Kearny Financial Corp.
Form 10-Q
November 10, 2014
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission File Number 000-51093

KEARNY FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

UNITED STATES (State or other jurisdiction of incorporation or organization)	**22-3803741 (I.R.S. Employer Identification Number)**
120 Passaic Ave., Fairfield, New Jersey (Address of principal executive offices)	**07004-3510 (Zip Code)**

973-244-4500

Registrant s telephone number, including area code

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: November 7, 2014.

$0.10 par value common stock 67,375,247 shares outstanding

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Thousands, Except Share and Per Share Data)

	September 30, 2014 (Unaudited)	June 30, 2014
Assets		
Cash and amounts due from depository institutions	$ 14,821	$ 14,403
Interest-bearing deposits in other banks	111,965	120,631
Cash and Cash Equivalents	126,786	135,034
Debt securities available for sale (amortized cost $415,173 and $411,228)	412,523	407,898
Debt securities held to maturity (fair value $212,934 and $213,472)	215,454	216,414
Loans receivable, including unamortized yield adjustments of $(1,432) and $(1,397)	1,770,997	1,741,471
Less allowance for loan losses	(12,406)	(12,387)
Net Loans Receivable	1,758,591	1,729,084
Mortgage-backed securities available for sale (amortized cost $413,208 and $432,802)	413,878	437,223
Mortgage-backed securities held to maturity (fair value $307,178 and $293,781)	309,017	295,658
Premises and equipment	39,791	40,105
Federal Home Loan Bank of New York (FHLB) stock	27,383	25,990
Accrued interest receivable	9,308	9,013
Goodwill	108,591	108,591
Bank owned life insurance	89,472	88,820
Deferred income tax assets, net	7,967	10,314
Other assets	12,333	5,865
Total Assets	$ 3,531,094	$ 3,510,009
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$ 215,569	$ 224,054
Interest-bearing	2,233,744	2,255,887
Total Deposits	2,449,313	2,479,941
Borrowings	564,860	512,257
Advance payments by borrowers for taxes	8,699	9,001
Other liabilities	16,277	14,134
Total Liabilities	3,039,149	3,015,333

Stockholders Equity		
Preferred stock, $0.10 par value, 25,000,000 shares authorized; none issued and outstanding		
Common stock, $0.10 par value, 75,000,000 shares authorized; 73,781,587 shares issued; 67,375,247 and 67,267,865 shares outstanding, respectively	7,378	7,378
Paid-in capital	225,130	231,870
Retained earnings	339,278	336,355
Unearned Employee Stock Ownership Plan shares; 351,564 shares and 387,924 shares, respectively	(3,516)	(3,879)
Treasury stock, at cost; 6,406,340 shares and 6,513,722 shares, respectively	(73,535)	(74,768)
Accumulated other comprehensive loss	(2,790)	(2,280)
Total Stockholders Equity	491,945	494,676
Total Liabilities and Stockholders Equity	$ 3,531,094	$ 3,510,009

See notes to unaudited consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended September 30,	
	2014	2013
Interest Income		
Loans	$ 18,405	$ 15,816
Mortgage-backed securities	4,776	5,554
Securities:		
Taxable	1,735	1,278
Tax-exempt	485	454
Other interest-earning assets	297	198
Total Interest Income	25,698	23,300
Interest Expense		
Deposits	3,846	3,632
Borrowings	2,327	1,472
Total Interest Expense	6,173	5,104
Net Interest Income	19,525	18,196
Provision for Loan Losses	858	1,168
Net Interest Income after Provision for Loan Losses	18,667	17,028
Non-Interest Income		
Fees and service charges	699	691
Gain on sale of loans		53
(Loss) gain on sale and write down of real estate owned	(151)	1
Income from bank owned life insurance	652	702
Electronic banking fees and charges	284	344
Miscellaneous	96	70
Total Non-Interest Income	1,580	1,861
Non-Interest Expenses		
Salaries and employee benefits	10,076	8,953
Net occupancy expense of premises	1,642	1,662
Equipment and systems	1,930	1,874
Advertising and marketing	148	251

Federal deposit insurance premium	589	512
Directors compensation	196	172
Miscellaneous	2,190	1,858
Total Non-Interest Expenses	$ 16,771	$ 15,282

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended September 30,	
	2014	2013
Income Before Income Taxes	$ 3,476	$ 3,607
Income Taxes	553	1,021
Net Income	$ 2,923	$ 2,586
Net Income per Common Share (EPS):		
Basic	$ 0.04	$ 0.04
Diluted	$ 0.04	$ 0.04
Weighted Average Number of Common Shares Outstanding:		
Basic	66,975	65,936
Diluted	67,371	65,936
Dividends Declared Per Common Share	$	$

