Kearny Financial Corp.
Form 10-K
September 13, 2012

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2012

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to _________________

Commission File Number: 0-51093

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 No.)
120 Passaic Avenue, Fairfield, New Jersey (Address of Principal Executive Offices)	07004 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] YES [X] NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] YES [X] NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] YES [ ] NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was $130.2 million. Solely for purposes of this calculation, shares held by directors, executive officers and greater than 10% stockholders are treated as shares held by affiliates.

As of September 7, 2012 there were outstanding 66,898,140 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the definitive Proxy Statement for the Registrant's 2012 Annual Meeting of Stockholders. (Part III)

KEARNY FINANCIAL CORP.
ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended June 30, 2012

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SIGNATURES

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Forward-Looking Statements

Kearny Financial Corp. (the "Company" or the "Registrant") may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). In addition to the factors described under Item 1A. Risk Factors, the following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements:

- the strength of the United States economy in general and the strength of the local economy in which the Company conducts operations,
- the effects of and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations,
- the impact of changes in financial services laws and regulations (including laws concerning taxation, banking, securities and insurance),
- changes in accounting policies and practices, as may be adopted by regulatory agencies, the Financial Accounting Standards Board ("FASB") or the Public Company Accounting Oversight Board,
- technological changes,
- competition among financial services providers and,
- the success of the Company at managing the risks involved in the foregoing and managing its business.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

PART I

Item 1. Business

General

The Company is a federally-chartered corporation that was organized on March 30, 2001 for the purpose of being a holding company for Kearny Federal Savings Bank (the "Bank"), a federally-chartered stock savings bank. On February 23, 2005, the Company completed a minority stock offering in which it sold 21,821,250 shares, representing 30% of its outstanding common stock upon completion of the offering. The remaining 70% of the outstanding common stock, totaling 50,916,250 shares, were retained by Kearny MHC (the "MHC"). The MHC is a federally-chartered mutual holding company and so long as the MHC is in existence, it will at all time own a majority of the outstanding common stock of the Company. The stock repurchase programs conducted by the Company since the offering have reduced the total number of shares outstanding. The 50,916,250 shares held by the MHC represented 76.1% of the 66,936,040 total shares outstanding as of the Company's June 30, 2012 fiscal year end. The MHC and the Company are now regulated as savings and loan holding companies by the Board of Governors of the Federal Reserve System ("FRB"), as successor to the Office of Thrift Supervision ("OTS") under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

The Company is a unitary savings and loan holding company and conducts no significant business or operations of its own. References in this Annual Report on Form 10-K to the Company or Registrant generally refer to the Company and the Bank, unless the context indicates otherwise. References to "we", "us", or "our" refer to the Bank or Company, or both, as the context indicates.

The Bank was originally founded in 1884 as a New Jersey mutual building and loan association. It obtained federal insurance of accounts in 1939 and received a federal charter in 1941. The Bank's deposits are federally insured by the Deposit Insurance Fund as administered by the Federal Deposit Insurance Corporation ("FDIC") and the Bank is regulated by the Office of the Comptroller of the Currency ("OCC"), as successor to the OTS under the Dodd-Frank Act, and the FDIC.

The Company's primary business is the ownership and operation of the Bank. The Bank is principally engaged in the business of attracting deposits from the general public in New Jersey and using these deposits, together with other funds, to originate or purchase loans for its portfolio and invest in securities. Loans originated or purchased by the Bank generally include loans collateralized by residential and commercial real estate augmented by secured and unsecured loans to businesses and consumers. The investment securities purchased by the Bank generally include U.S. agency mortgage-backed securities, U.S. government and agency debentures and bank-qualified municipal obligations. The Bank maintains a small balance of single issuer trust preferred securities and non-agency mortgage-backed securities which were acquired through the Company's purchase of other institutions and does not actively purchase such securities. At June 30, 2012, net loans receivable comprised 43.4% of our total assets while investment securities, including mortgage-backed and non-mortgage-backed securities, comprised 43.5% of our total assets. By comparison, at June 30, 2011, net loans receivable comprised 43.3% of our total assets while securities comprised 41.8% of our total assets.

The level of loan originations and purchases during fiscal 2012 continued to reflect the challenges of declining real estate values and high levels of unemployment that have characterized the regional and national economy since the financial crisis of 2008-2009. Notwithstanding these near-term challenges, our strategic business plan continues to call for increasing the balance of our loan portfolio relative to the size of our securities portfolio over the next several years.

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We operate from an administrative headquarters in Fairfield, New Jersey and had 41 branch offices as of June 30, 2012. We also operate an Internet website at www.kearnyfederalsavings.com through which copies of our periodic reports are available free of charge as soon as reasonably practicable after they are filed with the Securities and Exchange Commission.

Market Area. At June 30, 2012, our primary market area consists of the New Jersey counties in which we currently operate branches: Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Ocean, Passaic and Union Counties. Our lending is concentrated in these nine counties and our predominant sources of deposits are the communities in which our offices are located as well as the neighboring communities.

Our primary market area is largely urban and suburban with a broad economic base as is typical within the New York metropolitan area. Service jobs represent the largest employment sector followed by wholesale/retail trade. Our business of attracting deposits and making loans is generally conducted within our primary market area. A downturn in the local economy could reduce the amount of funds available for deposit and the ability of borrowers to repay their loans which would adversely affect our profitability.

Competition. We operate in a market area with a high concentration of banking and financial institutions and we face substantial competition in attracting deposits and in originating loans. A number of our competitors are significantly larger institutions with greater financial and managerial resources and lending limits. Our ability to compete successfully is a significant factor affecting our growth potential and profitability.

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans. We also face competition for attracting funds from providers of alternative investment products such as equity and fixed income investments such as corporate, agency and government securities as well as the mutual funds that invest in these instruments.

There are large retail banking competitors operating throughout our primary market area, including Bank of America, Citibank, Hudson City Savings Bank, JP Morgan Chase Bank, PNC Bank, TD Bank, and Wells Fargo Bank and we face strong competition from other community-based financial institutions. Based on data compiled by the FDIC as of June 30, 2011, the latest date for which such data is available, Kearny Federal Savings Bank was ranked 15th of 112 depository institutions operating in the nine counties in which the Bank had branches as of that date with 1.14% of total FDIC-insured deposits.

Acquisition of Central Jersey Bancorp. 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"). The transaction qualified as a tax-free reorganization for federal income tax purposes. The final consideration paid in the transaction totaled $82.1 million which included $70.5 million paid to stockholders of Central Jersey at a price of $7.50 per outstanding share and $11.6 million paid to the U.S. Department of Treasury ("U.S. Treasury") for the redemption of the 11,300 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and related warrant originally issued by Central Jersey to the U.S. Treasury under the TARP Capital Purchase Plan.

Upon completion of the transaction, Central Jersey merged with the Company while Central Jersey Bank merged with and into the Bank. Central Jersey Bank continues to operate as a division of the Bank ("CJB Division") through its 14 branch offices in Monmouth and Ocean Counties, New Jersey.

Lending Activities

General. We have traditionally focused on the origination of one-to-four family first mortgage loans, which comprise a significant majority of our total loan portfolio. Our next largest category of loans comprises commercial mortgages, including loans secured by multi-family, mixed-use and nonresidential properties. Our commercial loan offerings also include secured and unsecured business loans, most of which are secured by real estate. Commercial loan offerings include programs offered through the Small Business Administration (“SBA”) in which the Bank participates as a Preferred Lender. Our consumer loan offerings primarily include home equity loans and home equity lines of credit as well as account loans, overdraft lines of credit, vehicle loans and personal loans. We also offer construction loans to builders/developers as well as individual homeowners. Substantially all of our borrowers are residents of our primary market area and would be expected to be similarly affected by economic and other conditions in that area. Since May 2007, we have been purchasing out-of-state one-to-four family first mortgage loans to supplement our in-house originations, as discussed on Page 13. With the acquisition of Central Jersey during the year ended June 30, 2011, we substantially increased our commercial mortgage and commercial business loan portfolios.

	At June 30,								
	2012		2011		2010		2009		2008
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
	(Dollars in Thousands)								
Real estate mortgage:									
One-to-four family	$562,846	43.77 %	$610,901	48.12 %	$663,850	65.52 %	$689,317	65.97 %	$687,679
Commercial	484,934	37.71	383,690	30.23	203,013	20.04	197,379	18.89	178,588
Commercial business	88,414	6.88	105,001	8.28	14,352	1.42	14,812	1.42	8,735
Consumer:									
Home equity loans	95,832	7.45	111,478	8.78	101,659	10.03	113,387	10.85	123,978
Home equity lines of credit	29,530	2.30	32,925	2.59	11,320	1.12	12,116	1.16	11,478
Passbook or certificate	3,638	0.28	2,753	0.22	2,703	0.27	2,922	0.28	2,662
Other	404	0.03	1,026	0.08	1,545	0.15	1,585	0.15	1,332
Construction	20,292	1.58	21,598	1.70	14,707	1.45	13,367	1.28	12,062
Total loans	1,285,890	100.00%	1,269,372	100.00%	1,013,149	100.00%	1,044,885	100.00%	1,026,514
Less:									
Allowance for loan losses	10,117		11,767		8,561		6,434		6,104
Unamortized yield adjustments including net premiums on purchased loans and net deferred	1,654		1,021		(564)		(962)		(1,276)

loans costs and fees	11,771	12,788	7,997	5,472	4,828
Total loans, net	$1,274,119	$1,256,584	$1,005,152	$1,039,413	$1,021,686

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Loan Maturity Schedule. The following table sets forth the maturities of our loan portfolio at June 30, 2012. Demand loans, loans having no stated maturity and overdrafts are shown as due in one year or less. Loans are stated in the following table at contractual maturity and actual maturities could differ due to prepayments.

	Real estate mortgage: One-to-four family	Real estate mortgage: Commercial	Commercial business	Home equity loans	Home equity lines of credit	Passbook or certificate	Other	Construction	Total
					(In Thousands)				
Amounts Due:									
Within 1 Year	$ 314	$ 1,923	$ 27,413	$ 1,895	$ 180	$ 2,063	$ 177	$ 18,632	$ 52,597
After 1 year:									
1 to 3 years	2,294	10,939	8,361	2.497	413	115	88	1,660	26,367
3 to 5 years	5,211	4,429	7,098	7,159	674	43	32	—	24,646
5 to 10 years	80,407	38,185	9,231	26,496	6,925	—	35	—	161,279
10 to 15 years	151,881	105,894	8,286	30,726	7,112	—	—	—	303,899
Over 15 years	322,739	323,564	28,025	27,059	14,226	1,417	72	—	717,102
Total due after one year	562,532	483,011	61,001	93,937	29,350	1,575	227	1,660	1,233,293
Total amount due	$ 562,846	$ 484,934	$ 88,414	$ 95,832	$ 29,530	$ 3,638	$ 404	$ 20,292	$ 1,285,890

The following table shows the dollar amount of loans as of June 30, 2012 due after June 30, 2013 according to rate type and loan category.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In Thousands)	
Real estate mortgage:			
One-to-four family	$ 530,235	$ 32,297	$ 562,532
Multi-family and commercial	302,700	180,311	483,011
Commercial business	37,814	23,187	61,001
Consumer:			
Home equity loans	93,937	—	93,937
Home equity lines of credit	1,604	27,746	29,350
Passbook or certificate	—	1,575	1,575
Other	153	74	227
Construction	700	960	1,660
Total	$ 967,143	$ 266,150	$ 1,233,293

One-to-Four Family Mortgage Loans. Our primary lending activity has traditionally consisted of the origination of one-to-four family first mortgage loans, of which approximately $524.5 million or 93.2% are secured by properties located within New Jersey as of June 30, 2012 with the remaining $38.4 million or 6.8% secured by properties in other states. By comparison, at June 30, 2011 approximately $542.5 million or 88.8% of loans were secured by New Jersey properties. During the year ended June 30, 2012, the Bank originated $66.5 million of one-to-four family first mortgage loans within New Jersey compared to $76.7 million in the year ended June 30, 2011. Loan origination volume during fiscal 2012 continued to reflect the challenges of declining real estate values and high levels of unemployment that have characterized the regional and national economy since the financial crisis of 2008-2009. Management's decision to maintain its conservative underwriting standards coupled with a disciplined pricing policy continued into fiscal 2012 which may have caused some potential borrowers to seek financing with more aggressive lenders. To supplement originations, we also purchased one-to-four family first mortgages totaling $22.2 million during the year ended June 30, 2012, compared to $4.4 million during the year ended June 30, 2011. In total, one-to-four family mortgage loan repayments outpaced loan acquisition volume during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan portfolio.

We will originate a one-to-four family mortgage loan on an owner-occupied property with a principal amount of up to 95% of the lesser of the appraised value or the purchase price of the property, with private mortgage insurance required if the loan-to-value ratio exceeds 80%. Our loan-to-value limit on a non-owner-occupied property is 75%. Loans in excess of $1.0 million are handled on a case-by-case basis and are subject to lower loan-to-value limits, generally no more than 50%.

