	$ 6,569	$ 19,500	$ 80,701	$ 9,425	$ 3,154	$ 914,054
Impaired loans:								
Impaired loans with no impairment	8,762	3,792	508	2,346	347	90	-	15,845
Impaired loans with impairment:								
Unpaid principal balance	11,685	1,484	105	-	-	-	-	13,274
Specific allowance for impairment	(3,916)	(1,484)	(105)	-	-	-	-	(5,505)
Balance of impaired loans net of allowance for impairment	7,769	-	-	-	-	-	-	7,769
Total impaired loans, excluding allowance	20,447	5,276	613	2,346	347	90	-	29,119
Total originated and purchased loans	599,443	220,985	7,182	21,846	81,048	9,515	3,154	943,173
Loans acquired at fair value								
Non-impaired loans	2,497	152,629	9,963	69,006	26,159	22,655	425	283,334
Impaired loans:								
Impaired loans with no impairment	-	7,427	1,091	7,556	599	-	-	16,673

Impaired loans with impairment:								
Unpaid principal balance	-	-	-	1,578	-	-	-	1,578
Specific allowance for impairment	-	-	-	(900)	-	-	-	(900)
Balance of impaired loans net of allowance for impairment	-	-	-	678	-	-	-	678
Total impaired loans, excluding allowance	-	7,427	1,091	9,134	599	-	-	18,251
Total loans acquired at fair value	2,497	160,056	11,054	78,140	26,758	22,655	425	301,585
Total loans	$ 601,940	$ 381,041	$ 18,236	$ 99,986	$ 107,806	$ 32,170	$ 3,579	$ 1,244,758

Impairment Status of Loans Receivable
at September 30, 2011 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(in Thousands)				
Unpaid principal balance of impaired loans:								
Originated and purchased loans	$20,481	$ 5,344	$ 630	$ 2,356	$352	$93	$ -	$29,256
Loans acquired at fair value	-	7,865	1,604	12,160	610	-	-	22,239
Total impaired loans	$20,481	$ 13,209	$ 2,234	$ 14,516	$962	$93	$ -	$51,495
For the three months ended September 30, 2011								
Average balance of impaired loans	$16,687	$ 10,783	$ 1,914	$ 11,815	$603	$193	$ -	$41,995
Interest earned on impaired loans	$252	$ 6	$ -	$ 60	$-	$-	$ -	$318

Impairment Status of Loans Receivable
at June 30, 2011

	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	$ 592,209	$ 216,885	$ 7,666	$ 20,203	$ 81,731	$ 9,874	$ 3,288	$ 931,856
Impaired loans:								
Impaired loans with no impairment	2,850	1,561	507	2,350	167	93	-	7,528
Impaired loans with impairment:								
Unpaid principal balance	13,201	1,503	105	275	-	-	-	15,084
Specific allowance for impairment	(4,061)	(1,503)	(105)	(275)	-	-	-	(5,944)
Balance of impaired loans net of allowance for impairment	9,140	-	-	-	-	-	-	9,140
Total impaired loans, excluding allowance	16,051	3,064	612	2,625	167	93	-	22,612
Total originated and purchased loans	608,260	219,949	8,278	22,828	81,898	9,967	3,288	954,468
Loans acquired at fair value								
Non-impaired loans	2,641	159,035	12,278	73,238	29,543	22,958	491	300,184
Impaired loans:								
Impaired loans with no impairment	-	4,706	1,042	7,829	37	-	-	13,614

Impaired loans with impairment:								
Unpaid principal balance	-	-	-	1,106	-	-	-	1,106
Specific allowance for impairment	-	-	-	(417)	-	-	-	(417)
Balance of impaired loans net of allowance for impairment	-	-	-	689	-	-	-	689
Total impaired loans, excluding allowance	-	4,706	1,042	8,935	37	-	-	14,720
Total loans acquired at fair value	2,641	163,741	13,320	82,173	29,580	22,958	491	314,904
Total loans	$ 610,901	$ 383,690	$ 21,598	$ 105,001	$ 111,478	$ 32,925	$ 3,779	$ 1,269,372

Impairment Status of Loans Receivable
at June 30, 2011 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(in Thousands)				
Unpaid principal balance of impaired loans:								
Originated and purchased loans	$ 16,089	$ 3,107	$ 631	$ 2,632	$169	$95	$ -	$22,723
Loans acquired at fair value	-	5,106	1,553	11,863	37	-	-	18,559
Total impaired loans	$ 16,089	$ 8,213	$ 2,184	$ 14,495	$206	$95	$ -	$41,282

All impaired loans are reviewed individually for impairment in accordance with the Company's allowance for loan loss calculation methodology described earlier. The Company has identified a total of $32.5 million of impaired loans for which no impairment was recognized at September 30, 2011. As highlighted in the table above, approximately $16.7 million of these loans were acquired from Central Jersey. Any impairment identified at the time of acquisition relating to these loans was reflected as an adjustment to their fair value at that time.

The remaining $15.8 million of loans reported as impaired with no impairment represent those originated or purchased in the secondary market by the Company. These loans generally reflect the Company's practice of identifying all "non-homogeneous" loans on nonaccrual status as impaired in acknowledgment of the probable non-receipt of interest accrued in accordance with the loans contractual terms. Despite the nonaccrual and impaired statuses, however, the individual analyses performed on these loans preclude the recognition of impairment.

The Company's loans reported above as impaired with no impairment are primarily secured by real estate and, to a lesser degree, other forms of collateral. As noted earlier, the impairment analyses performed on these loans generally utilize the fair value of the securing collateral, less certain estimated selling costs, as a measurement proxy for the fair value of the loan as a practical expedient. Based upon that assumption, at September 30, 2011 the Company would expect to recover the carrying value of its loans identified as impaired without impairment through the liquidation of the collateral. However, continued deterioration in real estate values could result in the identification of impairment in the future attributable to these loans resulting in additional provisions to the allowance for loan losses.

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

A TDR may include, but is not necessarily limited to, the modification of loan terms such as a temporary or permanent reduction of the loan's stated interest rate, extension of the maturity date and/or reduction or deferral of amounts owed under the terms of the loan agreement. TDRs also include the transfer of real estate or other assets to fully or partially satisfy a borrower's loan obligations. Consequently, real estate owned acquired through foreclosure or deed-in-lieu thereof is considered a TDR.

In measuring the impairment associated with restructured loans that qualify as TDRs, the Company compares the cash flows under the loan's existing terms with those that are expected to be received in accordance with its modified terms. The difference between the comparative cash flows is discounted at the loan's effective interest rate prior to modification to measure the associated impairment. The impairment is charged off directly against the allowance for loan loss at the time of restructuring resulting in a reduction in carrying value of the modified loan that is accreted into interest income as a yield adjustment over the remaining term of the modified cash flows.

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

The following table presents information regarding the restructuring of the Company's troubled debts during the three months ended September 30, 2011 and any defaults during that period of TDRs that were restructured during the past 12 months ended September 30, 2011.

Troubled Debt Restructurings of Loans Receivable
for the three months ended September 30, 2011

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(in Thousands)				
Troubled debts restructured								
Originated and purchased loans								
Number of loans	5	-	-	-	1	-	-	6
Pre-modification outstanding recorded investment	$ 1,420	$ -	$ -	$ -	$ 115	$ -	$ -	$ 1,535
Post-modification outstanding recorded investment	1,360	-	-	-	105	-	-	1,465
Charge offs against the allowance for loan loss for impairment recognized at modification	134	-	-	-	10	-	-	144
Loans acquired at fair value								
Number of loans	-	-	-	-	1	-	-	1
Pre-modification outstanding recorded investment	$ -	$ -	$ -	$ -	$ 129	$ -	$ -	$ 129
Post-modification outstanding recorded investment	-	-	-	-	103	-	-	103
Charge offs against the allowance for loan loss for impairment recognized at modification	-	-	-	-	25	-	-	25
Troubled debt restructuring defaults								

Originated and purchased loans								
Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans acquired at fair value								
Number of loans	-	-	-	-	-	-	-	-
Outstanding recorded investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

For the five residential mortgage TDRs that were restructured during the three months ended September 30, 2011, the concessionary terms granted on three loans with aggregate pre-modified carrying values totaling $655,000 were limited to permanent interest rate reductions over their existing terms to maturity. The post-modified carrying values of these three loans at September 30, 2011 totaled $597,000. The concessionary terms of one residential mortgage loan with a pre-modified carrying value totaling $403,000 was modified to include an interest rate reduction and capitalization of prior amounts owed. The post-modified carrying values of this loan at September 30, 2011 totaled $454,000. The concessionary terms of one residential mortgage loan with a pre-modified carrying value totaling $362,000 was modified to include an interest rate reduction and capitalization of prior amounts owed coupled with a balloon payment due on the loan's existing maturity date. The post-modified carrying values of this loan at September 30, 2011 totaled $309,000.

For the two home equity loan TDRs that were restructured during the three months ended September 30, 2011, the concessionary terms granted on both loans with aggregate pre-modified carrying values balances totaling $244,000 included a combination of an interest rate reduction coupled with a balloon payment due on the loan's existing maturity date. The post-modified carrying values of these two loans at September 30, 2011 totaled $208,000.