See notes to unaudited consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2014	2013
Net Income	$ 2,923	$ 2,586
Other Comprehensive Loss:		
Net unrealized (loss) gain on securities available for sale, net of deferred income tax (benefit) expense of:		
2014 ($1,041);		
2013 $534	(2,030)	943
Net gain on securities transferred from available for sale to held to maturity, net of deferred income tax expense of:		
2014 $0;		
2013 $0	2	
Fair value adjustments on derivatives, net of deferred income tax expense (benefit) of:		
2014 1,189;		
2013 ($1,155)	1,722	(1,672)
Benefit plan adjustments, net of deferred income tax (benefit) expense of:		
2014 $(140);		
2013 $333	(204)	481
Total Other Comprehensive Loss	(510)	(248)
Total Comprehensive Income	$ 2,413	$ 2,338

See notes to unaudited consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Three Months Ended September 30, 2013

(In Thousands, Unaudited)

	Common Stock		Paid-In	Retained	Unearned ESOP	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Stock	Loss	Total
Balance June 30, 2013	66,501	$ 7,274	$ 215,722	$ 326,167	$ (5,334)	$ (71,983)	$ (4,139)	$ 467,707
Net income				2,586				2,586
Other comprehensive loss, net of income tax							(248)	(248)
ESOP shares committed to be released (36 shares)			9		364			373
Stock option expense			10					10
Treasury stock purchases	(120)					(1,211)		(1,211)
Restricted stock plan shares earned (4 shares)			42					42
Balance September 30, 2013	66,381	$ 7,274	$ 215,783	$ 328,753	$ (4,970)	$ (73,194)	$ (4,387)	$ 469,259

See notes to unaudited consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Three Months Ended September 30, 2014

(In Thousands, Unaudited)

	Common Stock		Paid-In	Retained	Unearned ESOP	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Stock	Loss	Total
Balance June 30, 2014	67,268	$ 7,378	$ 231,870	$ 336,355	$ (3,879)	$ (74,768)	$ (2,280)	$ 494,676
Net income				2,923				2,923
Other comprehensive loss, net of income tax							(510)	(510)
ESOP shares committed to be released (36 shares)			184		363			547
Stock option expense			50					50
Treasury stock reissued	107		132			1,233		1,365
Restricted stock plan shares earned (7 shares)			82					82
Settlement of stock options with cash in lieu of shares			(7,188)					(7,188)
Balance September 30, 2014	67,375	$ 7,378	$ 225,130	$ 339,278	$ (3,516)	$ (73,535)	$ (2,790)	$ 491,945

See notes to unaudited consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities:		
Net income	$ 2,923	$ 2,586
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	752	622
Net amortization of premiums, discounts and loan fees and costs	593	985
Deferred income taxes	2,339	(400)
Amortization of intangible assets	28	33
Amortization of benefit plans unrecognized net loss	20	11
Provision for loan losses	858	1,168
Loss (gain) on write-down and sales of real estate owned	151	(1)
Realized gain on sale of loans		(53)
Proceeds from sale of loans		496
Realized gain on disposition of premises and equipment	(25)	
Increase in cash surrender value of bank owned life insurance	(652)	(702)
ESOP, stock option plan and restricted stock plan expenses	679	425
Increase in interest receivable	(294)	(480)
(Increase) decrease in other assets	(3,650)	135
Increase in interest payable	54	70
Increase in other liabilities	1,752	983
Net Cash Provided by Operating Activities	5,528	5,878
Cash Flows from Investing Activities:		
Purchase of debt securities available for sale	(3,968)	(1,895)
Proceeds from repayments of debt securities available for sale	43	45
Purchase of debt securities held to maturity	(350)	(1,195)
Proceeds from calls and maturities of debt securities held to maturity	1,195	50
Proceeds from repayments of debt securities held to maturity	62	173
Purchase of loans	(12,868)	(56,319)
Net increase in loans receivable	(17,667)	(69,777)
Proceeds from sale of real estate owned	17	403
Purchases of mortgage-backed securities available for sale		(10,647)
Principal repayments on mortgage-backed securities available for sale	19,144	40,969
Purchases of mortgage-backed securities held to maturity	(16,695)	
Principal repayments on mortgage-backed securities held to maturity	3,202	420
Purchase of FHLB stock	(6,480)	(10,260)
Redemption of FHLB stock	5,087	4,411

Proceeds from cash settlement of premises and equipment	44	
Additions to premises and equipment	(457)	(539)
Net Cash Used in Investing Activities	$ (29,691)	$ (104,161)