Our fixed-rate and adjustable-rate residential mortgage loans on owner-occupied properties have terms of ten to 30 years. Residential mortgage loans on non-owner-occupied properties have terms of up to 15 years for fixed-rate loans and terms of up to 20 years for adjustable-rate loans. We also offer ten-year balloon mortgages with a thirty-year amortization schedule on owner-occupied properties and a twenty-year amortization schedule on non-owner-occupied properties.

Our adjustable-rate loan products provide for an interest rate that is tied to the one-year Constant Maturity U.S. Treasury index and have terms of up to 30 years with initial fixed-rate periods of one, three, five, seven, or ten years according to the terms of the loan and annual rate adjustment thereafter. We also offer an adjustable-rate loan with a term of up to 30 years with a rate that adjusts every five years to the five-year Constant Maturity U.S. Treasury index. There is a 200 basis point limit on the rate adjustment in any adjustment period and the rate adjustment limit over the life of the loan is 600 basis points.

We offer a first-time homebuyer program for persons who have not previously owned real estate and are purchasing a one-to-four family property in Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Ocean, Passaic and Union Counties, New Jersey for use as a primary residence. This program is also available outside these areas, but only to persons who are existing deposit or loan customers of Kearny Federal Savings Bank and/or members of their immediate families. The financial incentives offered under this program are a one-eighth of one percentage point rate reduction on all first mortgage loan types and the refund of the application fee at closing.

The fixed-rate residential mortgage loans that we originate generally meet the secondary mortgage market standards of the Federal Home Loan Mortgage Corporation (“Freddie Mac”). However, as our business plan continues to call for increasing loans on both a dollar and percentage of assets basis, we generally do not sell such loans in the secondary market and do not currently expect to do so in any large capacity in the near future.

Substantially all of our residential mortgages include “due on sale” clauses, which give us the right to declare a loan immediately payable if the borrower sells or otherwise transfers an interest in the property to a third party. Property appraisals on real estate securing our one-to-four family first mortgage loans are made by state certified or licensed independent appraisers approved by the Bank’s Board of Directors. Appraisals are performed in accordance with applicable regulations and policies. We require title insurance policies on all first mortgage real estate loans originated. Homeowners, liability and fire insurance and, if applicable, flood insurance, are also required.

Multi-Family and Nonresidential Real Estate Mortgage Loans. We also originate commercial mortgage loans on multi-family and nonresidential properties, including loans on apartment buildings, retail/service properties and land as well as other income-producing properties, such as mixed-use properties combining residential and commercial space. The factors noted above that impacted residential loan origination volume during fiscal 2012 also adversely impacted the origination volume of commercial mortgages. However, these challenges were more than offset by the Bank’s growing strategic emphasis in commercial lending which resulted in the origination of approximately $95.5 million of multi-family and commercial real estate mortgages during the year ended June 30, 2012, compared to $40.3 million during the year ended June 30, 2011. The Company’s business plan continues to call for growing strategic emphasis on the origination of commercial mortgages and increasing that portfolio on both a dollar and percentage of assets basis. Toward that end, we expanded our commercial loan acquisition strategies during fiscal 2012 to include purchases of commercial loan participations which totaled approximately $57.8 million during the year ended June 30, 2012. In total, commercial mortgage loan acquisition volume outpaced loan repayments during fiscal 2012 resulting in the reported net increase in the outstanding balance of this segment of the loan portfolio.

We generally require no less than a 25% down payment or equity position for mortgage loans on multi-family and nonresidential properties. For such loans, we generally require personal guarantees. Currently, these loans are made with a maturity of up to 25 years. We also offer a five-year balloon loan with a twenty five-year amortization schedule. Our commercial mortgage loans are generally secured by properties located in New Jersey.

Commercial mortgage loans are generally considered to entail a greater level of risk than that which arises from one-to-four family, owner-occupied real estate lending. The repayment of these loans typically is dependent on a successful operation and income stream of the borrower and the real estate securing the loan as collateral. These risks can be significantly affected by economic conditions. In addition, commercial mortgage loans generally carry larger balances to single borrowers or related groups of borrowers than one-to-four family mortgage loans. Consequently, such loans typically require substantially greater evaluation and oversight efforts compared to residential real estate lending.

Commercial Business Loans. We also originate commercial term loans and lines of credit to a variety of professionals, sole proprietorships and small businesses in our market area including loans originated through the SBA in which the Bank participates as a Preferred Lender. The factors noted earlier that impacted residential and commercial mortgage loan origination volume during fiscal 2012 also adversely impacted the origination volume of commercial business loans. Nevertheless, the Bank originated approximately $18.0 million of commercial business loans during the year ended June 30, 2012 compared to $11.5 million during the year ended June 30, 2011. However, commercial business loan repayments and sales outpaced loan acquisition volume during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan portfolio.

The net decline in the portfolio reflected the sale of $6.5 million of SBA loan participations which resulted in the recognition of related sale gains totaling approximately $661,000. By comparison, the Bank sold $5.1 million of SBA loan participations during fiscal 2011 which resulted in the recognition of related sale gains totaling approximately $517,000. The Company's business plan continues to call for increased emphasis on originating commercial business loans, including the origination and sale of SBA loans, as part of its strategic focus on commercial lending.

Approximately $79.0 million or 89.3% of our commercial business loans are "non-SBA" loans. Of these loans, approximately $75.6 million or 95.7% represent secured loans that are primarily collateralized by real estate or, to a lesser extent, other forms of collateral. The remaining $3.4 million or 4.3% represent unsecured loans to our business customers. We generally require personal guarantees on all "non-SBA" commercial business loans. Marketable securities may also be accepted as collateral on lines of credit, but with a loan to value limit of 50%. The loan to value limit on secured commercial lines of credit and term loans is otherwise generally limited to 70%. We also make unsecured commercial loans in the form of overdraft checking authorization up to $25,000 and unsecured lines of credit up to $25,000. Our "non-SBA" commercial term loans generally have terms of up to 20 years and are mostly fixed-rate loans. Our commercial lines of credit have terms of up to two years and are generally adjustable-rate loans. We also offer a one-year, interest-only commercial line of credit with a balloon payment.

The remaining $9.4 million or 10.7% of commercial business loans represent the retained portion of SBA loan originations. Such loans are generally secured by various forms of collateral, including real estate, business equipment and other forms of collateral. The Bank generally chooses to sell the guaranteed portion of SBA loan originated which ranges from 50% to 90% of the loan's outstanding balance while retaining the nonguaranteed portion of the loan in portfolio. However, the Bank may also elect to retain the guaranteed portion of such loans in lieu of selling the guaranteed portion. At June 30, 2012, approximately $3.3 million of the retained portion of the Bank's SBA loans is guaranteed by the Small Business Administration.

Unlike single-family, owner-occupied residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans, including those originated under SBA programs, are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the

availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. Commercial business loans, therefore, generally have greater credit risk than residential mortgage loans. In addition, commercial business loans may carry larger balances to single borrowers or related groups of borrowers than one-to-four family first mortgage loans. As such, commercial business lending requires substantially greater evaluation and oversight efforts compared to residential or commercial real estate lending.

Home Equity Loans and Lines of Credit. Our home equity loans are fixed-rate loans for terms of generally up to 20 years. We also offer fixed-rate and adjustable-rate home equity lines of credit with terms of up to 15 years. The factors noted above that impacted one-to-four family loan origination volume during fiscal 2012 also adversely impacted the origination volume of home equity loans and lines of credit. Nevertheless, the Bank originated $35.7 million of home equity loans and home equity lines of credit compared to $20.5 million in the year ended June 30, 2011. However, repayments of home equity loans and lines of credit outpaced loan acquisition volume during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan portfolio.

Collateral value is determined through a property value analysis report provided by a state certified or licensed independent appraiser. In some cases, we determine collateral value by a full appraisal performed by a state certified or licensed independent appraiser. Home equity loans and lines of credit do not require title insurance but do require homeowner, liability and fire insurance and, if applicable, flood insurance.

Home equity loans and fixed-rate home equity lines of credit are generally originated in our market area and are generally made in amounts of up to 80% of value on term loans and of up to 75% of value on home equity adjustable-rate lines of credit. We originate home equity loans secured by either a first lien or a second lien on the property.

Other Consumer Loans. In addition to home equity loans and lines of credit, our consumer loan portfolio primarily includes loans secured by savings accounts and certificates of deposit on deposit with the Bank and overdraft lines of credit as well as vehicle loans and personal loans. We will generally lend up to 90% of the account balance on a loan secured by a savings account or certificate of deposit.

Consumer loans entail greater risks than residential mortgage loans, particularly consumer loans that are unsecured. Consumer loan repayment is dependent on the borrower’s continuing financial stability and is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. The application of various federal laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on consumer loans in the event of a default.

Our underwriting standards for consumer loans include a determination of the applicant’s credit history and an assessment of the applicant’s ability to meet existing obligations and payments on the proposed loan. The stability of the applicant’s monthly income may be determined by verification of gross monthly income from primary employment and any additional verifiable secondary income.

Construction Lending. Our construction lending includes loans to individuals for construction of one-to-four family residences or for major renovations or improvements to an existing dwelling. Our construction lending also includes loans to builders and developers for multi-unit buildings or multi-house projects. All of our construction lending is in New Jersey. During the year ended June 30, 2012, construction loan disbursements were $12.0 million compared to $3.0 million during the year ended June 30, 2011. However, the repayment of construction loans more than offset these disbursements during fiscal 2012 resulting in the reported net decline in the outstanding balance of this segment of the loan

portfolio. The level of construction loan activity continues to reflect many of the same factors that have adversely impacted the origination volume of other loan categories during fiscal 2012.

Construction borrowers must hold title to the land free and clear of any liens. Financing for construction loans is limited to 80% of the anticipated appraised value of the completed property. Disbursements are made in accordance with inspection reports by our approved appraisal firms. Terms of financing are generally limited to one year with an interest rate tied to the prime rate published in the Wall Street Journal and may include a premium of one or more points. In some cases, we convert a construction loan to a permanent mortgage loan upon completion of construction.

We have no formal limits as to the number of projects a builder has under construction or development and make a case-by-case determination on loans to builders and developers who have multiple projects under development. The Board of Directors reviews the Bank's business relationship with a builder or developer prior to accepting a loan application for processing. We generally do not make construction loans to builders on a speculative basis. There must be a contract for sale in place. Financing is provided for up to two houses at a time in a multi-house project, requiring a contract on one of the two houses before financing for the next house may be obtained.

Construction lending is generally considered to involve a higher degree of credit risk than mortgage lending. If the initial estimate of construction cost proves to be inaccurate, we may be compelled to advance additional funds to complete the construction with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, there is no assurance that we will be able to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period.

Loans to One Borrower. Federal law generally limits the amount that a savings institution may lend to one borrower to the greater of $500,000 or 15% of the institution's unimpaired capital and surplus. Accordingly, as of June 30, 2012, our loans-to-one-borrower limit was approximately $50.2 million.

At June 30, 2012, our largest single borrower had an aggregate loan balance of approximately $13.1 million, representing four mortgage loans secured by commercial real estate. Our second largest single borrower had an aggregate loan balance of approximately $9.2 million, representing two loans secured by commercial real estate. Our third largest borrower had an aggregate loan balance of approximately $7.9 million, representing ten loans secured by commercial real estate, two residential construction loans and one residential loan. At June 30, 2012, all of these lending relationships were current and performing in accordance with the terms of their loan agreements. By comparison, at June 30, 2011, loans outstanding to the Bank's three largest borrowers totaled approximately $13.6 million, $9.5 million and $7.6 million, respectively.

Loan Originations, Purchases, Sales, Solicitation and Processing. The following table shows total loans originated, purchased, acquired and repaid during the periods indicated.

	For the Years Ended June 30, 2012	2011	2010
	(In Thousands)		
Loans originated and purchased:			
Loan originations:			
Real estate mortgage:			
One-to-four family	$ 66,456	$ 76,749	$ 102,116
Multi-family and commercial	95,534	40,282	31,002
Commercial business	17,968	11,544	3,457
Construction	12,004	3,029	7,081
Consumer:			
Home equity loans and lines of credit	35,741	20,484	30,622
Passbook or certificate	2,740	1,045	843
Other	504	571	469
Total loan originations	230,947	153,704	175,590
Loan purchases:			
Real estate mortgage:			
One-to-four family	22,185	4,366	31,216
Multi-family and commercial	57,829	-	-
Total loans purchased	80,014	4,366	31,216
Loans acquired from Central Jersey	-	347,721	-
Loans sold:			
One-to-four family	-	(2,574)	-
Commercial SBA participations	(6,462)	(5,056)	-
Total loan sold	(6,462)	(7,630)	-
Loan principal repayments	(280,578)	(238,404)	(239,697)
Decrease due to other items	(6,386)	(8,325)	(1,370)
Net increase (decrease) in loan portfolio	$ 17,535	$ 251,432	$ (34,261)

In connection with the acquisition of Central Jersey during fiscal 2011, the Company acquired loans with a fair value of $347.7 million at the time of acquisition. The Company estimated the fair value of non-impaired loans acquired from Central Jersey by utilizing a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity, and repricing terms. Cash flows for each pool were projected using an estimate of future credit losses and rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. The portion of the fair valuation attributable to expected future credit losses on non-impaired loans totaled approximately $3.5 million or 1.05% of their outstanding balances.