12. BENEFIT PLANS – COMPONENTS OF NET PERIODIC EXPENSE

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

	Three Months Ended September 30, 2011	2010
	(In Thousands)	
Service cost	$ 39	$ 40
Interest cost	85	83
Amortization of unrecognized past service liability	16	18
Amortization of unrecognized net actuarial (gain) loss	(6)	(1)
Net periodic benefit expense	$ 134	$ 140

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significiant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
	(In Thousands)			
At September 30, 2011:				
Debt securities available for sale:				
Trust preferred securities	$ -	$ 5,466	$ 1,000	$ 6,466
U.S. agency securities	-	6,346	-	6,346
Obligations of political subdivisions	-	5,059	-	5,059
Total debt securities	-	16,871	1,000	17,871
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	-	3,226	-	3,226
Mortgage pass-through securities:				
Government National Mortgage Association	-	13,136	-	13,136
Federal Home Loan Mortgage Corporation	-	368,881	-	368,881
Federal National Mortgage Association	-	698,850	-	698,850
Total mortgage-backed securities	-	1,084,093	-	1,084,093
Total securities available for sale	$ -	$ 1,100,964	$ 1,000	$ 1,101,964

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
At June 30, 2011:				
Debt securities available for sale:				
Trust preferred securities	$ -	$ 6,447	$ 1,000	$ 7,447
U.S. agency securities	-	6,591	-	6,591
Obligations of political subdivisions	-	30,635	-	30,635
Total debt securities	-	43,673	1,000	43,673
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	-	3,465	-	3,465
Mortgage pass-through securities:				
Government National Mortgage Association	-	13,581	-	13,581
Federal Home Loan Mortgage Corporation	-	390,448	-	390,448
Federal National Mortgage Association	-	652,753	-	652,753
Total mortgage-backed securities	-	1,060,247	-	1,060,247
Total securities available for sale	$ -	$ 1,103,920	$ 1,000	$ 1,104,920

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

The Company holds a trust preferred security with a par value of $1.0 million, a de-facto obligation of Mercantil Commercebank Florida Bancorp, Inc., whose fair value has been determined by using Level 3 inputs. It is a part of a $40.0 million private placement with a coupon of 8.90% issued in 1998 and maturing in 2028. Generally management has been unable to obtain a market quote due to a lack of trading activity for this security. Consequently, the security's fair value as reported at September 30, 2011 and June 30, 2011 is based upon the present value of its expected future cash flows assuming the security continues to meet all its payment obligations and utilizing a discount rate based upon the security's contractual interest rate. For the three months ended September 30, 2011, there were no purchases, sales, issuances, or settlements of assets or liabilities whose fair values are determined based upon Level 3 inputs on a recurring basis.

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
	(In Thousands)			
At September 30, 2011				
Impaired loans	$ -	$ -	$ 8,447	$ 8,447
Real estate owned	-	-	189	189
At June 30, 2011				
Impaired loans	$ -	$ -	$ 9,829	$ 9,829
Real estate owned	-	-	224	224

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

At September 30, 2011, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling $14.8 million and valuation allowances of $6.4 million reflecting fair values of $8.4 million. By comparison, at June 30, 2011, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling $16.2 million and valuation allowances of $6.4 million reflecting fair values of $9.8 million.

Once a loan is foreclosed, the fair value of the real estate owned continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan. At September 30, 2011, real estate owned whose carrying value was written down utilizing Level 3 inputs during the first three months of fiscal 2012 comprised one property with a fair value totaling $189,000. By comparison, at June 30, 2011 real estate owned whose carrying value was written down utilizing Level 3 inputs included one property totaling $224,000.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at September 30, 2011 and June 30, 2011:

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

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Securities. See the discussion presented on Page 51 concerning assets measured at fair value on a recurring basis.

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

Loan Servicing Rights. Fair value is based on market prices for comparable loan servicing contracts, when available, or alternately, is based on a valuation model that calculates the present value of estimated future net servicing income.

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

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

Commitments. The fair value of commitments to fund credit lines and originate or participate in loans is estimated using fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented on Page 74.

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

	At September 30, 2011		At June 30, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$290,130	$290,130	$222,580	$222,580
Securities available for sale	17,871	17,871	44,673	44,673
Securities held to maturity	76,218	76,820	106,467	107,052
Loans receivable	1,231,801	1,267,094	1,256,584	1,282,865
Mortgage-backed securities available for sale	1,084,093	1,084,093	1,060,247	1,060,247
Mortgage-backed securities held to maturity	1,291	1,381	1,345	1,416
Loan servicing rights	434	434	416	416
Interest receivable	8,594	8,594	9,740	9,740
Financial liabilities:				
Deposits (A)	2,148,606	2,160,512	2,149,353	2,159,867
Borrowings	247,791	286,591	247,642	287,099
Interest payable on borrowings	979	979	988	988

(A) Includes accrued interest payable on deposits of $66,000 and $84,000, respectively, at September 30, 2011 and June 30, 2011.

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

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

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

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

Forward-Looking Statements

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

Acquisition of Central Jersey

On November 30, 2010, the Company completed its acquisition of Central Jersey Bancorp ("Central Jersey") and its wholly owned subsidiary, Central Jersey Bank, National Association ("Central Jersey Bank") as contemplated by the Agreement and Plan of Merger, dated as of May 25, 2010, by and among the Company, Kearny Federal Savings Bank, Central Jersey and Central Jersey Bank (the "Agreement") in a tax-free reorganization. The aggregate consideration for the acquisition was $82.1 million which included $70.5 million paid to the shareholders of Central Jersey to acquire all the outstanding shares of Central Jersey at $7.50 per share and $11.6 million paid to the U.S. Department of the Treasury for the redemption of 11,300 shares of Fixed Rate Cumulative Preferred Stock, Series A and the related warrant issued to the U.S. Treasury under the Troubled Asset Relief Program Capital Purchase Program.

As a result of the merger, the Company now has a total of 41 branches located in Bergen, Hudson, Passaic, Morris, Middlesex, Monmouth, Essex, Union and Ocean Counties. The former Central Jersey Bank branches are initially being operated under the name "Central Jersey Bank, A Division of Kearny Federal Savings Bank" ("CJB Division"). At September 30, 2010, Central Jersey had total assets of $589.4 million, deposits of $473.3 million and shareholders' equity of $58.7 million (prior to the redemption of Central Jersey's outstanding preferred stock).

Comparison of Financial Condition at September 30, 2011 and June 30, 2011

General. Total assets increased $5.9 million to $2.91 billion at September 30, 2011 from $2.90 billion at June 30, 2011. The increase in total assets was primarily reflected in the increased balances of cash and cash equivalents and mortgage-backed securities that were partially offset by comparatively lower balances of loans and non-mortgage-backed securities. The overall increase in total assets was complemented by growth in deferred income tax liabilities and stockholders' equity that were partially offset by a net decline in the balance in deposits.

Cash and Cash Equivalents. Cash and cash equivalents, which consist of interest-earning and noninterest-earning deposits in other banks, increased $67.5 million to $290.1 million at September 30, 2011 from $222.6 million at June 30, 2011. The net increase in short term, liquid assets was primarily attributable to incoming cash flows arising from repayments and sales of loans and securities that outpaced their redeployment into new loan originations and security purchases.

In accordance with the overall goals of its strategic business plan, the Company may, at times, defer the reinvestment of excess liquidity into the investment portfolio in favor of retaining comparatively higher average balances of short term, liquid assets as a funding source for future loan originations. Toward that end, the Bank's pipeline of "in process" loans has generally increased compared to one year earlier due largely to the acquisition of Central Jersey and the continued expansion of the Bank's commercial loan origination staff separate from that acquisition.

Notwithstanding the overall increase in the Bank's loan origination pipeline, Management has determined that the opportunity cost to earnings of maintaining a growing level of short-term liquid assets to fund potential loan growth outweighs the related benefits. Consequently, a significant portion of the Company's excess liquidity is expected to be deployed into comparatively higher yielding investments during the next quarter ending December 31, 2011 while the average balance of interest-earning cash and equivalents is generally expected to be maintained at a comparatively lower level than that reported in recent quarters. Management will continue to monitor the level of short term, liquid assets in relation to the expected need for such liquidity to fund the Company's strategic initiatives. The Company may alter its liquidity reinvestment strategies based upon the timing and relative success of those initiatives.

Securities Available for Sale. Non-mortgage-backed securities classified as available for sale decreased by $26.8 million to $17.9 million at September 30, 2011 from $44.7 million at June 30, 2011. The net decrease in the portfolio primarily reflected the repayment of maturing municipal securities during the first quarter of fiscal 2012. At September 30, 2011, the available for sale non-mortgage-backed securities portfolio consisted of $6.3 million of SBA pass-through certificates, $5.1 million of municipal obligations and $6.5 million of single issuer trust preferred securities with amortized costs of $6.4 million, $5.1 million and $8.9 million, respectively.

The net unrealized loss for this portfolio increased by $941,000 to $2.4 million at September 30, 2011 from $1.5 million at June 30, 2011. The increase in the net unrealized loss was primarily attributable to a decline in the fair value of the Company's investment in single issuer, trust preferred securities whose unrealized losses increased by $983,000 to $2.4 million at September 30, 2011 from $1.4 million at June 30, 2011. The decline in market value coincided with Moody's Investors Service rating downgrade of the Bank of America Corporation ("BAC") trust preferred securities held by the Company from Baa3 to Ba1 during September 2011. As discussed in greater detail above, management has concluded that the impairment within this segment of the portfolio, including that relating to the BAC trust preferred securities, is not "other-than-temporary" at September 30, 2011.

Additional information regarding available for sale securities at September 30, 2011 is presented in Note 8 and Note 10 of the consolidated financial statements.

Securities Held to Maturity. Non-mortgage-backed securities classified as held to maturity decreased by $30.2 million to $76.2 million at September 30, 2011 from $106.5 million at June 30, 2011. The net decline in the balance of the portfolio primarily reflected the repayment of U.S. agency debentures called by the issuers prior to their maturities. At September 30, 2011, the held to maturity non-mortgage-backed securities portfolio included $73.2 million of U.S. agency debentures. Of those debentures, $33.2 million mature within one to five years while those maturing in five to ten years and greater than ten years total $5.0 million and $35.0 million, respectively. Non-mortgage backed securities held to maturity at September 30, 2011 also included $3.0 million of short term municipal obligations that mature within one year. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at September 30, 2011.