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2014	2013
Cash Flows from Financing Activities:		
Net decrease in deposits	$ (30,568)	$ (39,261)
Repayment of term FHLB advances	(303,023)	(100,021)
Proceeds from term FHLB advances	375,000	175,000
Net change in overnight borrowings	(17,000)	55,000
Decrease in other short-term borrowings	(2,369)	(551)
(Decrease) increase in advance payments by borrowers for taxes	(302)	479
Purchase of common stock of Kearny Financial Corp. for treasury		(1,211)
Issuance of common stock of Kearny Financial Corp. from treasury	1,365	
Payment of cash for exercise of stock options	(7,188)	
Net Cash Provided by Financing Activities	15,915	89,435
Net Decrease in Cash and Cash Equivalents	(8,248)	(8,848)
Cash and Cash Equivalents Beginning	135,034	127,034
Cash and Cash Equivalents Ending	$ 126,786	$ 118,186
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	$ 1,000	$ 250
Interest	$ 6,119	$ 5,034
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	$ 118	$ 282

See notes to unaudited consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. PRINCIPLES OF CONSOLIDATION

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

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, income, comprehensive income, changes in stockholders equity and cash flows in conformity with GAAP. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the unaudited consolidated financial statements have been included. The results of operations for the three- month period ended September 30, 2014, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated statement of financial condition for June 30, 2014 was derived from the Company s 2014 annual report on Form 10-K. That data, along with the interim unaudited financial information presented in the consolidated statements of financial condition, income, comprehensive income, changes in stockholders equity and cash flows should be read in conjunction with the audited consolidated financial statements, including the notes thereto included in the Company s 2014 annual report on Form 10-K.

3. NET INCOME PER COMMON SHARE (EPS)

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

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

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

	Three Months Ended September 30, 2014		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)		
Net income	$ 2,923		
Basic earnings per share, income available to common stockholders	$ 2,923	66,975	$ 0.04
Effect of dilutive securities:			
Stock options		396	
	$ 2,923	67,371	$ 0.04

	Three Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)		
Net income	$ 2,586		
Basic earnings per share, income available to common stockholders	$ 2,586	65,936	$ 0.04
Effect of dilutive securities:			
Stock options			
	$ 2,586	65,936	$ 0.04

During the three months ended September 30, 2014 and 2013, the average number of options which were considered anti-dilutive totaled approximately 185,000 and 3,158,000, respectively.

4. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of September 30, 2014, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date this document was filed.

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5. PLAN OF CONVERSION AND REORGANIZATION

On September 4, 2014, the Boards of Directors of Kearny MHC (the majority stockholder of the Company), the Company and the Bank adopted a Plan of Conversion and Reorganization (the Plan). Pursuant to the Plan, Kearny MHC will convert from the mutual holding company form of organization to the fully public form. Kearny MHC will be merged into the Company, and Kearny MHC will no longer exist. The Company will then merge into a new Maryland corporation, also named Kearny Financial Corp., which will become the holding company for the Bank.

As part of the conversion, Kearny MHC s ownership interest of the Company will be offered for sale in a public offering. The existing publicly held shares of the Company, which represent the remaining ownership interest in the Company, will be exchanged for new shares of common stock of the new Maryland corporation. The exchange ratio will ensure that immediately after the conversion and public offering, the public shareholders of the Company will own the same aggregate percentage of common stock of the new Maryland corporation that they owned immediately prior to the completion of the conversion and public offering (excluding shares purchased in the stock offering and cash received in lieu of fractional shares).

When the conversion and public offering are completed, all of the capital stock of the Bank will be owned by the new Maryland corporation. The Plan provides for the establishment, upon the completion of the conversion, of special liquidation accounts for the benefit of certain depositors of the Bank in an amount equal to the greater of Kearny MHC s ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the prospectus plus the value of the net assets of Kearny MHC as of the date of the latest statement of financial condition of Kearny MHC prior to the consummation of the conversion (excluding its ownership of the Company).

Following the completion of the conversion, under the rules of the FRB, the Bank will not be permitted to pay dividends on its capital stock to the Company, its sole shareholder, if the Company s shareholders equity would be reduced below the amount of the liquidation accounts. The liquidation accounts will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder s interest in the liquidation accounts. Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. The Company has incurred approximately $1.1 million in such costs through September 30, 2014.

The transactions contemplated by the Plan are subject to approval by the Company s stockholders (including approval by a majority of the shares held by persons other than the MHC) and the members of the MHC as well as the Board of Governors of the Federal Reserve System whose approval as the primary regulator of the Company and Kearny MHC remains pending at the time of this filing.