To estimate the fair value of impaired loans acquired from Central Jersey, the Company analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans are derived from the eventual sale of the collateral. The value of the collateral was generally based on recently completed appraisals. The Company discounted these values using market derived rates of return, with consideration given to the period of time and cost associated with the foreclosure and disposition of the

collateral. The portion of the fair valuation attributable to expected future credit losses on impaired loans totaled approximately $7.6 million.

Our customary sources of loan applications include loans originated by our commercial and residential loan officers, repeat customers, referrals from realtors and other professionals and “walk-in” customers. These sources are supported in varying degrees by our newspaper and electronic advertising and marketing strategies.

The Bank maintains loan purchase and servicing agreements with three large nationwide lenders, in order to supplement the Bank’s residential mortgage loan production pipeline. The original agreements called for the purchase of loan pools that contain mortgages on residential properties in our lending area. Subsequently, we expanded our loan purchase and servicing agreements with the same nationwide lenders to include mortgage loans secured by residential real estate located outside of New Jersey. We have procedures in place for purchasing these mortgages such that the underwriting guidelines are consistent with those used in our in-house loan origination process. The evaluation and approval process ensures that the purchased loans generally conform to our normal underwriting guidelines. Our due diligence process includes full credit reviews and an examination of the title policy and associated legal instruments. We recalculate debt service and loan-to-value ratios for accuracy and review appraisals for reasonableness. All loan packages presented to the Bank must meet the Bank’s underwriting requirements as outlined in the purchase and servicing agreements and are subject to the same review process outlined above. Furthermore, there are stricter underwriting guidelines in place for out-of-state mortgages, including higher minimum credit scores. During the year ended June 30, 2012, we purchased fixed-rate loans with principal balances totaling $3.8 million from these sellers.

Once we purchase the loans, we continually monitor the seller’s performance by thoroughly reviewing portfolio balancing reports, remittance reports, delinquency reports and other data supplied to us on a monthly basis. We also review the seller’s financial statements and documentation as to their compliance with the servicing standards established by the Mortgage Bankers Association of America.

As of June 30, 2012, our portfolio of out-of-state loans included residential mortgages in 21 states and totaled approximately $38.4 million or 6.8% of one-to-four family mortgage loans. The states with the two largest concentrations of loans at June 30, 2012 were Georgia and Texas with outstanding principal balances totaling $4.2 million and $3.8 million, respectively. The aggregate outstanding balances of loans in each of the remaining 19 states comprise less than 10% of the total balance of out-of-state loans.

The Bank also enters into purchase agreements with a limited number of mortgage originators to supplement the Bank’s loan production pipeline. These agreements call for the purchase, on a flow basis, of one-to-four family first mortgage loans with servicing released to the Bank. During the year ended June 30, 2012, we purchased fixed-rate loans with principal balances totaling $17.6 million from these sellers.

In addition to purchasing one-to-four family loans, we also purchase participations in commercial mortgage loans originated by other banks and non-bank originators. During the year ended June 30, 2012, we purchased commercial loan participations totaling approximately $57.8 million. The number and aggregate outstanding balance of commercial loan participations totaled 30 and $58.0 million at June 30, 2012, respectively, representing loans on a variety of multi-family and commercial real estate properties.

The participations noted above exclude those acquired through the Thrift Institutions Community Investment Corporation of New Jersey (“TICIC”), a subsidiary of the New Jersey Bankers Association that is no longer actively originating loans. At June 30, 2012, our remaining TICIC participations

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included a total of 26 loans with an aggregate balance of $5.5 million representing loans on multi-family and commercial real estate properties.

Loan Approval Procedures and Authority. Senior management recommends and the Board of Directors approves our lending policies and loan approval limits. The Bank's Loan Committee consists of the Chief Lending Officer, Chief Credit Officer, Divisional President, Director of Commercial Lending and Vice President of Commercial Loan Operations. The Committee may approve loans up to $2.0 million. Our Chief Lending Officer may approve loans up to $750,000. Loan department personnel of the Bank serving in the following positions may approve loans as follows: commercial/mortgage loan managers, mortgage loans up to $500,000; mortgage loan underwriters, mortgage loans up to $250,000; consumer loan managers, consumer loans up to $250,000; and consumer loan underwriters, consumer loans up to $150,000. In addition to these principal amount limits, there are established limits for different levels of approval authority as to minimum credit scores and maximum loan to value ratios and debt to income ratios or debt service coverage. Our Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer have authorization to countersign loans for amounts that exceed $750,000 up to a limit of $1.0 million. Our Chief Lending Officer must approve loans between $750,000 and $1.0 million along with one of these designated officers. Non-conforming mortgage loans and loans over $1.0 million, up to $2.0 million require the approval of the Loan Committee. All loans in excess of $2.0 million require approval by the Board of Directors.

Asset Quality

Collection Procedures on Delinquent Loans. The Company regularly monitors the payment status of all loans within its portfolio and promptly initiates collections efforts on past due loans in accordance with applicable policies and procedures. Delinquent borrowers are notified by both mail and telephone when a loan is 30 days past due. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. However, when a loan is 90 days delinquent, it is our general practice to refer it to an attorney for repossession, foreclosure or other form of collection action, as appropriate. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial write-down of the property, if necessary, is charged to the allowance for loan losses ("ALLL"). Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines are identified.

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

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

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

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

Nonperforming Assets. The following table provides information regarding the Bank's nonperforming assets which are comprised of nonaccrual loans, accruing loans 90 days or more past due and real estate owned.

	At June 30,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Loans accounted for on a nonaccrual basis:					
Real estate mortgage:					
One- to four-family	$ 14,917	$ 4,056	$ 1,867	$ 2,120	$ 530
Multi-family and commercial	11,008	7,429	4,358	5,626	1,012
Commercial business	3,941	4,866	2,298	—	—
Consumer:					
Home equity loans	984	204	250	27	31
Home equity lines of credit	193	93	—	—	—
Other	6	22	1	—	—
Construction	1,758	1,654	468	362	—
Total	32,807	18,324	9,242	8,135	1,573
Accruing loans which are contractually past due 90 days or more:					
Real estate mortgage:					
One- to four-family	-	14,923	12,321	5,017	—
Multi-family and commercial	398	—	—	—	—
Commercial business	293	1,718	—	—	—
Consumer:	—	—	—	—	
Home equity loans and lines of credit	—	—	—	—	—
Passbook or certificate	—	—	—	—	—
Other	—	—	—	—	—
Construction	—	—	—	—	—
Total	691	16,641	12,321	5,017	—
Total nonperforming loans	$ 33,498	$ 34,965	$ 21,563	$ 13,152	$ 1,573
Real estate owned	$ 3,811	$ 7,497	$ 146	$ 109	$ 109
Other nonperforming assets	$ —	$ —	$ —	$ —	$ —
Total nonperforming assets	$ 37,309	$ 42,462	$ 21,709	$ 13,261	$ 1,682
Total nonperforming loans to total loans	2.61%	2.76%	2.13%	1.26%	0.15%
Total nonperforming loans to total assets	1.14%	1.20%	0.92%	0.62%	0.08%
Total nonperforming assets to total assets	1.27%	1.46%	0.93%	0.62%	0.08%

Total nonperforming assets decreased by $5.2 million to $37.3 million at June 30, 2012 from $42.5 million at June 30, 2011. The decrease comprised a net decline in nonperforming loans of $1.5 million plus a net decrease in real estate owned of $3.7 million. For those same comparative periods, the number of nonperforming loans increased to 122 loans from 114 loans while the number of real estate owned properties remained unchanged at eight.

At June 30, 2012, nonperforming loans comprised $32.8 million of “nonaccrual” loans and $691,000 of “accruing loans over 90 days past due”. By comparison, at June 30, 2011 the balance of such loans totaled $18.3 million and $16.7 million, respectively. A significant portion of the non-performing loans reported as “accruing loans over 90 days past due” prior to fiscal 2012 were originally acquired from Countrywide Home Loans, Inc. (“Countrywide”) and continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP (“BOA”). In accordance with our agreement, BOA advances scheduled principal and interest payments to the Bank when such payments are not made by the borrower. Prior to fiscal 2012, the timely receipt of principal and interest from the servicer resulted in such loans retaining their accrual status. However, the delinquency status reported for these nonperforming loans reflected the borrower’s actual delinquency irrespective of the Bank’s receipt of advances. In recognition that advances would ultimately be recouped by BOA from the Bank in the event the borrower did not reinstate the loan, the Bank included its obligation to refund such advances to the servicer, where applicable, in its impairment analyses of such loans.

Notwithstanding this prior practice, the Bank reclassified the applicable nonperforming BOA loans from “accruing loans over 90 days past due” to “nonaccrual” during fiscal 2012. Since that time, interest payments received on the applicable BOA loans have been applied to reduce the carrying value of the loan for financial statement purposes rather than being recognized as interest income.

Nonperforming one-to-four family mortgage loans include 53 nonaccrual loans totaling $14.9 million whose net outstanding balances range from $1,000 to $656,000 with an average balance of approximately $281,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are primarily secured by New Jersey properties, with one out-of-state loan totaling $656,000 secured by a property located in South Carolina. The Company has identified approximately $1,240,000 of specific impairment relating to 14 of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

The number and balance of nonperforming one-to-four family mortgage loans at June 30, 2012 includes 38 loans totaling $11.6 million that were originally acquired from Countrywide with such loans comprising 34.6% of total nonperforming loans as of June 30, 2012. As of that same date, the Bank owned a total of 116 residential mortgage loans with an aggregate outstanding balance of $54.9 million that were originally acquired from Countrywide. Of these loans, an additional four loans totaling $1.6 million are 30-89 days past due and are in various stages of collection.

Nonperforming commercial real estate loans, including multi-family and nonresidential mortgage loans, include 21 nonaccrual loans totaling $11,008,000 and one loan totaling $398,000 reported as over 90 days past due and accruing. At June 30, 2012, the outstanding balances of these loans range from $10,000 to $1,852,000 with an average balance of approximately $518,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are secured by New Jersey properties. The Company has identified approximately $667,000 of specific impairment relating to five of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

Nonperforming commercial business loans include 17 nonaccrual loans totaling $3,941,000 and two accruing loans totaling $293,000 that are 90 days or more past due. At June 30, 2012, the outstanding balances of these loans range from $12,000 to $926,000 with an average balance of approximately $223,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are primarily secured by New Jersey properties and, to a lesser extent, other forms of collateral. One loan totaling approximately $80,000 is unsecured. The Company has identified approximately $776,000 of specific impairment relating to nine of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

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Home equity loans and home equity lines of credit that are reported as nonperforming include 13 nonaccrual loans totaling $1,177,000. At June 30, 2012, the outstanding balances of these loans range from $17,000 to $198,000 with an average balance of approximately $91,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are primarily secured by New Jersey properties. The Company has identified approximately $127,000 of specific impairment relating to three of these nonperforming loans for which valuation allowances are maintained in the allowance for loan losses at June 30, 2012.

Other consumer loans that are reported as nonperforming include three nonaccrual loans totaling $6,000 including one $4,000 secured vehicle loan and two other unsecured consumer loans totaling $2,000 that are in various stages of collection.

Finally, nonperforming construction loans include four nonaccrual loans totaling $1,758,000. At June 30, 2012, the outstanding balances of these loans range from $315,000 to $580,000 with an average balance of approximately $439,000 as of that date. The loans are in various stages of collection, workout or foreclosure and are secured by New Jersey properties in varying stages of development. The Company has identified no specific impairment relating to these nonperforming loans at June 30, 2012.

During the years ended June 30, 2012, 2011 and 2010, gross interest income of $1,697,000, $591,000 and $629,000, respectively, would have been recognized on loans accounted for on a nonaccrual basis if those loans had been current. Interest income recognized on such loans of $134,000, $289,000 and $233,000 was included in income for the years ended June 30, 2012, 2011 and 2010, respectively.

At June 30, 2012, 2011 and 2010, the Bank had loans with aggregate outstanding balances totaling $6,679,000, $2,346,000 and $945,000, respectively, reported as troubled debt restructurings.