Additional information regarding held to maturity securities at September 30, 2011 is presented in Note 9 and Note 10 to consolidated financial statements.

Loans Receivable. Loans receivable, net of unamortized premiums, deferred costs and the allowance for loan losses, decreased $24.8 million to $1.23 billion at September 30, 2011 from $1.26 billion at June 30, 2011. The decrease in net loans receivable was primarily attributable to loan repayments that outpaced new loan originations during the first quarter of fiscal 2012.

Residential mortgage loans, in aggregate, decreased by $13.4 million to $741.9 million at September 30, 2011 from $755.3 million at June 30, 2011. The components of the aggregate decrease included a net reduction in the balance of one-to-four family first mortgage loans of $9.0 million to $601.9 million at September 30, 2011 as well as net decreases in the balance of home equity loans and home equity lines of credit of $3.7 million and $755,000, respectively, whose ending balances at September 30, 2011 were $107.8 million and $32.2 million, respectively. The reduction in the balance of residential mortgage loans reflects management's continued adherence to its disciplined pricing policy coupled with the effects of diminished loan demand in the marketplace arising from challenging economic conditions and declining real estate values which have adversely impacted residential real estate purchase and refinancing activity. In total, residential mortgage loan origination and purchase volume for the three months ended September 30, 2011 was $11.6 million and $4.1 million, respectively, while aggregate originations of home equity loans and home equity lines of credit totaled $8.8 million for that same period.

Commercial loans, in aggregate, decreased by $7.7 million to $481.0 million at September 30, 2011 from $488.7 million at June 30, 2011. The components of the aggregate decrease included declines in commercial mortgage loans and commercial business loans of $2.7 million and $5.0 million, respectively. The ending balances of commercial mortgage loans and commercial business loans at September 30, 2011 were $381.0 million and $100.0 million, respectively. Commercial loan origination volume for the first three months of fiscal 2012 totaled $6.0 million comprising $3.5 million and $2.5 million of commercial mortgage and commercial business loans originations, respectively.

The outstanding balance of construction loans, net of loans-in-process, decreased by $3.4 million to $18.2 million at September 30, 2011 from $21.6 million at June 30, 2011. Construction loan disbursements for first three months of fiscal 2012 totaled $1.6 million.

Finally, other loans, primarily comprising account loans, deposit account overdraft lines of credit and other consumer loans, decreased $200,000 to $3.6 million at September 30, 2011 from $3.8 million at June 30, 2011. Other loan originations for the first three months of fiscal 2012 totaled approximately $634,000.

Nonperforming Loans. For the three months ended September 30, 2011, nonperforming loans increased by $7.3 million to $42.3 million or 3.40% of total loans from $35.0 million or 2.76% of total loans as of June 30, 2011. The comparative increase in nonperforming loans was primarily attributable to an increase of $8.3 million in nonaccrual loans that resulted, in part, from the addition of one land loan and one nonresidential mortgage loan with outstanding balances at September 30, 2011 of $2.8 million

and $1.9 million, respectively. The larger of the two loans, which is well secured by vacant land located in northern New Jersey, fully reinstated in October 2011 and is expected to remain current with its future payment obligations. The borrower for the second loan, which is secured by a full service car wash facility also located in northern New Jersey, is currently working cooperatively with the Bank as the loan progresses through the collection and workout processes. The remaining $3.6 million increase was attributable to the addition of several nonaccrual loans with comparatively smaller principal balances across a variety of loan categories including, but not limited to, residential first mortgage loans and home equity loans, commercial business loans and other commercial mortgage loans.

At September 30, 2011, nonperforming loans included 50 residential first mortgage loans totaling $18.8 million of which 30 loans totaling $14.1 million were reported as 90 days or more past due and still accruing and 20 loans totaling $4.6 million were reported as nonaccrual. All 30 residential first mortgage loans reported as 90 days or more past due and still accruing at September 30, 2011 were originally purchased from Countrywide and continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP. In accordance with our agreement, the servicer advances scheduled principal and interest payments to the Bank when such payments are not made by the borrower. The timely receipt of principal and interest from the servicer ensures the continued accrual status of the Bank's loan. However, the delinquency status reported for these nonperforming loans reflects the borrower's actual delinquency irrespective of the Bank's receipt of advances which will be recouped by the servicer from the Bank in the event the borrower does not reinstate the loan. An additional four Countrywide loans totaling $1.1 million were reported as nonaccrual residential first mortgage loans at September 30, 2011.

In total, the 34 nonperforming Countrywide loans totaled $15.2 million or 36.1% of total nonperforming loans at September 30, 2011. Based upon updated collateral valuations, the Bank has established specific valuation allowances totaling $3.9 million for the identified impairment attributable to the Countrywide loans at September 30, 2011. As of that same date, the Bank owned a total of 133 residential mortgage loans with an aggregate outstanding balance of $64.3 million that were originally acquired from Countrywide. Of these loans, an additional eight loans totaling $3.5 million are 30-89 days past due and are in various stages of collection.

The remaining $3.5 million of nonperforming residential first mortgage loans represent a total of 16 originated mortgage loans on nonaccrual status against which the Bank has established specific valuation allowances totaling $36,000 for the identified impairment attributable to one of these loans.

Nonperforming loans at September 30, 2011 included a total of 11 home equity loans totaling $946,000 and one home equity line of credit totaling $90,000. No impairment has been identified on these 12 nonaccrual loans as of September 30, 2011.

A total of five nonaccrual construction loans with an aggregate outstanding balance of $1.7 million were reported as nonperforming at September 30, 2011. The Bank has established a specific valuation allowance totaling $105,000 for the identified impairment attributable to one of these loans.

Nonperforming commercial mortgage loans at September 30, 2011 totaled $12.9 million and comprised 26 nonaccrual loans with aggregate outstanding balances totaling $12.4 million and one accruing loan over 90 days past due with an outstanding balance of $561,000. The Bank has established specific valuation allowances totaling $1.5 million for the identified impairment attributable to four of these loans, each of which were acquired as participations through the TICIC, a subsidiary of the New Jersey Bankers Association.

Commercial business loans reported as nonperforming at September 30, 2011 included 28 loans totaling $7.9 million including three loans totaling $955,000 reported as 90 days or more past due and still accruing with the remaining 25 loans totaling $6.9 million reported as nonaccrual. Impairment totaling $900,000 was identified relating to nine of the nonaccrual loans requiring the Bank to establish specific valuation allowances in that amount as of September 30, 2011.

Finally, nonperforming loans at June 30, 2011 included seven nonaccrual consumer loans totaling $7,000.

Allowance for Loan Losses. During the quarter ended September 30, 2011, the balance of the allowance for loan losses increased by approximately $273,000 to $12,040,000 or 0.97% of total loans at September 30, 2011 from $11,767,000 or 0.93% of total loans at June 30, 2011. The increase resulted from additional provisions of $1,065,000 that were partially offset by net charge offs of $792,000. The increase reflects net additions to specific valuation allowances of approximately $44,000 relating to impaired loans coupled with a net increase in general valuation allowances, including unallocated amounts, of approximately $229,000 arising from increased levels of historical and environmental loss factors applied to the outstanding balance of the remaining loans within the Company's portfolio that are evaluated collectively for impairment.

With regard to the reported net additions to specific valuation allowances at September 30, 2011, the Company reported a total of 128 impaired loans with a total outstanding balance of $47.4 million compared to a total of 110 impaired loans with a total outstanding balance of $37.3 million at June 30, 2011. As of September 30, 2011, the portion of the total allowance for loan losses specifically attributable to the impairment relating to these loans totaled $6,405,000. By comparison, the impairment identified on loans requiring specific valuation allowances at June 30, 2011 totaled approximately $6,361,000. The increases in specific valuation allowances reported for the quarter ended September 30, 2011 generally resulted from reductions in the fair value of the real estate securing the collateral dependent loans that were individually evaluated for impairment in accordance with the Company's allowance for loan loss calculation methodology described earlier.

The balance of the Company's general valuation allowances, including unallocated amounts, totaled $5,635,000 at September 30, 2011 compared to $5,406,000 at June 30, 2011. The reported net change in general valuation allowances during the quarter ended September 30, 2011 was attributable to the application of the Company's historical and environment loss factors to the portion of the loan portfolio that is evaluated collectively for impairment.

With regard to environmental loss factors, the Company recognized a net increase in the allowance for loan losses attributable to changes in such factors during the quarter ended September 30, 2011. The changes generally reflected increases in the level of nonperforming loans and associated losses within certain specific segments of the loan portfolio. By contrast, the environmental factors relating to those segments of the portfolio that have not demonstrated a significant and sustained increase in the level of nonperforming loans and losses have remained generally stable or have increased modestly for the reasons noted below. In conjunction with the net changes to the outstanding balance of the applicable loans, the noted changes resulted in an increase of $17,000 in the applicable portion of the allowance for loan losses to $4,685,000 at September 30, 2011 from $4,668,000 at June 30, 2011.

Certain categories of loans within the Company's portfolio have experienced a noteworthy increase in the level of nonperforming loans which has coincided with an associated increase in losses recognized on such loans. Consequently, the environmental loss factors utilized to estimate the probable losses within these categories of the portfolio have increased.

For example, for the three months ended September 30, 2011, total nonperforming loans, including nonaccrual loans and accruing loans 90 days or more past due, increased $7.3 million from $35.0 million at June 30, 2011 to $42.3 million at September 30, 2011. For those same comparative periods, the aggregate level of impairment identified on such loans, resulting in loss classifications and specific valuation allowances attributable to such losses, increased by $44,000 from $6,361,000 to $6,405,000.