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6. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The purpose of the ASU is to reduce diversity in the application of guidance by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. This ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The purpose of the ASU is to address the concern that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. In particular, repurchase-to-maturity transactions are generally accounted for as sales with forward agreements under current accounting, whereas typical repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. Additionally, current accounting guidance requires an evaluation of whether an initial transfer of a financial asset and a contemporaneous repurchase agreement (a repurchase financing) should be accounted for separately or linked. If linked, the arrangement is accounted for on a combined basis as a forward agreement. Those outcomes often are referred to as off-balance-sheet accounting. The ASU changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new related disclosures. This ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

7. STOCK REPURCHASE PLANS

On December 2, 2013, the Company announced that the Board of Directors authorized a stock repurchase plan to acquire up to 762,640 shares, or 5%, of the Company s outstanding stock held by persons other than Kearny MHC. Through September 30, 2014, the Company has repurchased a total of 62,900 shares in accordance with this repurchase plan at a total cost of approximately $700,000 and at an average cost per share of $11.13.

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8. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and fair values of debt and mortgage-backed securities available for sale at September 30, 2014 and June 30, 2014 and stratification by contractual maturity of debt securities available for sale at September 30, 2014 are presented below:

	At September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available for sale:				
Debt securities:				
U.S. agency securities	$ 4,112	$ 33	$ 5	$ 4,140
Obligations of state and political subdivisions	27,531	35	531	27,035
Asset-backed securities	87,519	832	470	87,881
Collateralized loan obligations	124,052		824	123,228
Corporate bonds	163,070	528	1,251	162,347
Trust preferred securities	8,889	20	1,017	7,892
Total debt securities	415,173	1,448	4,098	412,523
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	32,553		744	31,809
Federal National Mortgage Association	49,628	10	1,555	48,083
Non-agency securities	196		1	195
Total collateralized mortgage obligations	82,377	10	2,300	80,087
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	2,907	268	1	3,174
Federal Home Loan Mortgage Corporation	187,664	2,658	2,422	187,900
Federal National Mortgage Association	131,756	3,622	1,107	134,271
Total residential pass-through securities	322,327	6,548	3,530	325,345
Commercial pass-through securities:				
Federal National Mortgage Association	8,504		58	8,446
Total commercial pass-through securities	8,504		58	8,446
Total mortgage-backed securities	413,208	6,558	5,888	413,878
Total securities available for sale	$ 828,381	$ 8,006	$ 9,986	$ 826,401

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	At September 30, 2014	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities available for sale:		
Due in one year or less	$	$
Due after one year through five years	20,054	20,220
Due after five years through ten years	172,394	171,410
Due after ten years	222,725	220,893
Total	$ 415,173	$ 412,523

	At June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available for sale:				
Debt securities:				
U.S. agency securities	$ 4,159	$ 48	$ 2	$ 4,205
Obligations of state and political subdivisions	27,537	9	773	26,773
Asset-backed securities	87,480	663	827	87,316
Collateralized loan obligations	120,089		517	119,572
Corporate bonds	163,076	617	1,459	162,234
Trust preferred securities	8,887	32	1,121	7,798
Total debt securities	411,228	1,369	4,699	407,898
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	33,505		485	33,020
Federal National Mortgage Association	51,277	12	1,249	50,040
Non-agency securities	210			210
Total collateralized mortgage obligations	84,992	12	1,734	83,270
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	3,055	221		3,276
Federal Home Loan Mortgage Corporation	196,882	3,937	1,929	198,890
Federal National Mortgage Association	147,873	4,750	836	151,787
Total residential pass-through securities	347,810	8,908	2,765	353,953
Total mortgage-backed securities	432,802	8,920	4,499	437,223

Total securities available for sale	$ 844,030	$ 10,289	$ 9,198	$ 845,121

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There were no sales of securities available for sale during the three months ended September 30, 2014 and September 30, 2013.

At September 30, 2014 and June 30, 2014, securities available for sale with carrying values of approximately $70.6 million and $76.1 million, respectively, were utilized as collateral for borrowings through the FHLB of New York. As of those same dates, securities available for sale with total carrying values of approximately $1.7 million and $1.8 million, respectively, were pledged to secure public funds on deposit.