During the year ended June 30, 2012, gross interest income of $188,000 would have been recognized on loans reported as troubled debt restructurings under their original terms prior to restructuring. Actual interest income of $165,000 was recognized on such loans for the year ended June 30, 2012 reflecting the interest received under the revised terms of those restructured loans.

During the year ended June 30, 2011, gross interest income of $125,000 would have been recognized on loans reported as troubled debt restructurings under their original terms prior to restructuring. Actual interest income of $73,000 was recognized on such loans for the year ended June 30, 2011 reflecting the interest received under the revised terms of those restructured loans.

During the year ended June 30, 2010, gross interest income of $63,000 would have been recognized on loans reported as troubled debt restructurings under their original terms prior to restructuring. Actual interest income of $46,000 was recognized on such loans for the year ended June 30, 2010 reflecting the interest received under the revised terms of those restructured loans.

No loans were reported as troubled debt restructurings at June 30, 2009 and 2008.

Loan Review System. The Company maintains a loan review system consisting of several related functions including, but not limited to, classification of assets, calculation of the allowance for loan losses, independent credit file review as well as internal audit and lending compliance reviews. The Company utilizes both internal and external resources, where appropriate, to perform the various loan review functions. For example, the Company has engaged the services of a third party firm specializing in loan review and analysis to perform several loan review functions. The firm reviews the loan portfolio in accordance with the scope and frequency determined by senior management and the Asset Quality Committee of the Board of Directors. The third party loan review firm assists senior management and the Board of Directors in identifying potential credit weaknesses; in appropriately grading or adversely classifying loans; in identifying relevant trends that affect the collectability of the portfolio and identifying segments of the portfolio that are potential problem areas; in verifying the appropriateness of the allowance for loan losses; in evaluating the activities of lending personnel including compliance with lending policies and the quality of their loan approval, monitoring and risk assessment; and by providing an objective assessment of the overall quality of the loan portfolio. Currently, independent loan reviews are being conducted quarterly and include non-performing loans as well as samples of performing loans of varying types within the Company's portfolio.

The Company's loan review system also includes the internal audit and compliance functions, which operate in accordance with a scope determined by the Audit and Compliance Committee of the Board of Directors. Internal audit resources assess the adequacy of, and adherence to, internal credit policies and loan administration procedures. Similarly, the Company's compliance resources monitor adherence to relevant lending-related and consumer protection-related laws and regulations. The loan review system is structured in such a way that the internal audit function maintains the ability to independently audit other risk monitoring functions without impairing its independence with respect to these other functions.

As noted, the loan review system also comprises the Company's policies and procedures relating to the regulatory classification of assets and the allowance for loan loss functions each of which are described in greater detail below.

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

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

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

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

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

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

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

The following table discloses our designation of certain loans as special mention or adversely classified during each of the five years presented. See Page 38 for discussion regarding classified securities.

	At June 30, 2012	2011	2010	2009	2008
	(In Thousands)				
Special Mention	$ 20,297	$ 11,141	$ 10,353	$ 3,506	$ —
Substandard	48,131	39,093	18,697	14,891	749
Doubtful	892	614	—	817	1,871
Loss (1)	—	—	—	—	—
Total	$ 69,320	$ 50,846	$ 29,050	$ 19,214	$ 2,620

(1) Net of specific valuation allowances where applicable

At June 30, 2012, 56 loans were classified as Special Mention and 154 loans were classified as Substandard. As of that same date, two loans were classified as Doubtful. As noted above, all loans, or portions thereof, classified as Loss during fiscal 2012 were charged off against the allowance for loan losses.

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

Traditionally, the loans considered by the Company to be eligible for individual impairment review have generally represented its larger and/or more complex loans including its commercial mortgage loans, comprising multi-family and nonresidential real estate loans, as well as its construction loans and commercial business loans. 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 performs an analysis to determine the amount of impairment associated with that loan.

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

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

applicable, and approximately every six to twelve months thereafter while the repossessed property is held as real estate owned.

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

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

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

Valuation allowances established through the second tier of the loss measurement process utilize historical and environmental loss factors to collectively estimate the level of probable losses within defined segments of the Company's loan portfolio. These segments aggregate homogeneous subsets of loans with similar risk characteristics based upon loan type. For allowance for loan loss calculation and reporting purposes, the Company currently stratifies its loan portfolio into seven primary categories: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans, home equity loans, home equity lines of credit and other consumer loans. Each primary category is further stratified into subcategories that distinguish between loans originated, loans acquired through business combinations and, where relevant, loans purchased from third parties. Subcategories within commercial business loans and consumer loans also distinguish between secured and unsecured loan types while commercial business loan subcategories also identify loans originated through SBA programs.

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

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

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

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

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

Regardless, the recognition of charge offs based upon confirmed expected losses rather than realized losses has generally accelerated the timing of their recognition compared to prior years. Toward that end, the adoption of this change to the Company's ALLL methodology during fiscal 2012 resulted in the charge off of approximately $4.2 million of confirmed expected losses for which valuation allowances had been previously established for identified impairments. The historical loss factors used in the Company's allowance for loan loss calculations were updated to reflect these charge offs and have continued to reflect the charge off of confirmed expected losses since that time.

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

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

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

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

Once the basis for considering the level of nonperforming loans on environmental loss factors is established, the Company then considers the current dollar amount of nonperforming loans by loan type in relation to the total outstanding balance of loans within the category. A greater portion of nonperforming loans within a category in relation to the total suggests a comparatively greater level of risk and expected loss within that loan category and vice-versa.

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

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

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

methodology and the noted distinction between valuation allowances established on loans collectively versus individually evaluated for impairment, the Company's entire allowance for loan losses is available to cover all charge-offs that arise from the loan portfolio.

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

The following table sets forth information with respect to activity in the allowance for loan losses for the periods indicated.

	For the Years Ended June 30,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Allowance balance (at beginning of period)	$ 11,767	$ 8,561	$ 6,434	$ 6,104	$ 6,049
Provision for loan losses	5,750	4,628	2,616	317	94
Charge-offs:					
One-to-four family mortgage	6,398	931	202	2	30
Home equity loan	135	7	16	—	—
Commercial mortgage	483	—	322	—	—
Commercial business	349	5	—	—	—
Construction	106	492	—	—	—
Other	9	7	1	3	9
Total charge-offs	7,480	1,442	541	5	39
Recoveries:					
One-to-four family mortgage	6	6	10	—	—
Home equity loan	2	—	—	—	—
Commercial mortgage	37	2	42	—	—
Commercial business	-	11	—	18	—
Construction	33	—	—	—	—
Other	2	1	—	—	—
Total recoveries	80	20	52	18	—
Net (charge-offs) recoveries	(7,400)	(1,422)	(489)	(13)	(39)
Allowance balance (at end of period)	$ 10,117	$ 11,767	$ 8,561	$ 6,434	$ 6,104
Total loans outstanding	$ 1,285,890	$ 1,269,372	$ 1,013,149	$ 1,044,885	$ 1,026,514
Average loans outstanding	$ 1,250,307	$ 1,172,576	$ 1,030,287	$ 1,064,019	$ 951,019
Allowance for loan losses as a percent of total loans outstanding	0.79%	0.93%	0.84%	0.62%	0.59%
Net loan charge-offs as a percent of average loans outstanding	0.59%	0.12%	0.05%	0.00%	0.00%

Allowance for loan losses to non-performing loans	30.20%	33.65%	39.70%	48.92%	388.05%

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Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the total allowance for loan losses by loan category and segment and the percent of loans in each category's segment to total net loans receivable at the dates indicated. The portion of the loan loss allowance allocated to each loan segment does not represent the total available for future losses which may occur within a particular loan segment since the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.

	At June 30,									
	2012		2011		2010		2009		2008	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in Thousands)									
At end of period allocated to:										
Real estate mortgage:										
One-to-four family	$4,572	43.77 %	$6,644	48.13 %	$4,302	65.52 %	$3,254	65.97 %	$2,979	66.99 %
Multi-family and commercial	3,443	37.71	3,336	30.23	3,315	20.04	2,181	18.89	1,841	17.40
Commercial business	1,310	6.88	880	8.27	108	1.42	73	1.42	44	0.85
Consumer:										
Home equity loans	447	7.45	322	8.78	313	10.03	510	10.85	719	12.08
Home equity lines of credit	54	2.30	49	2.59	34	1.12	55	1.16	67	1.12
Other	14	0.31	14	0.30	13	0.42	24	0.43	41	0.39
Construction	277	1.58	289	1.70	245	1.45	106	1.28	118	1.17
	10,117		11,534		8,330		6,203		5,809	
Unallocated	-		233		231		231		295	
Total	$10,117	100.00%	$11,767	100.00%	$8,561	100.00%	$6,434	100.00%	$6,104	100.00%

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The following table sets forth the allocation of the allowance for loan losses by loan category and segment within each valuation allowance category at the dates indicated. The valuation allowance categories presented reflect the allowance for loan loss calculation methodology in effect at the time.

	At June 30,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Valuation allowance for loans individually evaluated for impairment:					
Real estate mortgage:					
One-to-four family	$ 1,240	$ 4,061	$ 2,433	$ 150	$ —
Multi-family and commercial	667	1,503	1,771	1,278	1,160
Commercial business	776	692	5	2	3
Consumer:					
Home equity loans	127	—	—	—	—
Home equity lines of credit	—	—	—	—	—
Other	—	—	—	—	—
Construction	—	105	106	—	—
Total valuation allowance	2,810	6,361	4,315	1,430	1,163
Valuation allowance for loans collectively evaluated for impairment:					
Historical loss factors	2,288	738	199	30	33
Environmental loss factors:					
Real estate mortgage:					
One-to-four family	1,502	2,160	1,784	3,098	2,972
Multi-family and commercial	2,776	1,658	1,443	901	679
Commercial business	316	186	103	71	41
Consumer:					
Home equity loans	258	312	305	510	719
Home equity lines of credit	54	49	34	55	67
Other	8	8	8	8	23
Construction	105	62	139	100	112
Total environmental loss factors	5,019	4,435	3,816	4,743	4,613
Total (Factors based)	7,307	5,173	4,015	4,773	4,646
Unallocated general valuation allowance	—	233	231	231	295
Total allowance for loan losses	$ 10,117	$ 11,767	$ 8,561	$ 6,434	$ 6,104

During the year ended June 30, 2012, the balance of the allowance for loan losses decreased by approximately $1.6 million to $10.1 million or 0.79% of total loans at June 30, 2012 from $11.8 million or 0.93% of total loans at June 30, 2011. The decrease resulted from charge offs, net of recoveries, totaling $7.4 million that were partially offset by additional provisions of $5.7 million during the year ended June 30, 2012.

With regard to loans individually evaluated for impairment, the balance of the Company's allowance for loan losses attributable to such loans decreased by $3.6 million to $2.8 million at June 30, 2012 from $6.4 million at June 30, 2011. The balance at June 30, 2012 reflected the allowance for

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impairment identified on $10.1 million of impaired loans while an additional $31.9 million of impaired loans had no allowance for impairment as of that date. By comparison, the balance of the allowance at June 30, 2011 reflected the impairment identified on $16.2 million of impaired loans while an additional $21.1 million of impaired loans had no impairment as of that date. The outstanding balances of impaired loans reflect the cumulative effects of various adjustments including, but not limited to, purchase accounting valuations and prior charge offs, where applicable, which are considered in the evaluation of impairment.

The decline in loan impairment and the associated valuation allowances between comparative periods largely reflects the changes to the Company's classification of assets and allowance for loan loss methodologies described earlier. Such changes resulted in the charge off of certain loan impairments during the current year for which valuation allowances had generally been established during earlier periods.

With regard to loans evaluated collectively for impairment, the balance of the Company's allowance for loan losses attributable to such loans increased by $2.1 million to $7.3 million at June 30, 2012 from $5.2 million at June 30, 2011. The increase in valuation was partly attributable to a $27.0 million increase in the aggregate outstanding balance of loans collectively evaluated for impairment to $1.24 billion at June 30, 2012 from $1.23 billion at June 30, 2011 as well as the ongoing reallocation of loans within the portfolio in favor of commercial loans against which the Bank generally assigns comparatively higher historical and environmental loss factors in its ALLL calculation. The increase in the allowance also reflected changes to certain environmental and historical loss factors themselves.

Regarding environmental loss factors, changes to such factors during the year ended June 30, 2012 reflected several factors including the increase in losses recognized on nonperforming loans within certain segments of the loan portfolio.

In general, the overall level of nonperforming loans, including nonaccrual loans and accruing loans 90 days or more past due, remained generally stable during fiscal 2012 decreasing by $1.5 million to $33.5 million at June 30, 2012 from $35.0 million at June 30, 2011. Notwithstanding this stability in their overall balances, however, actual losses recognized on nonperforming loans increased from year to year. As noted earlier, losses are considered to include both charge offs as well as loan impairments for which valuation allowances have been recognized through provisions to the allowance for loan losses, but have not yet been charged off. Net charge offs increased by $6.0 million to $7.4 million for the year ended June 30, 2012 from $1.4 million for the year ended June 30, 2011 while the balance of valuation allowances attributable to specific impairment on individually evaluated loans declined by only $3.6 million to $2.8 million at June 30, 2012 from $6.4 million at June 30, 2011.