The reported net increase in nonperforming loans was partly attributable to the addition of loans that were originally acquired through the Bank's merger with Central Jersey. All loans acquired from Central Jersey were initially recorded at fair value reflecting any impairment identified on such loans at that time. However, the reported increase in impairment losses noted above includes those identified on loans acquired from Central Jersey resulting in additional loss classifications and specific valuation allowances being established during the quarter ended September 30, 2011.

In recognition of the increase in the level of nonperforming loans and associated impairment attributable to such loans, the Company has modified the following environmental loss factor applicable to the Central Jersey loans at September 30, 2011:

• Level of and trends in nonperforming loans: Increased (+3) from "0" to "3" reflecting continuing increases in the level of nonperforming loans and associated losses within the portfolio segment.

Given their recent acquisition at fair value, the environmental loss factors established for the Central Jersey loans generally reflect a comparatively lower level of risk than those applicable to the remaining portfolio. In accordance with the methodology described earlier, the Company has assigned a risk rating of "3" to a total of three environmental loss factors resulting in a total of nine basis points of allowance being allocated to the applicable loans at September 30, 2011. The level of environmental loss factors attributable to these loans will continue to be monitored and adjusted to reflect the Company's best judgment as to the level of expected losses on the loans acquired from Central Jersey that are collectively evaluated for impairment.

The Company continues to realize losses attributable to the continuing deterioration of loan quality within the specific segment of the residential mortgage loan portfolio that was originally acquired from Countrywide. Such loans continue to be serviced by their acquirer, BOA, where the collections and foreclosure processes have been subjected to extended delays. Such losses are evidenced not only by increases in impairment, but also by outright charge offs attributable to payoff deficiencies negotiated by the servicer. In recognition of these additional losses, coupled with the expectation for continuing delays in the foreclosure process, the Company has increased the level of environmental loss factors attributable to loans within this specific segment of the residential mortgage loan portfolio that are evaluated collectively for impairment.

From June 30, 2011 to September 30, 2011, the risk rating assigned to the following environmental loss factor was increased to the level noted:

• Level of and trends in nonperforming loans: Increased (+3) from "12" to "15" reflecting continued increases in the level of nonperforming loans and associated losses within the portfolio segment.

In combination with those that remained unchanged from period to period, total environmental factors applicable to this segment of the residential mortgage loan portfolio increased from 66 basis points at June 30, 2011 to 69 basis points at September 30, 2011. The level of environmental loss factors attributable to these loans will continue to be monitored and adjusted to reflect the Company's best judgment as to the level of expected losses on the loans acquired from Countrywide that are collectively evaluated for impairment.

With regard to historical loss factors, the Company's loan portfolio experienced a net annualized charge-off rate of 25 basis points during the three months ended September 30, 2011 representing an increase of 13 basis points from the 12 basis points of charge offs reported for fiscal 2011. In conjunction with the net changes to the outstanding balance of the applicable loans, the increase in the historical loss factors attributable to the increased level of actual charge offs during the three months ended September 30, 2011 resulted in a net increase of $212,000 in the associated general valuation allowances to $950,000 at September 30, 2011 from $738,000 at June 30, 2011. The Company expects charge offs to increase in the future based, in part, upon the $6.4 million of specific valuation allowances at September 30, 2011 that represent identified impairments on nonperforming loans, a significant portion of which will likely result in additional charge offs in future periods as such loans work through the resolution process.

The changes in the Company's historical loss factors from June 30, 2011 to September 30, 2011 reflect the effect of actual charge off and recovery activity on the average charge off rates calculated by the Company's allowance for loan loss methodology, as described earlier. As seen below, the net charge off activity has been concentrated in a limited number of categories in the loan portfolio with the greatest impact reflected in the purchased residential mortgage loan, construction loan and multi-family mortgage loan portfolios.

The tables on the following pages present the historical and environmental loss factors, reported as a percentage of outstanding loan principal, that were the basis for computing the portion of the allowance for loans losses attributable to loans collectively evaluated for impairment at September 30, 2011 and June 30, 2011.

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at September 30, 2011

Loan Category	Historical Loss Factors	Environmental Loss Factors	Total
Residential mortgage loans			
Originated	0.01%	0.30%	0.31%
Purchased	0.65%	0.69%	1.34%
Acquired in merger	0.00%	0.09%	0.09%
Home equity loans			
Originated	0.02%	0.36%	0.38%
Acquired in merger	0.04%	0.09%	0.13%
Home equity lines of credit			
Originated	0.00%	0.36%	0.36%
Acquired in merger	0.00%	0.09%	0.09%
Construction loans			
1-4 family			
Originated	3.11%	0.72%	3.83%
Acquired in merger	0.00%	0.09%	0.09%
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Commercial mortgage loans			
Multi-family			
Originated	0.41%	0.72%	1.13%
Acquired in merger	0.00%	0.09%	0.09%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Commercial business loans			
Secured (1-4 family)			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Secured (Other)			
Originated	0.04%	0.72%	0.76%
Acquired in merger	0.00%	0.09%	0.09%
Unsecured			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at September 30, 2011 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors	Total
SBA 7A			
Originated	0.04%	0.72%	0.76%
Acquired in merger	0.00%	0.09%	0.09%
SBA Express			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
SBA Line of Credit			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
SBA Other			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.09%	0.09%
Other consumer loans (1)	-	-	-

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

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at June 30, 2011

Loan Category	Historical Loss Factors	Environmental Loss Factors	Total
Residential mortgage loans			
Originated	0.00%	0.30%	0.30%
Purchased	0.40%	0.66%	1.06%
Acquired in merger	0.00%	0.06%	0.06%
Home equity loans			
Originated	0.01%	0.36%	0.37%
Acquired in merger	0.00%	0.06%	0.06%
Home equity lines of credit			
Originated	0.00%	0.36%	0.36%
Acquired in merger	0.00%	0.06%	0.06%
Construction loans			
1-4 family			
Originated	3.11%	0.72%	3.83%
Acquired in merger	0.00%	0.06%	0.06%
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
Commercial mortgage loans			
Multi-family			
Originated	0.55%	0.72%	1.27%
Acquired in merger	0.00%	0.06%	0.06%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
Commercial business loans			
Secured (1-4 family)			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
Secured (Other)			
Originated	0.04%	0.72%	0.76%
Acquired in merger	0.00%	0.06%	0.06%
Unsecured			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at June 30, 2011 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors	Total
SBA 7A			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
SBA Express			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
SBA Line of Credit			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
SBA Other			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.06%	0.06%
Other consumer loans (1)	-	-	-

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

Finally, general valuation allowances included a balance of the unallocated allowance totaling $233,000 at both September 30, 2011 and June 30, 2011. The balance of the unallocated general allowance, which has remained generally consistent during the past four years, represents the amount established and maintained for probable losses attributable to environmental factors within one or more non-specified segments within the loan portfolio. In accordance with the Company's allowance for loan loss methodology, changes in the targeted balance of general valuation allowances attributable to modifications in environmental loss factors may, in whole or in part, be transferred to and from the unallocated allowance subject to the thresholds outlined in the earlier discussion concerning allowance for loan loss calculation methodology.

Additional information regarding loan quality and allowance for loan losses is presented in Note 11 of the consolidated financial statements.

Mortgage-backed Securities Available for Sale. Mortgage-backed securities available for sale, including agency pass-through securities as well as agency collateralized mortgage obligations, increased $23.8 million to $1.08 billion at September 30, 2011 from $1.06 billion at June 30, 2011. The net increase primarily reflects purchases of fixed rate, agency mortgage-backed securities that were partially offset by cash repayment of principal net of discount accretion and premium amortization and an increase in the unrealized gain on such securities. The purchases of the mortgage-backed securities during the three months ended September 30, 2011 were comprised of fixed-rate, amortizing securities with maturities of 10 and 15 years totaling $73.8 million. Such purchases were augmented with purchases of 30 year, fixed-rate amortizing securities totaling $5.1 million that are eligible to meet the Community Reinvestment Act investment test during the reporting period. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at September 30, 2011.

Additional information regarding available for sale securities at September 30, 2011 is presented in Note 8 and Note 10 of the consolidated financial statements.

Mortgage-backed Securities Held to Maturity. Mortgage-backed securities held to maturity, including agency pass-through securities as well as agency and non-agency collateralized mortgage obligations, decreased $54,000 to $1.29 million at September 30, 2011 from $1.34 million at June 30, 2011. The decrease was primarily attributable to cash repayment of principal net of discount accretion and premium amortization. At September 30, 2011, the Company's remaining portfolio of non-agency CMOs totaled 12 securities with an aggregate outstanding balance of approximately $198,000. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at September 30, 2011.

Additional information regarding held to maturity securities at September 30, 2011 is presented in Note 9 and Note 10 of the consolidated financial statements.

Other Assets. The balance of other assets remained generally stable from June 30, 2011 to September 30, 2011 with modest declines reported in interest receivable, prepaid expenses and other receivables relating to income taxes resulting from normal operating fluctuations in such balances.

Deposits. The balance of total deposits remained generally stable at approximately $2.15 billion at both September 30, 2011 and June 30, 2011 reflecting a nominal net decrease of $747,000 in aggregate deposit balances between comparative periods. The net decrease reflected declines of $1.7 million in non-interest bearing checking accounts to $141.4 million at September 30, 2011 while certificate of deposit balances declined $585,000 to $1.15 billion as of that same date. The decreases in the balances of these deposit categories were largely offset by an $896,000 increase in the balance of interest-bearing

checking accounts to $453.7 million coupled with an increase of $604,000 in savings accounts to $402.2 million in savings accounts for those same comparative periods.

The stability in deposit balances continued to reflect consumer demand for the safety of FDIC-insured accounts in lieu of non-insured investment alternatives, despite the Company continuing to lower deposit offering rates in keeping with overall marketplace trends.