At September 30, 2014, the Company s available for sale mortgage-backed securities were secured by residential and commercial mortgage loans with original contractual maturities of ten to thirty years. At June 30, 2014, the Company s available for sale mortgage-backed securities were secured by residential mortgage loans only with original contractual maturities of ten to thirty years. The effective lives of mortgage-backed securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

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9. SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and fair values of debt and mortgage-backed securities held to maturity at September 30, 2014 and June 30, 2014 and stratification by contractual maturity of debt securities held to maturity at September 30, 2014 are presented below:

	At September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities held to maturity:				
Debt securities:				
U.S. agency securities	$ 144,288	$ 10	$ 1,654	$ 142,644
Obligations of state and political subdivisions	71,166	75	951	70,290
Total debt securities	215,454	85	2,605	212,934
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	20	2		22
Federal National Mortgage Association	252	27		279
Non-agency securities	48		1	47
Total collateralized mortgage obligations	320	29	1	348
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	8	1		9
Federal Home Loan Mortgage Corporation	272	14		286
Federal National Mortgage Association	125,243	575	499	125,319
Total residential pass-through securities	125,523	590	499	125,614
Commercial pass-through securities:				
Federal National Mortgage Association	183,174	111	2,069	181,216
Total commercial pass-through securities	183,174	111	2,069	181,216
Total mortgage-backed securities	309,017	730	2,569	307,178
Total securities held to maturity	$ 524,471	$ 815	$ 5,174	$ 520,112

	At September 30, 2014	
	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities held to maturity:		
Due in one year or less	$ 4,900	$ 4,916
Due after one year through five years	146,430	144,780
Due after five years through ten years	39,247	38,780
Due after ten years	24,877	24,458
Total	$ 215,454	$ 212,934

	At June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities held to maturity:				
Debt securities:				
U.S. agency securities	$ 144,349	$ 6	$ 1,408	$ 142,947
Obligations of state and political subdivisions	72,065	15	1,555	70,525
Total debt securities	216,414	21	2,963	213,472
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	20	2		22
Federal National Mortgage Association	264	30		294
Non-agency securities	54		1	53
Total collateralized mortgage obligations	338	32	1	369
Mortgage pass-through securities:				
Residential pass-through securities:				
Government National Mortgage Association	9			9
Federal Home Loan Mortgage Corporation	283	4		287
Federal National Mortgage Association	114,276	140	83	114,333
Total residential pass-through securities	114,568	144	83	114,629
Commercial pass-through securities:				
Federal National Mortgage Association	180,752	73	2,042	178,783
Total commercial pass-through securities	180,752	73	2,042	178,783
Total mortgage-backed securities	295,658	249	2,126	293,781

Total securities held to maturity	$ 512,072	$ 270	$ 5,089	$ 507,253

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There were no sales of securities held to maturity during the three months ended September 30, 2014 and September 30, 2013.

At September 30, 2014 and June 30, 2014, securities held to maturity with carrying values of approximately $128.0 million and $128.1 million, respectively, were utilized as collateral for borrowings from the FHLB of New York. As of those same dates, securities held to maturity with total carrying values of approximately $8.1 million and $4.5 million, respectively, were pledged to secure public funds on deposit.

At September 30, 2014 and June 30, 2014, the Company s held to maturity mortgage-backed securities were secured by both residential and commercial mortgage loans with original contractual maturities of ten to thirty years. The effective lives of mortgage-backed securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

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10. IMPAIRMENT OF SECURITIES

The following two tables summarize the fair values and gross unrealized losses within the available for sale and held to maturity portfolios at September 30, 2014 and June 30, 2014. The gross unrealized losses, presented by security type, represent temporary impairments of value within each portfolio as of the dates presented. Temporary impairments within the available for sale portfolio have been recognized through other comprehensive income as reductions in stockholders equity on a tax-effected basis.

The tables are followed by a discussion that summarizes the Company s rationale for recognizing certain impairments as temporary versus those identified as other-than-temporary . Such rationale is presented by investment type and generally applies consistently to both the available for sale and held to maturity portfolios, except where specifically noted.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
Securities Available for Sale:						
At September 30, 2014:						
U.S. agency securities	$	$	$ 881	$ 5	$ 881	$ 5
Obligations of state and political subdivisions	4,464	20	17,326	511	21,790	531
Asset-backed securities	13,283	406	25,291	64	38,574	470
Collateralized loan obligations	98,331	648	24,897	176	123,228	824
Corporate bonds	39,876	123	53,929	1,128	93,805	1,251
Trust preferred securities			6,872	1,017	6,872	1,017
Collateralized mortgage obligations	30,889	482	48,142	1,818	79,031	2,300
Residential pass-through securities	37,055	144	119,625	3,386	156,680	3,530
Commercial pass-through securities	8,447	58			8,447	58
Total	$ 232,345	$ 1,881	$ 296,963	$ 8,105	$ 529,308	$ 9,986
At June 30, 2014:						
U.S. agency securities	$ 826	$ 1	$ 84	$ 1	$ 910	$ 2
Obligations of state and political subdivisions	946	3	23,140	770	24,086	773
Asset-backed securities	28,404	630	25,169	197	53,573	827
Collateralized loan obligations	84,705	270	24,829	247	109,534	517
Corporate bonds	19,790	210	53,811	1,249	73,601	1,459
Trust preferred securities			6,766	1,121	6,766	1,121
Collateralized mortgage obligations	21,806	219	50,028	1,515	71,834	1,734
Residential pass-through securities			123,666	2,765	123,666	2,765
Commercial pass-through securities						
Total	$ 156,477	$ 1,333	$ 307,493	$ 7,865	$ 463,970	$ 9,198