The noted increase in the level of losses was generally limited to certain segments within the loan portfolio. The most significant contributing factor to the increase in losses were those attributable to 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. For the 12 months ended June 30, 2012, the level of nonperforming loans attributable to this segment of the Company's loan portfolio decreased by $5.0 million to $11.6 million at June 30, 2012 from $16.6 million at June 30, 2011. However, the decrease largely reflected the charge off of confirmed expected losses during fiscal 2012 for which valuation allowances had been established for impairments identified during prior years. Net charge offs on this segment of the portfolio increased by $4.8 million to $5.8 million for the year ended June 30, 2012 from $924,000 for the year ended June 30, 2011 while the balance of valuation allowances attributable to specific impairment on individually evaluated loans declined by only $2.8 million to $1.2 million at June 30, 2012 from $4.0 million at June 30, 2011.

In recognition of these additional losses, coupled with the expectation for continuing additions to nonperforming loans within the segment, 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 June 30, 2012, the risk ratings assigned to the following environmental loss factors were increased to the levels noted:

• Level of and trends in nonperforming loans: Increased (+3) from “12” to “15” reflecting continued increases in the level of nonperforming loans within the portfolio segment, adjusted for declines attributable to charge offs.

• National and local economic trends and conditions: Increased (+3) from “12” to “15” reflecting lingering adverse effects of deteriorated economic conditions, including high levels of unemployment negatively impacting repayment ability of borrowers.

• Changes in local and regional real estate values: Increased (+3) from “12” to “15” reflecting deterioration of collateral values from original appraised values coupled with the degree of that deterioration in comparison to residential mortgage loans originated internally.

The changes in risk ratings noted above resulted in an increase of 9 basis points of allowance being allocated to the applicable loans at June 30, 2012 compared to the levels at June 30, 2011. 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 75 basis points at June 30, 2012. 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.

To a lesser extent, the reported increase in losses include those attributable to the loans that were originally acquired through the Bank’s merger with Central Jersey Bank which closed during fiscal 2011. Such loans were initially recorded at fair value reflecting any impairment identified on such loans at that time. For the 12 months ended June 30, 2012, the level of nonperforming loans that were originally acquired from Central Jersey decreased by $444,000 to $9.0 million at June 30, 2012 from $9.4 million at June 30, 2011. However, the decrease largely reflected the charge off of confirmed expected losses during fiscal 2012 for which valuation allowances had been established for impairments identified during the prior year. Net charge offs on this segment of the portfolio increased to $403,000 for the year ended June 30, 2012 from $-0- for the year ended June 30, 2011 while the balance of valuation allowances attributable to specific impairment on individually evaluated loans increased by $624,000 to $1,041,000 at June 30, 2012 from $417,000 at June 30, 2011.

In recognition of these additional losses, the Company increased the following environmental loss factor applicable to the loans acquired from Central Jersey to the level noted:

• Level of and trends in nonperforming loans: Increased (+3) from “0” to “3” reflecting increases in the losses attributable to nonperforming loans within the portfolio segment.

Given their acquisition during the prior fiscal year 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 combination with those that remained unchanged from period to period, total environmental factors applicable to the segments of the loan portfolio acquired from Central Jersey increased from six basis points at June 30, 2011 to nine basis points at June 30, 2012. 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.

Changes to environmental loss factors during the year ended June 30, 2012 also reflected the changes to the Company’s allowance for loan loss methodologies described earlier which included incorporating the Company’s existing credit-rating classification system into the calculation of environmental loss factors by loan type. By implementing this change, the environmental loss factors applicable to any loan type are “weighted” based upon internal credit-rating resulting in a reallocation of the applicable portion of the allowance toward comparatively riskier assets. Implementation of this change did not have a significant impact to the overall balance of the allowance attributable to environmental loss factors.

In conjunction with the effects of the changes in the outstanding balances of the applicable loans, the noted changes to environmental loss factors resulted in an increase of $584,000 in the applicable portion of the allowance for loan losses to $5.0 million at June 30, 2012 from $4.4 million at June 30, 2011.

With regard to historical loss factors, the Company’s loan portfolio experienced a net annualized average charge-off rate of 59 basis points during the year ended June 30, 2012 representing an increase of 47 basis points from the 12 basis points of charge offs reported for fiscal 2011. The increase in charge offs largely reflects the changes to the Company’s classification of assets and allowance for loan loss methodologies described earlier. Such changes resulted in the charge off of certain loan impairments during the current year for which valuation allowances had been established during prior periods.

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 year ended June 30, 2012 resulted in a net increase of $1.5 million in the applicable valuation allowances to $2.3 million at June 30, 2012 from $738,000 at June 30, 2011.

The changes in the Company’s historical loss factors from June 30, 2011 to June 30, 2012 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 commercial business loan portfolios.

Finally, the change in the allowance for loan losses for the year ended June 30, 2012 also reflected the elimination of the unallocated portion of the Company’s allowance for loan loss which totaled $233,000 at June 30, 2011. The unallocated portion of the allowance previously represented the amount by which the ALLL exceeded the required amount as calculated in accordance with the Company’s ALLL calculation methodology. The unallocated balance, whose balance had remained substantially unchanged since fiscal 2009, was generally attributed to probable losses within the loan portfolio relating to environmental factors within one or more non-specified loan segments. The refinements to the Company’s ALLL calculation methodology during the fiscal 2012, as discussed earlier, precluded the need to continuing carrying the unallocated portion of the allowance.

The tables on the following pages present the historical and environmental loss factors, reported as a percentage of outstanding loan principal, that were the basis for computing the portion of the allowance for loan losses attributable to loans collectively evaluated for impairment at June 30, 2012 and June 30, 2011.

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

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

Acquired in merger	0.00%	0.09%	0.09%

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

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

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

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

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.

An overview of the balances and activity within the allowance for loan loss during prior fiscal years reflects the lagging detrimental effects on economic and market conditions that resulted from the 2008-2009 financial crisis which have continued to adversely impact credit quality with the Company's loan portfolio since that time.

During the fiscal year ended June 30, 2008, the balance of the allowance for loan losses increased by $55,000 to $6.1 million at June 30, 2008 from $6.0 million at June 30, 2007. The net increase resulted from additional provisions of $94,000 that were partially offset by charge offs, net of recoveries, totaling approximately $39,000. At June 30, 2008, valuation allowances on loans individually and collectively evaluated for impairment totaled $1.2 million and $4.6 million, respectively, while the balance of the unallocated allowance totaled $295,000.

During the fiscal year ended June 30, 2009, the balance of the allowance for loan losses increased by $330,000 to $6.4 million at June 30, 2009 from $6.1 million at June 30, 2008. The net increase resulted from additional provisions of $317,000 that were partially offset by charge offs, net of recoveries, totaling approximately $13,000. Valuation allowances attributable to impairment identified on individually evaluated loans increased by $267,000 to $1.4 million at June 30, 2009 from $1.2 million at June 30, 2008. For those same comparative periods, valuation allowances on loans evaluated collectively for impairment increased by approximately $127,000 to $4.8 million from $4.6 million reflecting the overall growth in the non-impaired portion of the loan portfolio and stability in the historical and environmental loss factors used in the allowance for loan loss calculation during the year. The balance of the unallocated allowance decreased from $295,000 to $231,000 for those same comparative periods.

During the fiscal year ended June 30, 2010, the balance of the allowance for loan losses increased by approximately $2.1 million to $8.6 million at June 30, 2010 from $6.4 million at June 30, 2009. The

increase resulted from additional provisions of $2.6 million that were partially offset by net charge offs of $489,000 during fiscal 2010. Valuation allowances attributable to impairment identified on individually evaluated loans increased by $2.9 million to $4.3 million at June 30, 2010 from $1.4 million at June 30, 2009. For those same comparative periods, valuation allowances on loans evaluated collectively for impairment decreased by approximately $758,000 to $4.0 million from $4.8 million resulting from the application of historical and environmental loss factors to the outstanding balance of the remaining, non-impaired loans within the Company's portfolio which declined during the year. The balance of the unallocated allowance remained unchanged at $231,000 for those same comparative periods.

During the fiscal year ended June 30, 2011, the balance of the allowance for loan losses increased by approximately $3.2 million to $11.8 million at June 30, 2011 from $8.6 million at June 30, 2010. The increase resulted from additional provisions of $4.6 million that were partially offset by net charge offs of $1.4 million during fiscal 2011. Valuation allowances attributable to impairment identified on individually evaluated loans increased by $2.1 million to $6.4 million at June 30, 2011 from $4.3 million at June 30, 2010. For those same comparative periods, valuation allowances on loans evaluated collectively for impairment increased by approximately $1.2 million to $5.2 million from $4.0 million from $4.8 million reflecting the overall growth in the balance of non-impaired loans in the portfolio in conjunction with changes to the historical and environmental loss factors used in the allowance for loan loss calculation during the year. The balance of the unallocated allowance increased from $231,000 to $233,000 for those same comparative periods.

The calculation of probable losses within a loan portfolio and the resulting allowance for loan losses is subject to estimates and assumptions that are susceptible to significant revisions as more information becomes available and as events or conditions effecting individual borrowers and the marketplace as a whole change over time. Future additions to the allowance for loan losses will likely be necessary if economic and market conditions do not improve in the future from those currently prevalent in the marketplace. In addition, the federal banking regulators, as an integral part of its examination process, periodically reviews our loan and foreclosed real estate portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. The regulators may require the allowance for loan losses to be increased based on its review of information available at the time of the examination, which may negatively affect our earnings.

Securities Portfolio

Our deposits and borrowings have traditionally exceeded our outstanding balance of loans receivable. We generally invest excess funds into investment securities with an emphasis on agency mortgage-backed securities. At June 30, 2012, our securities portfolio totaled $1.28 billion and comprised 43.5% of our total assets. By comparison, at June 30, 2011, our securities portfolio totaled $1.21 billion and comprised 41.8% of our total assets.

The year over year net increase in the securities portfolio totaled approximately $65.7 million which partly reflected a $13.4 million increase in the net unrealized gain in the available for sale portfolio to $39.7 million at June 30, 2012 from $26.4 million between comparative periods. The remaining increase was largely attributable to the Company's strategy to reinvest a portion of its excess liquidity into the investment securities during fiscal 2012. Toward that end, cash and cash equivalents decreased by approximately $67.0 million to $155.6 million at June 30, 2012 from $222.6 million at June 30, 2011, a significant portion of which provided the funding for the remaining $52.3 million of net growth within the securities portfolio.

As noted, the increase in the outstanding balance of investment securities resulted in a modest increase in the portfolio as a percentage of total assets between comparative periods. However, despite

the challenges presented by current economic and market conditions, our strategic business plan continues to call for shifting the mix of our earning assets toward greater balances of loans and lesser balances of investment securities over the longer term.

Our investment policy, which is approved by the Board of Directors, is designed to foster earnings and manage cash flows within prudent interest rate risk and credit risk guidelines. Generally, our investment policy is to invest funds in various categories of securities and maturities based upon our liquidity needs, asset/liability management policies, investment quality, and marketability and performance objectives. Our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Investment Officer are designated by the Board of Directors as the officers responsible for securities investment transactions and all transactions require the approval of at least two of these designated officers. The Interest Rate Risk Management Committee, currently composed of Directors Hopkins, Regan, Aanensen, Mazza and Leopold Montanaro, with our Chief Operating Officer, Chief Financial Officer, Chief Investment Officer and Chief Risk Officer participating as management's liaison to the committee, is responsible for oversight of the securities portfolio. This committee meets quarterly to review the securities portfolio. 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.

Federally chartered savings banks have the authority to invest in various types of liquid assets. The investments authorized under the investment policy approved by our Board of Directors include U.S. government and government agency obligations, municipal securities (consisting of bank qualified municipal bond obligations of state and local governments) and mortgage-backed securities of various U.S. government agencies or government-sponsored entities. On a short-term basis, our investment policy authorizes investment in securities purchased under agreements to resell, federal funds, certificates of deposits of insured banks and savings institutions and Federal Home Loan Bank term deposits.