Borrowings. The balance of borrowings increased $149,000 to $247.8 million at September 30, 2011 from $247.6 million at June 30, 2011. The increase was primarily attributable to a $206,000 increase in the balance of customer sweep accounts to $36.4 million at September 30, 2011. Sweep accounts are short term borrowings representing funds that are withdrawn from a customer's noninterest-bearing deposit account and invested in an uninsured overnight investment account that is collateralized by specified investment securities owned by the Bank. The increase in the balance of customer sweep accounts was partially offset by a $57,000 decline in the balance of FHLB advances for the same period to $211.4 million resulting from scheduled principal repayments associated with an amortizing advance.

Stockholders' Equity. Stockholders' equity increased $3.6 million to $491.5 million at September 30, 2011 from $487.9 million at June 30, 2011. The increase in stockholders' equity reflected the increase in retained earnings resulting from the Company's net income of $2.0 million for the quarter ended September 30, 2011, net of $786,000 in dividends paid to shareholders. The increase in stockholders' equity also reflected increases in paid-in-capital and reductions of unearned ESOP shares relating to the offsets of benefit plan expenses during the year while other comprehensive income increased $4.5 million arising from mark-to-market adjustments to the available for sale securities portfolios and benefit plan adjustments. Partially offsetting these additions to capital was an increase in Treasury stock of $2.6 million reflecting the Company's repurchase of 290,206 of its common shares during the three months ended September 30, 2011.

Comparison of Operating Results for the Three Months Ended September 30, 2011 and September 30, 2010

General. The Company reported net income of $2.0 million for the three months ended September 30, 2011 or $0.03 per diluted share; an increase of $683,000 compared to net income of $1.3 million, or $0.02 per diluted share for the three months ended September 30, 2010. The increase in net income between comparative quarters was primarily attributable to the Company's acquisition of Central Jersey which was completed on November 30, 2010 and resulted in increases to net interest income and non-interest income that were partially offset by an increase in non-interest expense. The aggregate increase in net income attributable to these factors was augmented by a decrease in the provision for loan losses. In total, these factors resulted in an overall increase in pre-tax income and the provision for income taxes.

Net Interest Income. Net interest income for the three months ended September 30, 2011 was $17.5 million, an increase of $3.0 million from $14.5 million for the three months ended September 30, 2010. The increase in net interest income between the comparative periods resulted from an increase in interest income coupled with a concurrent decrease in interest expense. In general, the increase in interest income was primarily attributable to comparative increases in the overall average balance of interest-earning assets that were partially offset by an overall decrease in their yield between comparative periods. The decrease in interest expense primarily reflected a continued decline in the cost of deposits. Such declines resulted from the downward re-pricing of certificates of deposit as well as reductions in the rates paid on non-maturity deposits. The decline in the rates paid more than offset the additional interest expense resulting from an increase in the average balance of interest-bearing liabilities.

As a result of these factors, the Company's net interest rate spread increased two basis points to 2.45% for the three months ended September 30, 2011 from 2.43% for the three months ended September 30, 2010. The increase in the net interest rate spread reflected a 52 basis point decrease in the cost of interest-bearing liabilities to 1.35% from 1.87% that was partially offset by a decline in the yield on earning assets of 50 basis points to 3.80% from 4.30% for the same comparative periods. A discussion of the factors contributing to the overall change in yield on earning assets and cost of interest-bearing liabilities is presented in the separate discussion and analysis of interest income and interest expense below.

The factors contributing to the increase in net interest rate spread were also reflected in the Company's net interest margin. However, their effects were more than offset by other factors resulting in a seven basis points decline in the Company's net interest margin to 2.66% for the three months ended September 30, 2011 from 2.73% for the three months ended September 30, 2010. The offsetting factors resulting in the decline in net interest margin include the foregone interest income associated with use of earning assets to fund the Company's share repurchase programs and an overall increase in non-interest earning assets such as goodwill. For the three months ended September 30, 2011, the average balance of treasury stock increased $3.6 million to $59.9 million from $56.2 million for the three months ended September 30, 2010. For those same comparative periods, the Company's average balance of goodwill increased by $26.3 million to $108.6 million from $82.3 million. The reported increase in the average balance of goodwill resulted from the acquisition of Central Jersey. As a result of these factors, the Company's ratio of average interest-earning assets to average interest-bearing liabilities declined to 117.54% for the three months ended September 30, 2011 compared to 118.77% for the three months ended September 30, 2010.

Interest Income. Total interest income increased $2.2 million to $25.2 million for the three months ended September 30, 2011 from $22.9 million for the three months ended September 30, 2010. As noted above, the increase in interest income reflected a $515.4 million increase in the average balance of interest-earning assets to $2.65 billion for the three months ended September 30, 2011 from $2.13 billion for the three months ended September 30, 2010. The increase to interest income resulting from the higher average balance of interest-earning assets was partially offset by a 50 basis point decline in their average yield to 3.80% from 4.30% for those same comparative periods.

Interest income from loans increased $2.7 million to $16.5 million for the three months ended September 30, 2011 from $13.8 million for the three months ended September 30, 2010. The increase in interest income on loans was attributable to an increase in their average balance that was partially offset by a decline in their average yield.

The average balance of loans increased by $254.4 million to $1.26 billion for the three months ended September 30, 2011 from $1.01 billion for the three months ended September 30, 2010. The reported increase in the average balance of loans included a net increase of $263.5 million in the average aggregate balance of commercial loans to $484.7 million from $221.2 million for those same comparative periods. The Company's commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans. The increase largely reflects the Company's acquisition of Central Jersey and, to a lesser degree, the organic growth resulting from its long-term expanded strategic emphasis in commercial lending.

The increase in the average balance of commercial loans was partially offset by a $15.5 million decline in the average balance of residential mortgage loans to $752.2 million for the three months ended September 30, 2011 from $767.7 million for the three months ended September 30, 2010. The Company's residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit. The decline in the average balance of residential mortgage loans primarily reflects diminished residential loan demand by qualified borrowers coupled with the Company's disciplined pricing for such loans in the face of aggressive pricing in the marketplace for certain loan products. The decline in residential mortgage loans attributable to these factors was modestly offset by the addition of loans acquired from Central Jersey.

The increase in interest income on loans attributable to the increase in their average balances was partially offset by a decrease in their average yields which declined 26 basis points to 5.23% for the three months ended September 30, 2011 from 5.49% for the three months ended September 30, 2010. The reduction in the overall yield on the Company's loan portfolio generally reflects the effect of lower market interest rates which provides "rate reduction" refinancing incentive to borrowers while also contributing to the downward re-pricing of adjustable rate loans.

In general, because the Company's commercial loans comprise comparatively higher yielding multi-family mortgages, nonresidential mortgage loans and business loans, the continued reallocation within the loan portfolio from residential mortgages into commercial loans partially offset the adverse impact of lower market interest rates on the overall yield of the loan portfolio between the comparative periods. However, the incremental impact on the average yield of the loan portfolio resulting specifically from the Central Jersey acquisition reflects loans being acquired at their fair value and the ongoing recognition of interest income on those acquired loans at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from mortgage-backed securities increased $584,000 to $8.0 million for the three months ended September 30, 2011 from $7.4 million for the three months ended September 30, 2010. The increase in interest income reflected an increase in the average balance of mortgage-backed securities that was partially offset by a decrease in their average yield. The average balance of the securities increased $319.5 million to $1.06 billion for the three months ended September 30, 2011 from $737.4 million for the three months ended September 30, 2010. For those same comparative periods, the average yield on mortgage-backed securities declined 99 basis points to 3.02% from 4.01%.

The increase in the average balance of mortgage-backed securities reflects, in part, security purchases that have outpaced the level of principal repayments and security sales. However, the increase in the average balance of mortgage-backed securities also reflects the addition of securities resulting from the acquisition of Central Jersey.

The reduction in the overall yield of the mortgage-backed securities portfolio is attributable to many of the same factors affecting the yield on the Company's loan portfolio. That is, lower market interest rates have continued to provide a "rate reduction" refinancing incentive to mortgagors resulting in the pay off of comparatively higher rate mortgage loans underlying the Company's mortgage-backed securities which have been replaced by lower yield securities. Additionally, the yields on mortgage- backed securities acquired from Central Jersey reflect their acquisition at fair value and the ongoing recognition of interest income at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from non-mortgage-backed securities decreased $1.0 million to $536,000 for the three months ended September 30, 2011 from $1.6 million for the three months ended September 30, 2010. The decrease in interest income reflected a decrease in the average balance of non-mortgage-backed securities coupled with a decline in their average yield. The average balance of these securities decreased $154.4 million to $121.3 million for the three months ended September 30, 2011 from $275.7 million for the three months ended September 30, 2010. For those same comparative periods, the average yield on non-mortgage-backed securities decreased by 50 basis points to 1.77% from 2.27%.

The decrease in the average balance of non-mortgage backed securities was primarily attributable to a $156.1 million decrease in the average balance of taxable securities to $101.5 million during the three months ended September 30, 2011 from $257.5 million for the three months ended September 30, 2010. For those same comparative periods, the average balance of tax-exempt securities increased by $1.7 million to $19.8 million from $18.1 million. The net change in the average yield on non-mortgage backed securities reflected a decrease of 25 basis points in the yield of taxable securities to 1.94% during the three months ended September 30, 2011 from 2.19% during the three months ended September 30, 2010 while the average yield on tax-exempt securities declined 259 basis points to 0.88% from 3.47%.