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The number of available for sale securities with unrealized losses at September 30, 2014 totaled 123 and included four U.S. agency securities, 55 municipal obligations, six asset-backed securities, 18 collateralized loan obligations, seven corporate obligations, four trust preferred securities and 29 mortgage-backed securities comprising ten collateralized mortgage obligations, two commercial pass-through securities and 17 residential pass-through securities. The number of available for sale securities with unrealized losses at June 30, 2014 totaled 111 and included four U.S. agency securities, 63 municipal obligations, five asset-backed securities, 16 collateralized loan obligations, six corporate obligations, four trust preferred securities and 13 mortgage-backed securities comprising six collateralized mortgage obligations and seven residential pass-through securities.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
Securities Held to Maturity:						
At September 30, 2014:						
U.S. agency securities	$	$	$ 141,675	$ 1,654	$ 141,675	$ 1,654
Obligations of state and political subdivisions	8,450	35	45,046	916	53,496	951
Collateralized mortgage obligations	47	1			47	1
Residential pass-through securities	94,867	499			94,867	499
Commercial pass-through securities	73,274	434	78,638	1,635	151,912	2,069
Total	$ 176,638	$ 969	$ 265,359	$ 4,205	$ 441,997	$ 5,174
At June 30, 2014:						
U.S. agency securities	$	$	$ 141,919	$ 1,408	$ 141,919	$ 1,408
Obligations of state and political subdivisions	5,808	36	57,056	1,519	62,864	1,555
Collateralized mortgage obligations	30	1			30	1
Residential pass-through securities	59,993	83			59,993	83
Commercial pass-through securities	56,234	230	96,937	1,812	153,171	2,042
Total	$ 122,065	$ 350	$ 295,912	$ 4,739	$ 417,977	$ 5,089

The number of held to maturity securities with unrealized losses at September 30, 2014 totaled 197 and included seven U.S. agency securities, 114 municipal obligations and 76 mortgage-backed securities comprising four collateralized mortgage obligations, 47 residential pass-through securities and 25 commercial pass-through securities. The number of held to maturity securities with unrealized losses at June 30, 2014 totaled 198 and included seven U.S. agency securities, 137 municipal obligations and 54 mortgage-backed securities comprising three collateralized mortgage obligations, 26 residential pass-through securities and 25 commercial pass-through securities.

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

- When the Company intends to sell the impaired debt security;

- When the Company more likely than not will be required to sell the impaired debt security before recovery of its amortized cost (for example, whether liquidity requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a forecasted recovery occurs); or

- When an impaired debt security does not meet either of the two conditions above, but the Company does not expect to recover the entire amortized cost of the security. According to applicable accounting guidance for debt securities, this is generally when the present value of cash flows expected to be collected is less than the amortized cost of the security.

In the first two circumstances noted above, the amount of OTTI recognized in earnings is the entire difference between the security s amortized cost basis and its fair value at the balance sheet date. In the third circumstance, however, the OTTI is to be separated into the amount representing the credit loss from the amount related to all other factors. The credit loss component is to be recognized in earnings while the non-credit loss component is to be recognized in other comprehensive income. In these cases, OTTI is generally predicated on an adverse change in cash flows (e.g. principal and/or interest payment deferrals or losses) versus those expected at the time of purchase. The absence of an adverse change in expected cash flows generally indicates that a security s impairment is related to other non-credit loss factors and is thereby generally not recognized as OTTI.

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

- The length of time and the extent (a percentage) to which the fair value has been less than the amortized cost basis;

- Adverse conditions specifically related to the security, an industry, or a geographic area (e.g. changes in the financial condition of the issuer of the security, or in the case of an asset backed debt security, in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement);

- The historical and implied volatility of the fair value of the security;

The payment structure of the debt security;

Actual or expected failure of the issuer of the security to make scheduled interest or principal payments;

Changes to the rating of the security by external rating agencies; and

Recoveries or additional declines in fair value subsequent to the balance sheet date.