As of June 30, 2012, mortgage-backed securities represented approximately 96.3% of our total investment in securities, compared to 87.5% as of June 30, 2011. Mortgage-backed securities generally include mortgage pass-through securities and collateralized mortgage obligations which are typically issued with stated principal amounts and backed by pools of mortgage loans. Collateralized mortgage obligations ("CMOs") represented less than 1.0% of total mortgage-backed securities at both June 30, 2012 and 2011. Mortgage originators use intermediaries (generally government agencies and government-sponsored enterprises, but also a variety of non-agency corporate issuers) to pool and package mortgage loans into mortgage-backed securities. The cash flow and re-pricing characteristics of a mortgage pass-through security generally approximate those of the underlying mortgages. By comparison, the cash flow and re-pricing characteristics of collateralized mortgage obligations are determined by those assigned to an individual security, or "tranche", within the terms of a larger investment vehicle which allocates cash flows to its component tranches based upon a predetermined structure as payments are received from the underlying mortgagors.

We generally invest in mortgage-backed securities issued by U.S. government agencies or government-sponsored entities, such as the Government National Mortgage Association ("Ginnie Mae"), Freddie Mac and the Federal National Mortgage Association ("Fannie Mae"). Mortgage-backed securities issued or sponsored by U.S. government agencies and government-sponsored entities are guaranteed as to the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the mortgage loans underlying such securities because of the costs of servicing and of their payment guarantees or credit enhancements which minimize the level of credit risk to the security holder.

In addition to our investments in agency mortgage-backed securities, we formerly had an investment in the AMF Ultra Short Mortgage Fund ("AMF Fund"), a mutual fund acquired during 2002 as the result of a merger, which invested primarily in agency and non-agency mortgage-backed securities

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of short duration. The housing and credit crises negatively impacted the market value of certain securities in the fund's portfolio resulting in a continuing decline in the net asset value of this fund. Due to a continuing decline in the net asset value of the AMF Fund, the Company elected to withdraw its investment in the fund by invoking a redemption-in-kind option during fiscal 2009 in lieu of cash. The shares redeemed for cash and the shares redeemed for the underlying securities were initially written down to fair value as of the trade date. However, additional losses in the form of other-than-temporary impairments ("OTTI") were recognized through earnings during fiscal 2009 and 2010 due to further declines in the value of the applicable securities.

During the year ended June 30, 2011, the credit ratings of an additional eight non-agency CMOs totaling $34,000 fell below investment grade triggering their sale and resulting in a loss on sale of $28,000. An additional two non-agency CMOs totaling $32,000 fell below investment grade during the year ended June 30, 2012 triggering their sale and resulting in a loss on sale of $6,000.

At June 30, 2012, the Company's remaining portfolio of non-agency collateralized mortgage obligations totaled ten securities with an aggregate outstanding balance of approximately $146,000. These securities, all of which were acquired through the AMF Fund redemption and remain in the held-to-maturity portfolio, were not OTTI and were rated as investment grade by one or more rating agencies as of that date.

Current accounting standards require that securities be categorized as "held to maturity", "trading securities" or "available for sale", based on management's intent as to the ultimate disposition of each security. These standards allow debt securities to be classified as "held to maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold these securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as "held to maturity".

We do not currently use or maintain a trading account. Securities not classified as "held to maturity" are classified as "available for sale". These securities are reported at fair value and unrealized gains and losses on the securities are excluded from earnings and reported, net of deferred taxes, as adjustments to Accumulated Other Comprehensive Income, a separate component of equity. As of June 30, 2012, the $1.1 million remaining balance of all securities originally acquired through the AMF Fund redemption-in-kind, including both agency and non-agency mortgage-backed securities, were classified as held to maturity. Additionally, the Company has classified $34.6 million of its non-mortgage-backed securities as held to maturity with a majority of such securities representing agency debentures and, to a lesser extent, short term municipal obligations. The remainder of Company's portfolio, including all other agency mortgage backed securities, agency debentures and single issuer trust preferred securities were classified as available for sale at June 30, 2012.

Other than mortgage-backed or debt securities issued or guaranteed by the U.S. government or its agencies, we did not hold securities of any one issuer having an aggregate book value in excess of 10% of our equity at June 30, 2012. All of our securities carry market risk insofar as increases in market rates of interest may cause a decrease in their market value. Purchases of securities are made based on certain considerations, which include the interest rate, tax considerations, volatility, yield, settlement date and maturity of the security, our liquidity position and anticipated cash needs and sources. The effect that the proposed security would have on our credit and interest rate risk and risk-based capital is also considered. We do not currently participate in hedging programs, interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments. We do not purchase securities that are rated below investment grade.

During the years ended June 30, 2012, 2011 and 2010, proceeds from sales of securities available for sale totaled $51.3 million, $26.5 million and $34.2 million which resulted in gross gains of $53,000, $784,000 and $1.5 million and gross losses of $-0-, $7,000 and $-0-, respectively. Proceeds from sale of securities held to maturity during the year ended June 30, 2012, 2011 and 2010 totaled $32,000, $34,000 and $1.1 million with gross losses of $6,000, $28,000 and $1.0 million, respectively.

As of June 30, 2012, two securities with a combined amortized cost $4.9 million were classified as "Substandard" for regulatory reporting purposes. The securities represent two single issuer, trust preferred securities whose credit-ratings had fallen below investment grade by the two rating agencies monitored by the Company. The securities were originally issued through BankBoston Capital Trust IV and MBNA Capital B and currently represent de-facto obligations of Bank of America Corporation.

The following table sets forth the carrying value of our securities portfolio at the dates indicated. Mortgage-backed securities include mortgage pass-through securities and collateralized mortgage obligations.

			At June 30,		
	2012	2011	2010	2009	2008
			(In Thousands)		
Securities Available for Sale:					
U.S. agency obligations	$5,889	$6,591	$3,942	$4,557	$5,513
Obligations of states and political subdivisions	—	30,635	18,955	18,340	17,757
Mutual funds (1)	—	—	—	—	7,545
Trust preferred securities	6,713	7,447	6,600	5,130	7,368
Total securities available for sale	12,602	44,673	29,497	28,027	38,183
Securities Held to Maturity:					
U.S. agency obligations	32,246	103,458	255,000	—	—
Obligations of states and political subdivisions	2,236	3,009	—	—	—
Total securities held to maturity	34,662	106,467	255,000	—	—
Mortgage-Backed Securities Available for Sale:					
Government National Mortgage Association	11,690	13,581	15,628	18,431	21,930
Federal Home Loan Mortgage Corporation	460.509	390,448	273,704	289,468	317,448
Federal National Mortgage Association	757,905	656,218	414,123	375,886	386,645
Total mortgage-backed securities available for sale	1,230,104	1,060,247	703,455	683,785	726,023
Mortgage-Backed Securities Held to Maturity:					
Federal Home Loan Mortgage Corporation	158	212	267	373	—
Federal National Mortgage Association	786	930	1,123	1,439	—
Non-agency	146	203	310	2,509	—
Total mortgage-backed securities held to maturity	1,090	1,345	1,700	4,321	—

Total	$1,278,458	$1,212,732	$989,652	$716,133	$764,206

(1) As of June 30, 2008, our mutual fund investment consisted of shares issued by the AMF Fund.

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The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of our securities portfolio at June 30, 2012. This table shows contractual maturities and does not reflect re-pricing or the effect of prepayments. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. At June 30, 2012, securities with a carrying value of $36.7 million are callable within one year.

	At June 30, 2012										
	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Securities		
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Market Value
	(Dollars in Thousands)										
Trust preferred securities	$ —	—%	$ —	—%	$ —	—%	$ 6,713	2.36%	$ 6,713	2.36%	$ 6,713
U.S. agency obligations	—	—%	32,426	1.84%	44	1.59%	5,845	2.25%	38,315	1.90%	38,487
Obligations of states and political subdivisions	2,236	1.09%	—	—%	—	—%	—	—%	2,236	1.09%	2,240
Mortgage-backed securities:											
Pass-through:											
Government National Mortgage Association	4	9.35%	87	9.99%	879	8.70%	10,720	4.04%	11,690	4.44%	11,690
Federal Home Loan Mortgage Corporation	16	5.10%	739	5.41%	135,896	2.74%	323,978	2.63%	460,629	2.67%	460,634
Federal National Mortgage Association	-	—%	7,265	4.18%	263,022	2.37%	485,370	3.05%	755,657	2.82%	755,667
Collateralized mortgage obligations:											
Federal Home Loan Mortgage Corporation	—	—%	—	—%	—	—%	38	8.36%	38	8.36%	43
Federal National Mortgage Association	—	—%	—	—%	—	—%	3,034	2.33%	3,034	2.33%	3,096
Non-agency	—	—%	—	—%	—	—%	146	2.87%	146	2.87%	133
Total	$ 2,256	1.12%	$ 40,517	2.34%	$ 399,841	2.51%	$ 835,844	2.89%	$ 1,278,458	2.75%	$ 1,278,703

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Sources of Funds

General. Deposits are our primary source of funds for lending and other investment purposes. In addition, we derive funds from loan and mortgage-backed securities principal repayments and proceeds from the maturities and calls of non-mortgage-backed securities. Loan and securities payments are a relatively stable source of funds, while deposit inflows are significantly influenced by general interest rates and money market conditions. Borrowings from the FHLB of New York and other short term borrowings are also used to supplement the funding for loans and investments.

Deposits. Our current deposit products include interest-bearing and non-interest-bearing checking accounts, money market deposit accounts, savings accounts and certificates of deposit accounts ranging in terms from 30 days to five years. Certificates of deposit with terms ranging from one year to five years are available for individual retirement account plans. Deposit account terms, such as interest rate earned, applicability of certain fees and service charges and funds accessibility, will vary based upon several factors including, but not limited to, minimum balance, term to maturity, and transaction frequency and form requirements.

Deposits are obtained primarily from within New Jersey. Traditional methods of advertising are used to attract new customers and deposits, including radio, print media, outdoor advertising, direct mail and inserts included with customer statements. We do not currently utilize the services of deposit brokers or Internet listing services. Premiums or incentives for opening accounts are sometimes offered. One of our key retail products in recent years has been “Star Banking”, which bundles a number of banking services and products together for those customers with a checking account with direct deposit and combined deposits of $20,000 or more, including Internet banking, bill pay, telephone banking, reduced rates on home equity loans and a 15 basis point premium on certificates of deposit with a term of at least one year, excluding special promotions. We also offer “High Yield Checking” which is primarily designed to attract core deposits in the form of customers’ primary checking accounts through interest rate and fee reimbursement incentives to qualifying customers. The comparatively higher interest expense associated with the “High Yield Checking” product in relation to our other checking products is partially offset by the transaction fee income associated with the account.

We may also offer a 15 basis point premium on certificate of deposit accounts with a term of at least one year, excluding special promotions, to certificate of deposit accountholders that have $200,000 or more on deposit with the Bank. Though certificates of deposit with non-standard maturities are popular in our market, we generally promote certificates of deposit with traditional maturities, including three and six months and one, two, three and five years. During the term of our 17-month and 29-month certificates of deposit, we offer customers a “one-time option” to “step up” the rate paid from the original rate set on the certificate to the current rate being offered by the Bank for certificates of that particular maturity.

The determination of interest rates is based upon a number of factors, including: (1) our need for funds based on loan demand, current maturities of deposits and other cash flow needs; (2) a current survey of a selected group of competitors’ rates for similar products; (3) our current cost of funds, yield on assets and asset/liability position; and (4) the alternate cost of funds on a wholesale basis, in particular the cost of borrowing from the FHLB. Interest rates are reviewed by senior management on a weekly basis.

A large percentage of our deposits are in certificates of deposit, which represented 50.9% and 53.6% of total deposits at June 30, 2012 and June 30, 2011, respectively. Our liquidity could be reduced if a significant amount of certificates of deposit maturing within a short period were not renewed. At June 30, 2012 and June 30, 2011, certificates of deposit maturing within one year were $713.7 million

and $788.7 million, respectively. Historically, a significant portion of the certificates of deposit remain with us after they mature and we believe that this will continue. At June 30, 2012, $447.1 million or 40.4% of our certificates of deposit were certificates of $100,000 or more compared to $455.9 million or 39.6% at June 30, 2011. The general level of market interest rates and money market conditions significantly influence deposit inflows and outflows. The effects of these factors are particularly pronounced on deposit accounts with larger balances. In particular, certificates of deposit with balances of $100,000 or greater are traditionally viewed as being a more volatile source of funding than comparatively lower balance certificates of deposit or non-maturity transaction accounts. In order to retain certificates of deposit with balances or $100,000 or more, we may have to pay a premium rate, resulting in an increase in our cost of funds. In a rising rate environment, we may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with us, they may need to be replaced with borrowings, which could increase our cost of funds and negatively impact our interest rate spread and our financial condition.

The following table sets forth the distribution of average deposits for the periods indicated and the weighted average nominal interest rates for each period on each category of deposits presented.