The reduction in the overall yield of the non-mortgage-backed securities portfolio is also attributable to many of the same factors affecting the yield on the Company's loan and mortgage-backed securities portfolios. These factors include the effects of lower market interest rates on the portfolio as funds are reinvested at lower market interest rates. Similarly, the yields on non-mortgage-backed securities acquired from Central Jersey reflect their acquisition at fair value and the ongoing recognition of interest income at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from other interest-earning assets increased $16,000 to $195,000 for the three months ended September 30, 2011 from $179,000 for the three months ended September 30, 2010. The increase in interest income was primarily attributable to an increase in the average balance of other interest-earning assets that was partially offset by a decline in their average yield. The average balance of other interest-earning assets increased by $95.9 million to $210.9 million for the three months ended September 30, 2011 from $115.0 million for the three months ended September 30, 2010. For those same comparative periods, the average yield on other interest-earning assets decreased 25 basis points to 0.37% from 0.62%.

Interest Expense. Total interest expense decreased $764,000 to $7.6 million for the three months ended September 30, 2011 from $8.4 million for the three months ended September 30, 2010. As noted earlier, the decrease in interest expense reflected a decrease in the average cost of interest-bearing liabilities which declined 52 basis points to 1.35% for the three months ended September 30, 2011 from 1.87% for the three months ended September 30, 2010. The decrease in the average cost was partially offset by an increase in the average balance of interest-bearing liabilities of $457.3 million to $2.3 billion from $1.8 billion for the same comparative period.

Interest expense attributed to deposits decreased $731,000 to $5.6 million for the three months ended September 30, 2011 from $6.3 million for the three months ended September 30, 2010. The decrease in interest expense was attributable to a decline in the average cost of deposits that was partially offset by an increase in their average balance.

The cost of interest-bearing deposits declined by 48 basis points to 1.11% for the three months ended September 30, 2011 from 1.59% for the three months ended September 30, 2010. The reported decrease in the average cost was reflected across all categories of interest-bearing deposits and was primarily attributable to the overall declines in market interest rates. For those comparative periods, average cost of interest-bearing checking accounts decreased by 41 basis points to 0.72% from 1.13%, the average cost of savings accounts decreased 45 basis points to 0.42% from 0.87% while the average cost of certificates of deposit declined 46 basis points to 1.51% from 1.97%.

The decrease in the average cost was partially offset by a $420.2 million increase in the average balance of interest-bearing deposits to $2.01 billion for the three months ended September 30, 2011 from $1.59 billion for the three months ended September 30, 2010. The reported increase in the average balance was represented across all categories of interest-bearing deposits and reflected the Company's acquisition of Central Jersey coupled with its strategic efforts to organically increase its deposit base. For those same comparative periods, the average balance of interest-bearing checking accounts increased $177.1 million to $450.6 million from $273.5 million, the average balance of savings accounts increased $67.2 million to $403.6 million from $336.3 million and the average balance of certificates of deposit increased $175.9 million to $1.15 billion from $976.8 million.

Interest expense attributed to borrowings decreased by $33,000 to $2.0 million for the three months ended September 30, 2011 from $2.1 million for the three months ended September 30, 2010. The decrease in interest expense on borrowings reflected a decrease in their average cost that was partially offset by an increase in their average balance. The average cost of borrowings declined 64 basis points to 3.31% for the three months ended September 30, 2011 from 3.95% the three months ended September 30, 2010. For those same comparative periods, the average balance of borrowings increased $37.1 million to $247.1 million from $210.0 million.

The components of the increase in the average balance of borrowings includes a $1.1 million increase in the average balance of FHLB advances to $211.1 million for the three months ended September 30, 2011 from $210.0 million for the three months ended September 30, 2010 resulting from the Central Jersey acquisition. The increase in the average balance of borrowings also reflects the average balances of other borrowings totaling $36.0 million during the three months ended September 30, 2011. Other borrowings include depositor sweep accounts assumed from Central Jersey for which no comparable balances were maintained by the Company during the earlier comparative period.

Provision for Loan Losses. The provision for loan losses decreased $186,000 to $1,065,000 for the three months ended September 30, 2011 from $1,251,000 for the three months ended September 30, 2010. The provision during the current period reflected the combined effects of recognizing additional specific valuation allowances on impaired loans as well as increases in the level of general valuation allowances resulting from increases to environmental and historical loss factors utilized by the Company's allowance for loan loss calculation methodology relating to loans evaluated collectively for impairment.

Additional information regarding the allowance for loan losses and the associated provisions recognized during the three months ended September 30, 2011 is presented in Note 11 of the consolidated financial statements.

Non-Interest Income. Total non-interest income increased $487,000 to $1.1 million for the three months ended September 30, 2011 from $631,000 for the three months ended September 30, 2010. The increase in noninterest income included increases in loan-related and deposit-related fees and charges totaling $284,000, an increase in electronic banking-related fees and charges of $121,000 and an increase in income from bank owned life insurance totaling $27,000 that were each largely attributable to the acquisition of Central Jersey and the recognition of non-interest income originating through the CJB Division. These increases were augmented during the quarter ended September 30, 2011 by the recognition of $186,000 in gain on sale of SBA loans originated through the CJB Division for which no such income was recognized during the earlier comparative quarter.

The increases in noninterest income noted above were partially offset by a $140,000 increase in the losses associated with REO operations resulting primarily from the additional carrying costs and other expenses associated with the increased amount of foreclosed properties being managed and marketed for sale by the Company.

Non-Interest Expenses. Non-interest expenses increased $2.6 million to $14.3 million for the three months ended September 30, 2011 from $11.6 million for the three months ended September 30,

2010. The increases were reflected across most categories of noninterest expenses and were largely attributable to the ongoing operating costs of the CJB Division during the three months ended September 30, 2011 for which no comparable costs were reflected in the earlier comparative period.

Salaries and employee benefits increased by $1.2 million to $8.2 million from $7.0 million reflecting increases in salaries, benefits and payroll tax expenses. These increases were largely attributable to the staffing additions resulting from the acquisition of Central Jersey coupled with other increases in compensation and health care costs. Offsetting these increases in compensation-related costs was a decline in stock benefit plan expenses resulting from the completed vesting of restricted stock and stock option awards granted in prior years. A small number of restricted stock and stock option awards were granted during fiscal 2011 which will continue to be expensed over their five year vesting period.

Net occupancy expense of premises increased by $536,000 to $1.6 million for the three months ended September 30, 2011 from $1.0 million for the three months ended September 30, 2010 while equipment and system expense increased $792,000 to $2.0 million from $1.2 million for those same comparative periods. The increase in these expenses largely reflects the Company's additional facilities, equipment and systems-related costs of operating the CJB Division during the three months ended September 30, 2011 for which no comparable costs were recorded during the earlier comparative period.

For the comparative periods noted, advertising and marketing expenses increased by $55,000 to $301,000 from $246,000. The increases reflected advertising costs associated with the CJB Division as well as increases in other advertising and marketing expenditures for the period.

Federal deposit insurance premium expense increased by $38,000 to $485,000 from $447,000 reflecting the combined effects of several factors including the additional insurance costs relating to the deposits acquired from Central Jersey and the continued organic growth in the Bank's balance of insurable deposits the effects of which were largely offset by a comparative decrease in the premium rates charged by the FDIC per dollar of insurable deposit.

Finally, miscellaneous expenses increased by $440,000 to $1.6 million from $1.2 million for the comparative periods noted reflecting net increases in general and administrative costs, a portion of which were attributable to the ongoing operation of the CJB Division.

Partially offsetting these increases was a $392,000 reduction in director compensation expense to $166,000 from $558,000 primarily attributable to a decline in stock benefit plan expenses resulting from the completed vesting of restricted stock and stock option awards granted in prior years.

Provision for Income Taxes. The provision for income taxes increased $355,000 to $1.3 million for the three months ended September 30, 2011 from $946,000 for the three months ended September 30, 2010. The variance in income taxes between comparative quarters was largely attributable to underlying differences in pre-tax income between comparative periods coupled with the recognition of greater levels of tax-favored income during the current period. The Company's effective tax rate during the three months ended September 30, 2011 was 39.2% in comparison to 41.5% reported for the three months ended September 30, 2010.

Liquidity and Capital Resources

Our liquidity, represented by cash and cash equivalents, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, borrowings, amortization, prepayments and maturities of mortgage-backed securities and outstanding loans, maturities and calls of non-mortgage-backed securities and funds provided from operations. In addition to cash and cash

equivalents, we invest excess funds in short-term interest-earning assets such as overnight deposits or U.S. agency securities, which provide liquidity to meet lending requirements. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, general interest rates, economic conditions and competition greatly influence deposit flows and prepayments on loans and mortgage-backed securities.

The Bank is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe operation. Management generally maintains cash and cash equivalents for this purpose. Investments that qualify as liquid assets are supplemented by those securities classified as available for sale at September 30, 2011, which included $1.08 billion of mortgage-backed securities and $17.9 million of non-mortgage-backed securities that can readily be sold if necessary.

As noted, the balance of the Company's cash and cash equivalents increased by $67.5 million to $290.1 million at September 30, 2011 from $222.6 million at June 30, 2011. In accordance with the overall goals of its strategic business plan, the Company may, at times, defer the reinvestment of excess liquidity into the investment portfolio in favor of retaining comparatively higher average balances of short term, liquid assets as a funding source for future loan originations. Toward that end, the Bank's pipeline of "in process" loans has generally increased compared to one year earlier due largely to the acquisition of Central Jersey and the continued expansion of the Bank's commercial loan origination staff separate from that acquisition.

Notwithstanding the overall increase in the Bank's loan origination pipeline, Management has determined that the opportunity cost to earnings of maintaining a growing level of short-term liquid assets to fund potential loan growth outweighs the related benefits. Consequently, a significant portion of the Company's excess liquidity is expected to be deployed into comparatively higher yielding investments during the next quarter ending December 31, 2011 while the average balance of interest-earning cash and equivalents is generally expected to be maintained at a comparatively lower level than that reported in recent quarters. Management will continue to monitor the level of short term, liquid assets in relation to the expected need for such liquidity to fund the Company's strategic initiatives. The Company may alter its liquidity reinvestment strategies based upon the timing and relative success of those initiatives.