At September 30, 2014 and June 30, 2014, the Company held no securities on which credit-related OTTI had been recognized in earnings. The following discussion summarizes the Company s rationale for recognizing the impairments reported in the tables above as temporary versus other-than-temporary . Such rationale is presented by investment type and generally applies consistently to both the available for sale and held to maturity portfolios, except where specifically noted.

Mortgage-backed Securities.

The carrying value of the Company s mortgage-backed securities totaled $722.9 million at September 30, 2014 and comprised 53.5% of total investments and 20.5% of total assets as of that date. This category of securities primarily includes mortgage pass-through securities and collateralized mortgage obligations issued by U.S. government agencies and/or government-sponsored entities (GSEs) such as Ginnie Mae, Fannie Mae and Freddie Mac who guarantee the contractual cash flows associated with those securities. Those guarantees were strengthened during the 2008-2009 financial crisis at which time Fannie Mae and Freddie Mac were placed into receivership by the federal government. Through those actions, the U.S. government effectively reinforced the guarantees of their agencies thereby strengthening the creditworthiness of the mortgage-backed securities issued by those agencies.

With credit risk being reduced to negligible levels due primarily to the U.S. government s support of most of these agencies, the unrealized losses on the Company s investment in U.S. agency mortgage-backed securities are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company s mortgage-backed securities, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are generally characterized by fixed interest rates or adjustable rates that lag the movement in market interest rates, decline and vice-versa.

Additionally, movements in market interest rates significantly impact the average lives of mortgage-backed securities by influencing the rate of principal prepayment attributable to refinancing activity. Changes in the expected average lives of such securities significantly impact their fair values due to the extension or contraction of the cash flows that an investor expects to receive over the life of the security. Generally, lower market interest rates prompt greater refinancing activity thereby shortening the average lives of mortgage-backed securities and vice-versa. The historically low mortgage rates prevalent in the marketplace during recent years created significant refinancing incentive for qualified borrowers.

Prepayment rates are also influenced by fluctuating real estate values and the overall availability of credit in the marketplace which significantly impacts the ability of borrowers to qualify for refinancing. The residential real estate marketplace in recent years has been characterized by diminished property values and reduced availability of credit due to tightening underwriting standards. As a consequence, the ability of certain borrowers to qualify for the refinancing of existing loans has been reduced while residential real estate purchase activity has been stifled. These factors have partially offset the effects of historically low interest rates on mortgage-backed security prepayment rates.

The market price of mortgage-backed securities, being the key measure of the fair value to an investor in such securities, is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

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

Finally, the Company has the stated ability and intent to hold to maturity those securities so designated at September 30, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company s amortized cost. Moreover, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its U.S. agency and GSE mortgage-backed securities with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

In addition to those mortgage-backed securities issued by U.S. agencies and GSEs, the Company held a nominal balance of non-agency mortgage-backed securities at September 30, 2014. Unlike agency and GSE mortgage-backed securities, non-agency collateralized mortgage obligations are not explicitly guaranteed by a U.S. government sponsored entity. Rather, such securities generally utilize the structure of the larger investment vehicle to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying mortgage loans. The creditworthiness of certain tranches may also be further enhanced by additional credit insurance protection embedded within the terms of the total investment vehicle.

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

The applicable securities generally maintained their credit-ratings at levels supporting the investment grade assessment by the Company. The Company has the stated ability and intent to hold to maturity those securities at September 30, 2014 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its non-agency mortgage-backed securities with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

U.S. Agency Debt Securities.

The carrying value of the Company s U.S. agency debt securities totaled $148.4 million at September 30, 2014 and comprised 11.0% of total investments and 4.2% of total assets as of that date. Such securities included $144.3 million of fixed-rate U.S. agency debentures and $4.1 million of securities representing securitized pools of loans issued and fully guaranteed by the Small Business Administration (SBA), a U.S. government agency.

With credit risk being reduced to negligible levels due to the issuer s guarantee, the unrealized losses on the Company s investment in U.S. agency debentures are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company s U.S. agency debentures, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are generally characterized by fixed interest rates, decline and vice-versa.

The market price of U.S. agency debentures is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

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

Finally, the Company has the stated ability and intent to hold to maturity those securities so designated at September 30, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of U.S. agency securities with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

Obligations of State and Political Subdivisions.