	For the Years Ended June 30,								
	2012			2011			2010		
	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate
	(Dollars in Thousands)								
Non-interest-bearing demand	$ 145,458	6.78%	0.00%	$ 98,587	5.08%	0.00%	$ 55,436	3.68%	0.00%
Interest-bearing demand	454,166	21.19	0.59	377,978	19.50	0.91	198,623	13.19	1.17
Savings and club	414,560	19.34	0.33	375,767	19.38	0.58	315,715	20.97	1.03
Certificates of deposit	1,128,802	52.69	1.44	1,086,544	56.04	1.69	935,684	62.16	2.41
Total deposits	$ 2,142,986	100.00%	0.95%	$ 1,938,876	100.00%	1.24%	$ 1,505,458	100.00%	1.87%

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated.

	At June 30,		
	2012	2011	2010
	(In Thousands)		
Interest Rate			
0.00-0.99%	$ 516,645	$ 357,356	$ 9,396
1.00-1.99%	389,408	517,529	648,259
2.00-2.99%	165,132	222,774	206,791
3.00-3.99%	12,409	18,722	67,991
4.00-4.99%	16,091	26,420	40,482
5.00-5.99%	5,242	9,046	6,613
Total	$ 1,104,927	$ 1,151,847	$ 979,532

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The following table shows the amount of certificates of deposit of $100,000 or more by time remaining until maturity as of the date indicated.

	At June 30, 2012 (In Thousands)
Maturity Period	
Within three months	$ 107,472
Three through six months	75,134
Six through twelve months	84,175
Over twelve months	180,300
	$ 447,081

The following table sets forth the amount and maturities of certificates of deposit at June 30, 2012.

	Amount Due						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	(In Thousands)						
0.00-0.99%	$ 487,105	$ 26,036	$ 3,504	$ —	$ —	$ —	$ 516,645
1.00-1.99%	154,488	152,405	53,867	99	28,549	—	389,408
2.00-2.99%	42,738	44,935	23,435	36,596	17,428	—	165,132
3.00-3.99%	7,998	3,329	1,082	—	—	—	12,409
4.00-4.99%	16,087	—	3	1	—	—	16,091
5.00-5.99%	5,242	—	—	—	—	—	5,242
Total	$ 713,658	$ 226,705	$ 81,891	$ 36,696	$ 45,977	$ —	$ 1,104,927

Borrowings. To supplement our deposits as a source of funds for lending or investment, we borrow funds in the form of advances from the FHLB of New York. We make use of FHLB advances as part of our interest rate risk management, primarily to extend the duration of funding to match the longer-term fixed-rate loans and mortgage-backed securities.

Advances from the FHLB are typically secured by our FHLB capital stock and certain investment securities and residential mortgage loans that we choose to utilize as collateral for such borrowings. Additional information regarding our FHLB advances is included under Note 14 to consolidated financial statements.

Short-term FHLB advances generally have original maturities of less than one year and include overnight borrowings which the Bank typically utilizes to address short term funding needs as they arise. The Bank had no short term borrowings from the FHLB at June 30, 2012.

Long-term advances generally include term advances with original maturities of greater than one year. At June 30, 2012, our outstanding balance of long-term FHLB advances totaled $210.9 million with a weighted average interest rate of 3.74%. Our long term advances mature as follows:

Maturing in Years Ending June 30,		(In Thousands)
2013	$	5,000
2015		5,000
2018		200,000
2021		939
		210,939
Fair value adjustments		293
Total	$	211,232

Based upon the market value of investment securities and mortgage loans that are posted as collateral for FHLB advances at June 30, 2012, the Bank is eligible to borrow up to an additional $435.3 million of advances from the FHLB as of that date. The Bank is authorized to post additional collateral in the form of other unencumbered investments securities and eligible mortgage loans that may expand its borrowing capacity with the FHLB up to 30% of the Bank's total assets. Additional borrowing capacity up to 50% of the Bank's total assets may be authorized with the approval of the FHLB's Board of Directors or Executive Committee.

The balance of borrowings at June 30, 2012 also included overnight borrowings in the form of depositor sweep accounts totaling $38.5 million. Depositor 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.

Subsidiary Activity

During the year ended June 30, 2012, Kearny Financial Corp. had two wholly owned subsidiaries: Kearny Federal Savings Bank and Kearny Financial Securities, Inc.

Kearny Financial Securities, Inc. was organized in April 2005 under Delaware law as a Delaware Investment Company primarily to hold mortgage-backed and non-mortgage-backed securities. Kearny Financial Securities, Inc. was dissolved during the year ended June 30, 2012 and was considered inactive during the three-year period then ended.

Kearny Federal Savings Bank has three wholly owned subsidiaries: KFS Financial Services, Inc., KFS Investment Corp and CJB Investment Corp.

KFS Financial Services, Inc. was incorporated as a New Jersey corporation in 1994 under the name of South Bergen Financial Services, Inc., and was acquired in Kearny's merger with South Bergen Savings Bank in 1999 and was renamed KFS Financial Services, Inc. in 2000. It is a service corporation subsidiary organized for selling insurance products, including annuities, to Bank customers and the general public through a third party networking arrangement. KFS Financial Services, Inc. is not a licensed insurance agency and it may only offer insurance products through an agreement with a licensed insurance agency. KFS Financial Services, Inc. has entered into an agreement with The Savings Bank Life Insurance Company of Massachusetts, a licensed insurance agency, through which it offers insurance products. At June 30, 2012, it held assets totaling approximately $308,000.

KFS Investment Corp. was organized in October 2007 under New Jersey law as a New Jersey Investment Company. At June 30, 2012, KFS Investment Corp. held no assets and was considered inactive.

CJB Investment Corp. and its wholly-owned subsidiary, Central Delaware Investment Corp. were acquired by the Bank through the Company's acquisition of Central Jersey Bancorp in November 2010. CJB Investment Corp was organized under New Jersey law as a New Jersey Investment Company while Central Delaware Investment Corp. was organized and operated as an investment company under Delaware state law. Central Delaware Investment Corp. was dissolved during the year ended June 30, 2012 with its assets acquired and liabilities assumed by its parent, CJB Investment Corp Both CJB Investment Corp. and Central Delaware Investment Corp. were organized primarily to hold mortgage-backed and non-mortgage-backed securities. At June 30, 2012, CJB Investment Corp. has total consolidated assets of $162.3 million comprised primarily of investment securities and cash and cash equivalents.

Personnel

As of June 30, 2012, we had 398 full-time employees and 61 part-time employees equating to a total of 428 full time equivalent ("FTE") employees. By comparison, at June 30, 2011, we had 379 full-time employees and 57 part-time employees equating to a total of 407 FTEs. The net increase in FTE's year-over-year included net increases in commercial loan origination and support staff as well as staff additions relating to the opening of an additional full service branch during fiscal 2012. Our employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

REGULATION

The Bank and the Company operate in a highly regulated industry. This regulation establishes a comprehensive framework of activities in which a savings and loan holding company and federal savings bank may engage and is intended primarily for the protection of the deposit insurance fund and depositors. Set forth below is a brief description of certain laws that relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution and its holding company, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, including changes in the regulations governing mutual holding companies, could have a material adverse impact on the Company, the Bank and their operations. The adoption of regulations or the enactment of laws that restrict the operations of the Bank and/or the Company or impose burdensome requirements upon one or both of them could reduce their profitability and could impair the value of the Bank's franchise, resulting in negative effects on the trading price of the Company's common stock.

Regulation of the Bank

General. As a federally chartered savings bank with deposits insured by the FDIC, the Bank is subject to extensive regulation by federal banking regulators. This regulatory structure gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies regarding the classification of assets and the level of the allowance for loan losses. The activities of federal savings banks are subject to extensive regulation including restrictions or requirements with respect to loans to one borrower, the percentage of non-mortgage loans or investments to total assets, capital distributions, permissible investments and lending activities, liquidity, transactions with affiliates and community reinvestment. Federal savings banks are also subject to reserve requirements imposed by the FRB. Both state and federal law regulate a federal savings bank's relationship with its depositors and borrowers, especially in such matters as the ownership of savings accounts and the form and content of the bank's mortgage documents.

As a result of the Dodd-Frank Act, the OCC assumed principal regulatory responsibility for federal savings banks from the OTS effective July 21, 2011. Under the Dodd-Frank Act, all existing OTS guidance, orders, interpretations, procedures and other advisory in effect prior to that date remained in effect and enforceable against the OCC until modified, terminated, set aside or superseded by the OCC in accordance with applicable law. The OCC has adopted most of the substantive OTS regulations on an interim final basis.

The Bank must file reports with the OCC concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other financial institutions. The OCC will regularly examine the Bank and prepares reports to the Bank's Board of Directors on deficiencies, if any, found in its operations. The OCC will have substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements. In addition, the FDIC has the authority to recommend to the Comptroller of the Currency to take enforcement action with respect to a particular federally chartered savings bank and, if the Comptroller does not take action, the FDIC has authority to take such action under certain circumstances.

Federal Deposit Insurance. The Bank's deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased from $100,000 to $250,000 and unlimited deposit insurance has been extended to non-interest-bearing transaction accounts until December 31, 2012.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. Well-capitalized institutions with the CAMELS ratings of 1 or 2 are grouped in Risk Category I and, until 2009, were assessed for deposit insurance at an annual rate of between five and seven basis points of insured deposits with the assessment rate for an individual institution determined according to a formula based on a weighted average of the institution's individual CAMELS component ratings plus either five financial ratios or the average ratings of its long-term debt. Institutions in Risk Categories II, III and IV were assessed at annual rates of 10, 28 and 43 basis points, respectively.

Starting in 2009, the FDIC significantly raised the assessment rate in order to restore the reserve ratio of the Deposit Insurance Fund to the statutory minimum of 1.15% For the quarter beginning January 1, 2009, the FDIC raised the base annual assessment rate for institutions in Risk Category I to between 12 and 14 basis points while the base annual assessment rates for institutions in Risk Categories II, III and IV were increased to 17, 35 and 50 basis points, respectively. For the quarter beginning April 1, 2009 the FDIC set the base annual assessment rate for institutions in Risk Category I to between 12 and 16 basis points and the base annual assessment rates for institutions in Risk Categories II, III and IV at 22, 32 and 45 basis points, respectively. An institution's assessment rate could be increased within certain limits based on its levels of brokered deposits and asset growth.

The FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009, payable on September 30, 2009, and reserved the right to impose additional special assessments. In November, 2009, instead of imposing additional special assessments, the FDIC amended the assessment regulations to require all insured depository institutions to prepay their estimated risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012 on December 30, 2009. For purposes of estimating the future assessments, each institution's base assessment rate in effect on September 30, 2009 was used, assuming a 5% annual growth rate in the assessment base and a three basis point increase in the assessment rate in 2011 and 2012. The prepaid assessment will be applied against actual quarterly assessments until exhausted. Any funds remaining after June 30, 2013 will be returned to the institution.

The Dodd-Frank Act requires the FDIC to take such steps as necessary to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020. In setting the assessments, the FDIC is required to offset the effect of the higher reserve ratio against insured depository institutions with total consolidated assets of less than $10 billion. The Dodd-Frank Act also broadens the base for FDIC insurance assessments so that assessments will be based on the average consolidated total assets less average tangible equity capital of a financial institution rather than on its insured deposits. The FDIC has adopted a new restoration plan to increase the reserve ratio to 1.15% by September 30, 2020 with additional rulemaking scheduled regarding the method to be used to achieve a 1.35% reserve ratio by that date and offset the effect on institutions with assets less than $10 billion in assets. Pursuant to the new restoration plan, the FDIC has foregone the three basis point increase in assessments that was scheduled to take effect on January 1, 2011.

The FDIC has adopted new assessment regulations that redefine the assessment base as average consolidated assets less average tangible equity. Insured banks with more than $1.0 billion in assets must calculate quarterly average assets based on daily balances while smaller banks and newly chartered banks may use weekly averages. In the case of a merger, the average assets of the surviving bank for the quarter

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must include the average assets of the merged institution for the period in the quarter prior to the merger. Average assets would be reduced by goodwill and other intangibles. Average tangible equity will equal Tier 1 capital. For institutions with more than $1.0 billion in assets average tangible equity will be calculated on a weekly basis while smaller institutions may use the quarter-end balance. Beginning April 1, 2011, the base assessment rate for insured institutions in Risk Category I will range between 5 to 9 basis points and for institutions in Risk Categories II, III, and IV will be 14, 23 and 35 basis points. An institution's assessment rate will be reduced based on the amount of its outstanding unsecured long-term debt and for institutions in Risk Categories II, III and IV may be increased based on their brokered deposits. Risk Categories are eliminated for institutions with more than $10 billion in assets which will be assessed at a rate between 5 and 35 basis points.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly, averaged 0.01% of insured deposits on an annualized basis in fiscal year 2012. These assessments will continue until the FICO bonds mature in 2017.