At September 30, 2011, the Bank had outstanding commitments to originate and purchase loans of $21.9 million and $403,000, respectively, compared to $13.3 million and $-0-, respectively, at June 30, 2011. Construction loans in process and unused lines of credit were $16.7 million and $66.9 million, respectively, at September 30, 2011 compared to $17.0 million and $65.5 million, respectively, at June 30, 2011. The Bank is also subject to the contingent liabilities resulting from letters of credit originally issued by Central Jersey whose outstanding balances totaled $1.1 million and $1.3 million at September 30, 2011 and June 30, 2011, respectively.

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

As noted earlier, the balance of total deposits remained generally stable at approximately $2.15 billion at both September 30, 2011 and June 30, 2011 reflecting a nominal net decrease of $747,000 in aggregate deposit balances between comparative periods. The balance of certificates of deposit with

maturities of greater than 12 months also remained relatively stable totaling $359.1 million at September 30, 2011 compared to $363.2 million at June 30, 2011 with such balances representing 31.2% and 31.5% of total certificates of deposit at the close of each period, respectively.

Borrowings from the FHLB of New York are available to supplement the Bank's liquidity position and, to the extent that maturing deposits do not remain with the Bank, management may replace such funds with advances. As of September 30, 2011, the Bank's outstanding balance of FHLB advances, excluding fair value adjustments, totaled $211.0 million. Of these advances, $1.0 million represents an amortizing advance maturing in 2021. The remaining $210.0 million of advances represent fixed rate advances with maturity dates ranging from 2013 to 2017. Most of these advances have terms that enable the FHLB to call the borrowing at their option prior to maturity.

The Bank has the capacity to borrow additional funds from the FHLB, through a line of credit or by taking additional short-term or long-term advances. Such borrowings are an option available to management if funding needs change or to lengthen liabilities. Most of the Bank's mortgage-backed and non-mortgage-backed securities are held in safekeeping at the FHLB of New York and available as collateral if necessary. In addition to the FHLB advances, the Bank has other borrowings totaling $36.4 million representing overnight "sweep account" balances linked to customer demand deposits.

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Bank's facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At September 30, 2011, we had no significant off-balance sheet commitments to purchase securities or for capital expenditures.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of September 30, 2011, the Bank exceeded all capital requirements of federal banking regulators.

The following table sets forth the Bank's capital position at September 30, 2011, as compared to the minimum regulatory capital requirements:

	At September 30, 2011					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Total Capital (to risk-weighted assets)	$341,731	25.90 %	$105,555	8.00 %	$131,944	10.00 %
Tier 1 Capital (to risk-weighted assets)	$336,096	25.47 %	$52,778	4.00 %	$79,166	6.00 %
Core (Tier 1) Capital (to adjusted total assets)	$336,096	12.22 %	$110,025	4.00 %	$137,531	5.00 %
Tangible Capital						

(to adjusted total assets)	$336,096	12.22	%	$41,259	1.50	%	$-	-

Recent Accounting Pronouncements

For a discussion of the expected impact of recently issued accounting pronouncements that have yet to be adopted by the Company, please refer to Note 5 of the Notes to the Consolidated Financial Statements.

ITEM 3.
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

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

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

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

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

With respect to the maturity and re-pricing of its interest-bearing liabilities, at September 30, 2011, $792.1 million or 68.8% of our certificates of deposit mature within one year with an additional $221.4 million or 19.2% maturing in greater than one year but less than or equal to two years. Based on current market interest rates, the majority of these certificates are projected to re-price downward to the extent they remain with the Bank at maturity. Of the $211.0 million of FHLB borrowings at September 30, 2011, all have fixed interest rates with $200.0 million maturing during fiscal 2018, but callable on a quarterly basis prior to maturity. Given current market interest rates, the call options are not currently expected to be exercised by the FHLB. The remaining $11.0 million of FHLB borrowings comprise three fixed rate advances; two $5.0 million advances maturing in 2013 and 2015 and one $1.0 million amortizing advance maturing in 2021.

With respect to the maturity and re-pricing of the Company's interest-earning assets, at September 30, 2011, $58.2 million, or 4.7% of our total loans will reach their contractual maturity dates within one year with the remaining $1.19 billion, or 95.3% of total loans having remaining terms to contractual maturity in excess of one year. Of loans maturing after one year, $975.8 million or 82.2% had fixed rates of interest while the remaining $210.7 million or 17.8% had adjustable rates of interest.

Regarding investment securities, at September 30, 2011, $13.3 million or 1.1% of our securities will reach their contractual maturity dates within one year with the remaining $1.17 billion, or 98.9% of total securities, having remaining terms to contractual maturity in excess of one year. Of the latter category, $1.03 billion comprising 87.8% of our total securities had fixed rates of interest while the remaining $132.4 million comprising 11.2% of our total securities had adjustable or floating rates of interest.

At September 30, 2011, mortgage-related assets, including residential and commercial mortgage loans and mortgage-backed securities, total $2.2 billion and comprise 82.2% of total earning assets. In addition to remaining term to maturity and interest rate type as discussed above, other factors contribute significantly to the level of interest rate risk associated with mortgage-related assets. In particular, the scheduled amortization of principal and the borrower's option to prepay any or all of a mortgage loan's principal balance, where applicable, has a significant effect on the average lives of such assets and, therefore, the interest rate risk associated with them. In general, the prepayment rate on lower yielding assets tends to slow as interest rates rise due to the reduced financial incentive for borrowers to refinance their loans. By contrast, the prepayment rate of higher yielding assets tends to accelerate as interest rates decline due to the increased financial incentive for borrowers to prepay or refinance their loans to comparatively lower interest rates. These characteristics tend to diminish the benefits of falling interest rates to liability sensitive institutions while exacerbating the adverse impact of rising interest rates.

The Company generally retained its liability sensitivity during the first three months of fiscal 2012 while the degree of that sensitivity, as measured internally by the institution's one-year and three-year gap percentages, changed modestly during the year. Specifically, the Company's cumulative one-year gap percentage changed from -2.08% at June 30, 2011 to +1.42% at September 30, 2011 while the Company's cumulative three-year gap percentage changed from +3.34% to +5.88% over those same comparative periods. The changes in gap noted indicate a modest decline in the proportion of earning assets repricing within the timeframes noted in relation to costing liabilities repricing within those same timeframes.

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

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

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

The effects of interest rate risk on the Company's earnings are best demonstrated through a review of changes in market interest rates over the past several years and their impact on the Company's net interest spread. Following a period of historically low interest rates, the Federal Reserve Board of Governors steadily increased its target federal funds rate by 425 basis points from 1.00% in June 2004 to 5.25% in June 2007. During that three-year period, federal funds rate and other shorter term market interest rates increased by a far greater degree than longer term market interest rates. For example, the market yield on the one-year U.S. Treasury bill increased 282 basis points from 2.07% at June 30, 2004 to 4.91% at June 30, 2007. By comparison, the market yield on the 10-year U.S. Treasury note increased by only 41 basis points from 4.62% to 5.03% over those same time periods. The flattening yield curve during that three year period had an adverse impact on the Company's net interest spread which decreased 67 basis points from 2.37% for the year ended June 30, 2004 to 1.70% for the year ended June 30, 2007.

The upward trend in shorter term interest rates was reversed in September 2007 as the Federal Reserve began to lower the target rate for federal funds in reaction to the threat of a looming recession triggered by growing volatility and instability in the housing and credit markets. The effects of those isolated crises rapidly grew to threaten the viability of the domestic and international financial markets as a whole. In reaction to that larger threat, the Federal Reserve reduced the target federal funds rate by a total of over 500 basis points from 5.25% at June 2007 to a range between 0.00% and 0.25% which remained in effect at June 30, 2011. During that four-year period, federal funds rate and other shorter term market interest rates decreased by a far greater degree than longer term market interest rates. For example, the market yield on the one-year U.S. Treasury bill decreased 382 basis points from 4.01% at June 30, 2007 to 0.19% at June 30, 2011. By comparison, the market yield on the 10-year U.S. Treasury note decreased by only 185 basis points from 5.03% to 3.18% over those same time periods. The steepening yield curve during that four year period had a beneficial impact on the Company's net interest spread which increased 86 basis points from 1.70% for the year ended June 30, 2007 to 2.56% for the year ended June 30, 2011.

During the first quarter of fiscal 2012, short term interest rates generally remained stable at their historical lows with the yield on the one year U.S. Treasury bill falling six basis points from 0.19% at June 30, 2011 to 0.13% at September 30, 2011. However, over that same period, the market yield on the 10-year U.S. Treasury note decreased by 126 basis points from 3.18% to 1.92%. The significant flattening of the yield curve during that period, coupled with the effects of the reported increase in nonaccrual loans and the accumulation of short term liquid assets discussed earlier, contributed significantly to the decline in the Company's net interest spread which decreased to 2.45% for the quarter ended September 30, 2011 compared to 2.56% for the prior fiscal year ended June 30, 2011. As noted earlier, the Company is pursuing various strategies to mitigate the adverse effects of the flattening yield curve on its net interest spread and margin. Such strategies include deploying excess liquidity in higher yielding interest-earning assets, such as commercial loans and investment securities, while continuing to lower its cost of interest-bearing liabilities by reducing deposit offering rates. However, the risk of additional net interest rate spread and margin compression is significant as the yield on Company's interest-earning assets continues to reflect the impact of the greater declines in longer term market interest rates compared to the lesser reductions in shorter term market interest rates that affect its cost of interest-bearing liabilities.

The Board of Directors has established an Interest Rate Risk Management Committee, currently comprised of Directors Hopkins, Regan, Aanensen, Mazza and Leopold Montanaro, with our Chief Operating Officer, Chief Financial Officer, Chief Investment Officer and Enterprise Risk Management Officer participating as management's liaison to the committee. The committee meets quarterly to address management of our assets and liabilities, including review of our short term liquidity position; loan and deposit pricing and production volumes and alternative funding sources; current investments; average lives, durations and re-pricing frequencies of loans and securities; and a variety of other asset and liability management topics. The results of the committee's quarterly review are reported to the full Board, which adjusts the investment policy and strategies, as it considers necessary and appropriate.

Quantitative Analysis. Through the fiscal year ended June 30, 2011, management utilized a combination of internal and external analyses to quantitatively model, measure and monitor the Company's exposure to interest rate risk. The external quantitative analysis was based upon the interest rate risk model formerly used by the OTS which utilized data submitted on the Bank's quarterly Thrift Financial Reports. The model estimated the change in the Bank's net portfolio value ("NPV") ratio throughout a series of interest rate scenarios. NPV, sometimes referred to as the economic value of equity ("EVE"), represents the present value of the expected cash flows from the Bank's assets less the present value of the expected cash flows arising from its liabilities adjusted for the value of off-balance sheet contracts. The NPV ratio represents the dollar amount of the Bank's NPV divided by the present value of its total assets for a given interest rate scenario. In essence, NPV attempts to quantify the economic value of the Bank using a discounted cash flow methodology while the NPV ratio reflects that value as a form of capital ratio. The degree to which the NPV ratio changes for any hypothetical interest rate scenario from its "base case" measurement is a reflection of an institution's sensitivity to interest rate risk.

Given the discontinuation of external interest rate risk modeling by the OCC, the Company's internal interest rate risk analysis became the primary tool by which it measures, monitors and manages interest rate risk beginning with the analysis performed for the quarter ended September 30, 2011.

The internal quantitative analysis utilized by management measures interest rate risk from both a capital and earnings perspective. Like the OTS model noted above, the Company's internal interest rate risk analysis calculates sensitivity of the Company's NPV ratio to movements in interest rates. Both the OTS and internal models measure the NPV ratio in a "base case" scenario that assumes no change in interest rates as of the measurement date. Both models measure the change in the NPV ratio throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve up and down 100, 200 and 300 basis points. Both models generally require that interest rates remain positive for all points along the yield curve for each rate scenario which may preclude the modeling of certain "down rate" scenarios during periods of lower market interest rates. The Company's interest rate risk management policy establishes acceptable floors for the NPV ratio and caps for the maximum change in the NPV ratio throughout the scenarios modeled.

As illustrated in the tables below, the Company's NPV would be negatively impacted by an increase in interest rates. This result is expected given the Company's liability sensitivity noted earlier. Specifically, based upon the comparatively shorter maturity and/or re-pricing characteristics of its interest-bearing liabilities compared with that of the Bank's interest-earning assets, an upward movement in interest rates would have a disproportionately adverse impact on the present value of the Company's assets compared to the beneficial impact arising from the reduced present value of its liabilities. Hence, the Company's NPV and NPV ratio decline in the increasing interest rate scenarios. Historically low interest rates at September 30, 2011 preclude the modeling of certain scenarios as parallel downward shifts in the yield curve of 100 basis points or more would result in negative interest rates for many points along that curve.

The following tables present the results of the Company's internal NPV analysis as of September 30, 2011 and June 30, 2011, respectively.

At September 30, 2011

	Net Portfolio Value		Net Portfolio Value as % of Present Value of Assets		
Changes in Rates (1)	$ Amount	$ Change	% Change	Net Portfolio Value Ratio	Basis Point Change
	(In Thousands)				
+300 bps	260,047	-137,223	-35%	10.03%	-393 bps
+200 bps	325,803	-71,467	-18%	12.10%	-185 bps
+100 bps	372,771	-24,500	-6%	13.42%	-53 bps
0 bps	397,270	-	-	13.95%	-

At June 30, 2011

	Net Portfolio Value		Net Portfolio Value as % of Present Value of Assets		
Changes in Rates (1)	$ Amount	$ Change	% Change	Net Portfolio Value Ratio	Basis Point Change
	(In Thousands)				
+300 bps	246,546	-147,422	-37%	9.60%	-429 bps
+200 bps	308,629	-85,339	-22%	11.59%	-230 bps
+100 bps	361,606	-32,362	-8%	13.10%	-79 bps
0 bps	393,968	-	-	13.89%	-

A comparative industry benchmark regarding interest rate risk is the "sensitivity measure" which is generally defined as the change in an institution's NPV ratio, measured in basis points, in an immediate and permanent, adverse parallel shift in interest rates of plus or minus 200 basis points. Based upon the tables above, the Company's sensitivity measure decreased by 45 basis points from -230 basis points at June 30, 2011 to -185 basis points at September 30, 2011 which indicates an aggregate decline in the Bank's sensitivity to movements in interest rates from period to period.

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

A significant contributor to the decline in the Company's sensitivity measure during the most recent quarter was the increase in its balance of short term liquid assets in relation to other interest-earning assets. As discussed earlier, cash and cash equivalents increased $67.5 million to $290.1 million at September 30, 2011 from $222.6 million at June 30, 2011. As discussed earlier, management has determined that the opportunity cost to earnings of maintaining a growing level of short-term liquid assets to fund potential loan growth outweighs the related benefits. Consequently, a significant portion of the Company's excess liquidity is expected to be deployed into comparatively higher yielding investments during the next quarter ending December 31, 2011 while the average balance of interest-earning cash and equivalents is generally expected to be maintained at a comparatively lower level than that reported in recent quarters. Consequently, an increase in the sensitivity of NPV to movements in interest rates may be reported in future periods.

Other less noteworthy changes in the composition and allocation of the Company's balance sheet from June 30, 2011 to September 30, 2011, in conjunction with the factors noted above resulted in the reported decrease in sensitivity to interest rate risk as quantified by the Company's sensitivity measure.

The Company's sensitivity measure and NPV ratio in the +200 bps scenario were within the applicable thresholds originally established by its prior regulator, the Company's "TB 13a Level of Risk" was internally rated as "Minimal" based upon the its interest rate risk model as of September 30, 2011 and June 30, 2011. TB-13a was the OTS's primary regulatory guidance concerning the management of interest rate risk.

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

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

As illustrated in the tables below, the Company's net interest income would be negatively impacted by an increase in interest rates. Like the NPV results presented earlier, this result is expected given the Company's liability sensitivity noted earlier. Consistent with the NPV analysis above, the tables below also reflect a decline in sensitivity to movements in interest rates between the comparative periods resulting from the changes in balance sheet allocation and market interest rates discussed earlier. For the reasons noted above regarding the redeployment of the Company's excess liquidity, an increase in the sensitivity of net interest income to movements in interest rates may be reported in future periods.

At September 30, 2011

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Change in Rates	Measurement Period	Net Interest Income	Change in Net Interest Income	Change in Net Interest Income
					(In Thousands)		
Base case (No change)	-	Static	0 bps	One Year	$ 71,896	$ -	-%
Immediate and permanent	Parallel	Static	+100 bps	One Year	71,403	-494	-0.69
Immediate and permanent	Parallel	Static	+200 bps	One Year	69,932	-1,965	-2.73
Immediate and permanent	Parallel	Static	+300 bps	One Year	67,626	-4,271	-5.94

At June 30, 2011

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Change in Rates	Measurement Period	Net Interest Income	Change in Net Interest Income	Change in Net Interest Income
					(In Thousands)		
Base case (No change)	-	Static	0 bps	One Year	$ 71,589	$ -	-%
Immediate and permanent	Parallel	Static	+100 bps	One Year	70,361	-1,228	-1.71
Immediate and permanent	Parallel	Static	+200 bps	One Year	68,133	-3,456	-4.83
Immediate and permanent	Parallel	Static	+300 bps	One Year	62,925	-8,664	-12.10

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

ITEM 4.
CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. Legal Proceedings

At September 30, 2011, neither the Company nor the Bank were involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company and the Bank.

ITEM 1A. Risk Factors

Management of the Company does not believe there have been any material changes with regard to the Risk Factors previously disclosed under Item 1A. of the Company's Form 10-K for the year ended June 30, 2011, previously filed with the Securities and Exchange Commission.

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

The following table reports information regarding repurchases of the Company's common stock during the quarter ended September 30, 2011.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1-31, 2011	34,206	$	9.28	34,206	0
August 1-31, 2011	39,700	$	8.58	39,700	805,331
September 1-30, 2011	216,300	$	8.83	216,300	589,031
Total	290,206	$	8.85	290,206	589,031

(1) On August 17, 2011, the Company announced the authorization of a sixth repurchase program for up to 845,031 shares or 5% of shares outstanding.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. [Reserved]

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The following Exhibits are filed as part of this report:

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

32.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files (to be filed by amendment)

(1) Incorporated by reference to the identically numbered exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-118815).
(2) Incorporated by reference to the exhibit to the Registrant's Annual Report on Form 10-K filed for the year ended June 30, 2008 (File No. 000-51093).
(3) Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-130204).
(4) Incorporated by reference to the exhibits to the Registrant's Form 8-K filed on August 18, 2005 (File No. 000-51093).
(5) Incorporated by reference to the exhibit to the Registrant's Form 8-K filed on December 9, 2005 (File No. 000-51093).
(6) Incorporated by reference to the exhibit to the Registrant's Form 8-K filed on June 30, 2011 (File No. 000-51093).

SIGNATURES

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

KEARNY FINANCIAL CORP.

Date: November 9, 2011	By:	/s/ Craig L. Montanaro Craig L. Montanaro President and Chief Executive Officer (Duly authorized officer and principal executive officer)
Date: November 9, 2011	By:	/s/ Eric B. Heyer Eric B. Heyer Senior Vice President and Chief Financial Officer (Principal financial and accounting officer)