Regulatory Capital Requirements. Under the Home Owners' Loan Act, savings institutions are required to meet three minimum capital standards: (1) tangible capital equal to 1.5% of total adjusted assets, (2) "Tier 1" or "core" capital equal to at least 4% of total adjusted assets and (3) risk-based capital equal to 8% of total risk-weighted assets. For information on the Bank's compliance with these regulatory capital standards, see Note 16 to consolidated financial statements. In assessing an institution's capital adequacy, the OCC takes into consideration not only these numeric factors but also qualitative factors as well and has the authority to establish higher capital requirements for individual institutions where necessary.

In addition, the OCC may require that a savings institution that has a risk-based capital ratio of less than 8%, a ratio of Tier 1 capital to risk-weighted assets of less than 4% or a ratio of Tier 1 capital to total adjusted assets of less than 4% take certain action to increase its capital ratios. If the savings institution's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the OCC may restrict its activities.

For purposes of these capital regulations, tangible capital is defined as core capital less all intangible assets except for certain mortgage servicing rights. Tier 1 or core capital is defined as common stockholders' equity (including retained earnings), non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries and certain non-withdrawable accounts and pledged deposits of mutual savings banks. The Bank does not have any non-withdrawable accounts or pledged deposits. Tier 1 and core capital are reduced by an institution's intangible assets, with limited exceptions for certain mortgage and non-mortgage servicing rights and purchased credit card relationships. Both core and tangible capital are further reduced by an amount equal to the savings institution's debt and equity investments in "non-includable" subsidiaries engaged in activities not permissible for national banks other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies.

The risk-based capital standard for savings institutions requires the maintenance of total capital of 8% of risk-weighted assets. Total capital equals the sum of core and supplementary capital. The components of supplementary capital include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt and intermediate-term preferred stock, the portion of the allowance for loan losses not designated for specific loan losses and up to 45% of unrealized gains on equity securities. The portion of the allowance for loan and lease losses includable in

supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, supplementary capital is limited to 100% of core capital. For purposes of determining total capital, a savings institution's assets are reduced by the amount of capital instruments held by other depository institutions pursuant to reciprocal arrangements and by the amount of the institution's equity investments (other than those deducted from core and tangible capital) and its high loan-to-value ratio land loans and commercial construction loans.

A savings institution's risk-based capital requirement is measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. These risk weights generally range from 0% for cash to 100% for delinquent loans, property acquired through foreclosure, commercial loans and certain other assets.

Dividend and Other Capital Distribution Limitations. Federal regulations impose various restrictions or requirements on the ability of savings institutions to make capital distributions, including cash dividends. A savings institution that is a subsidiary of a savings and loan holding company, such as the Bank, must file notice with the FRB and an application or a notice with the OCC at least thirty days before making a capital distribution, such as paying a dividend to the Company. A savings institution must file an application with the OCC for prior approval of a capital distribution if: (i) it is not eligible for expedited treatment under the applications processing rules; (ii) the total amount of all capital distributions, including the proposed capital distribution, for the applicable calendar year would exceed an amount equal to the savings institution's net income for that year to date plus the institution's retained net income for the preceding two years; (iii) it would not adequately be capitalized after the capital distribution; or (iv) the distribution would violate an agreement with the OCC or applicable regulations. The FRB may disapprove a notice and the OCC may disapprove a notice or deny an application for a capital distribution if: (i) the savings institution would be undercapitalized following the capital distribution; (ii) the proposed capital distribution raises safety and soundness concerns; or (iii) the capital distribution would violate a prohibition contained in any statute, regulation, enforcement action or agreement or condition imposed in connection with an application.

During the fiscal year ended June 30, 2008, the Bank applied for and received the approval from the OTS to distribute $19,000,000 to the Company which was paid by the Bank to the Company in November, 2007. During the fiscal year ended June 30, 2010, an application for a capital distribution from the Bank to the Company was approved by the OTS in the amount of $6,000,000 which was paid by the Bank to the Company in December, 2009. During the fiscal year ended June 30, 2011, the Bank applied for and received the approval from the OTS to distribute a total of $87,300,000 to the Company which provided the funding for the acquisition of Central Jersey in November 2010 and the repayment of the subordinated debentures in April 2011 that related to the trust preferred securities issued by Central Jersey prior to the acquisition. Finally, during the fiscal year ended June 30, 2012, an application for a capital distribution from the Bank to the Company was approved by the FRB in the amount of $6,000,000 which was paid by the Bank to the Company in May 2012.

Qualified Thrift Lender Test. Federal savings institutions must meet a qualified thrift lender test or they become subject to the business activity restrictions and branching rules applicable to national banks. Under the Dodd-Frank Act, a savings institution that fails to satisfy the qualified thrift lender test will be deemed to have violated Section 5 of the Home Owners' Loan Act. To qualify as a qualified thrift lender, a savings institution must either (i) be deemed a "domestic building and loan association" under the Internal Revenue Code by maintaining at least 60% of its total assets in specified types of assets, including cash, certain government securities, loans secured by and other assets related to residential real property, educational loans and investments in premises of the institution or (ii) satisfy the statutory qualified thrift lender test set forth in the Home Owners' Loan Act by maintaining at least 65% of its

portfolio assets in qualified thrift investments (defined to include residential mortgages and related equity investments, certain mortgage-related securities, small business loans, student loans and credit card loans). For purposes of the statutory qualified thrift lender test, portfolio assets are defined as total assets minus goodwill and other intangible assets, the value of property used by the institution in conducting its business and specified liquid assets up to 20% of total assets. A savings institution must maintain its status as a qualified thrift lender on a monthly basis in at least nine out of every twelve months.

A savings bank that fails the qualified thrift lender test and does not convert to a bank charter generally will be prohibited from: (1) engaging in any new activity not permissible for a national bank; (2) paying dividends not permissible under national bank regulations; and (3) establishing any new branch office in a location not permissible for a national bank in the institution’s home state. In addition, if the institution does not requalify under the qualified thrift lender test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the FHLB as promptly as possible.

Community Reinvestment Act. Under the CRA, every insured depository institution, including the Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the OCC to assess the depository institution’s record of meeting the credit needs of its community and to consider such record in its evaluation of certain applications by such institution, such as a merger or the establishment of a branch office by the Bank. The OCC may use an unsatisfactory CRA examination rating as the basis for the denial of an application. The Bank received a satisfactory CRA rating in its most recent CRA examination.

Federal Home Loan Bank System. The Bank is a member of the FHLB of New York, which is one of twelve regional Federal Home Loan Banks. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by financial institutions and proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members pursuant to policies and procedures established by the board of directors of the FHLB.

As a member, the Bank is required to purchase and maintain stock in the FHLB of New York in an amount equal to the greater of 1% of our aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding FHLB advances. The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate related collateral to 30% of a member’s capital and limiting total advances to a member.

The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. In addition, these requirements could result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members.

The USA Patriot Act. The Bank is subject to the OCC regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act. The USA Patriot Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA Patriot Act takes measures intended to encourage information

sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA Patriot Act and the related regulations of the OCC impose the following requirements with respect to financial institutions:

- Establishment of anti-money laundering programs that include, at minimum: (i) internal policies, procedures and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.

- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period.

- Establishment of appropriate, specific and, where necessary, enhanced due diligence policies, procedures and controls designed to detect and report money laundering.

- Prohibitions on establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country) and compliance with certain record keeping obligations with respect to correspondent accounts of foreign banks.

Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

Regulation of the Company

General. The Company is a savings and loan holding company within the meaning of Section 10 of the Home Owners' Loan Act. As a result of the Dodd-Frank Act, it is now required to file reports with the FRB and is subject to regulation and examination by the FRB, as successor to the OTS. The Company must also obtain regulatory approval from the FRB before engaging in certain transactions, such as mergers with or acquisitions of other financial institutions. In addition, the FRB has enforcement authority over the Company and any non-savings institution subsidiaries. This permits the FRB to restrict or prohibit activities that it determines to be a serious risk to the Bank. This regulation is intended primarily for the protection of the depositors and not for the benefit of stockholders of the Company.

The FRB has indicated that, to the greatest extent possible taking into account any unique characteristics of savings and loan holding companies and the requirements of the Home Owners' Loan Act, it intends to apply its current supervisory approach to the supervision of bank holding companies to savings and loan holding companies. The stated objective of the FRB will be to ensure the savings and loan holding company and its non-depository subsidiaries are effectively supervised and can serve as a source of strength for, and do not threaten the safety and soundness of the subsidiary depository institutions. The FRB has generally adopted the substantive provisions of OTS regulations governing savings and loan holding companies on an interim final basis with certain modifications as discussed below.

Activities Restrictions. As a savings and loan holding company and as a subsidiary holding company of a mutual holding company, the Company is subject to statutory and regulatory restrictions on

its business activities. The non-banking activities of the Company and its non-savings institution subsidiaries are restricted to certain activities specified by the FRB regulation, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987 and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the Gramm-Leach-Bliley Act. Before engaging in any non-banking activity or acquiring a company engaged in any such activities, the Company must file with the FRB either a prior notice or (in the case of non-banking activities permissible for bank holding companies) an application regarding its planned activity or acquisition. Under the Dodd-Frank Act, a savings and loan holding company may only engage in activities authorized for financial holding companies if they meet all of the criteria to qualify as a financial holding company. Accordingly, the FRB will require savings and loan holding companies to elect to be treated as financial holding companies in order to engage in financial holding company activities. In order to make such an election, the savings and loan holding company and its depository institution subsidiaries must be well capitalized and well managed.

Mergers and Acquisitions. The Company must obtain approval from the FRB before acquiring, directly or indirectly, more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation, or purchase of its assets. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law; or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating an application for the Company to acquire control of a savings institution, the FRB would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the insurance funds, the convenience and the needs of the community and competitive factors.

Waivers of Dividends by Kearny MHC. As permitted by OTS policies, the MHC has historically waived the receipt of dividends from the Company. The OTS reviewed dividend waiver notices on a case-by-case basis and, in general, did not object to any such waiver if: (i) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members and (ii) the waiver would not be detrimental to the safe and sound operations of the subsidiary savings association. During the year ended June 30, 2011, the MHC waived its right, upon non-objection from the OTS, to receive cash dividends of $10.2 million declared during the year.

Effective with the transfer of OTS's jurisdiction over savings and loan holding companies to the FRB (the "transfer date"), a mutual holding company may only waive the receipt of a dividend from a subsidiary if no insider of the mutual holding company or their associates or tax-qualified or non-tax-qualified employee stock benefit plan holds any shares of the class of stock to which the waiver would apply, or the mutual holding company gives written notice of its intent to waive the dividend at least 30 days prior to the proposed payment date and the FRB does not object. The FRB may not object to a dividend waiver if it determines that the waiver would not be detrimental to the safe and sound operation of the savings association, the mutual holding company's board determines that the waiver is consistent with its fiduciary duties and the mutual holding company has waived dividends prior to December 1, 2009.

The FRB's interim final rule on dividend waivers would require that any notice of waiver of dividends include a board resolution together with any supporting materials relied upon by the MHC board to conclude that the dividend waiver is consistent with the board's fiduciary duties. The resolution must include: (i) a description of the conflict of interest that exists because of a MHC director's ownership of stock in the subsidiary declaring the dividend and any actions taken to eliminate the conflict

of interest, such as a waiver by the directors of their right to receive dividends; (ii) a finding by the MHC that the waiver is consistent with its fiduciary duties despite any conflict of interest; (iii) an affirmation that the MHC is able to meet the terms of any loan agreement for which the stock of the subsidiary is pledged or to which the MHC is subject; and (iv) any affirmation that a majority of the MHC's members have approved a waiver of dividends within the past 12 months and that the proxy statement used for such vote included certain disclosures.

Conversion of the MHC to Stock Form. Federal regulations permit the MHC to convert from the mutual form of organization to the capital stock form of organization, commonly referred to as a second step conversion. In a second step conversion a new holding company would be formed as the successor to the Company, the MHC's corporate existence would end and certain depositors of the Bank would receive the right to subscribe for shares of the new holding company. In a second step conversion, each share of common stock held by stockholders other than the MHC would be automatically converted into a number of shares of common stock of the new holding company determined pursuant to an exchange ratio that ensures that the Company's stockholders own the same percentage of common stock in the new holding company as they owned in the Company immediately prior to the second step conversion. Under the OTS regulations, the Company's stockholders would not be diluted because of any dividends waived by the MHC (and waived dividends would not be considered in determining an appropriate exchange ratio), in the event the MHC converts to stock form. The total number of shares held by the Company's stockholders after a second step conversion also would be increased by any purchases by the Company's stockholders in the stock offering of the new holding company conducted as part of the second step conversion.

Under the Dodd-Frank Act, waived dividends must be taken into account in determining the appropriate exchange ratio for a second-step conversion of a mutual holding company unless the mutual holding company has waived dividends prior to December 1, 2009.

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the FRB if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company. An acquisition of "control" can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or as otherwise defined by the FRB. Under the Change in Bank Control Act, the FRB has 60 days from the filing of a complete not