The carrying value of the Company s securities representing obligations of state and political subdivisions totaled $98.2 million at September 30, 2014 and comprised 7.3% of total investments and 2.8% of total assets as of that date. Such securities include approximately $96.0 million of fixed-rate, bank-qualified securities representing general obligations of municipalities located within the U.S. or the obligations of their related entities such as boards of education or school districts. The portfolio also includes $2.2 million of non-rated bond anticipation notes (BANs) comprising five short-term obligations issued by a total of three New Jersey municipalities with whom the Company maintains or seeks to maintain deposit relationships. At September 30, 2014, the fair value of each of the Company s BANs equaled or exceeded their respective carrying values resulting in no reported impairment on those securities as of that date.

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

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

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At September 30, 2014, each of the Company s impaired municipal obligations were consistently rated by Moody s Investors Service (Moody s) and Standard & Poor s Financial Services (S&P) well above the thresholds that generally support the Company s investment grade assessment with such ratings equaling A or higher by S&P and/or A1 or higher by Moody s, where rated by those agencies. In the absence of such ratings, the Company relies upon its own internal analysis of the issuer s financial condition to validate its investment grade assessment.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company s investment in municipal obligations are due largely to the combined effects of several market-related factors including, most notably, changes in market interest rates. In general, the fair value of certain debt securities, including the Company s municipal obligations, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities, which are generally characterized by fixed interest rates, decline and vice-versa.

The market price of municipal obligations is also influenced by the overall supply and demand for such securities in the marketplace. While these factors may generally reflect the level of available liquidity in the marketplace, demand for individual securities will specifically reflect investors assessment of an issuer s creditworthiness and resulting expectations for timely and full repayment in accordance with the terms of the applicable security agreement. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

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

Finally, the Company has the stated ability and intent to hold to maturity those securities so designated at September 30, 2014 and does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. In light of the factors noted, the Company does not consider its balance of obligations of state and political subdivisions with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

Asset-backed Securities.

The carrying value of the Company s asset-backed securities totaled $87.9 million at September 30, 2014 and comprised 6.5% of total investments and 2.5% of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities representing securitized federal education loans with 97% U.S. government guarantees. The securities represent tranches of a larger investment vehicle designed to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying loans. The Company s securities represent the highest credit-quality tranches within the overall structures with each being rated AA+ by S&P at September 30, 2014.

With credit risk being reduced to nominal levels due to the guarantees and structural support noted above, the unrealized losses on the Company s investment in asset-backed securities are due largely to the combined effects of several market-related factors, including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company s asset-backed securities, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities decline and vice-versa. However, the floating-rate nature of the Company s asset-backed securities greatly reduces their sensitivity to such changes in market rates.

More significantly, the market price of asset-backed securities is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

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

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of September 30, 2014. In light of the factors noted, the Company does not consider its balance of asset-backed securities with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

Collateralized Loan Obligations.

The outstanding balance of the Company s collateralized loan obligations totaled $123.2 million at September 30, 2014 and comprised 9.1% of total investments and 3.5% of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities comprised of securitized commercial loans to large U.S. corporations. The Company s securities represent tranches of a larger investment vehicle designed to reallocate cash flows and credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying loans.

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

Unrealized losses associated with collateralized loan obligations whose credit ratings exceed certain internally defined thresholds are considered to be indicative of noncredit-related impairment

given the nominal level of credit losses that would be expected based upon such ratings. That conclusion is generally reinforced, as appropriate, by additional internal analysis supporting the Company s periodic internal investment grade assessment of the security.

At September 30, 2014, each of the Company s impaired collateralized loan obligations were consistently rated by Moody s and S&P well above the thresholds that generally support the Company s investment grade assessment, with such ratings equaling AA or higher by S&P and Aa2 or higher by Moody s, where rated by those agencies.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company s investment in collateralized loan obligations are due largely to the combined effects of several market-related factors, including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company s collateralized loan obligations, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities decline and vice-versa. However, the floating-rate nature of the Company s collateralized loan obligations greatly reduces their sensitivity to such changes in market rates.

More significantly, the market price of collateralized loan obligations is also influenced by the overall supply and demand for such securities in the marketplace. While these factors may generally reflect the level of available liquidity in the marketplace, demand for individual securities will specifically reflect the performance of the underlying collateral in conjunction with the resiliency of the security s structural support as they affect investors expectations for timely and full repayment. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

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

During fiscal 2014, the Company sold certain collateralized loan obligations that it had identified as potentially ineligible investments under the terms of the Volcker Rule and related regulations enacted by regulatory agencies in conjunction with the ongoing implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Such ineligibility was primarily based upon the actual composition of the securitized financial assets within the applicable securities.

At September 30, 2014, the Company s entire portfolio of collateralized loan obligations remains compliant with the Volcker Rule in that regard. As such, the Company concluded that the possibility of being required to sell its collateralized loan obligations prior to their anticipated recovery is currently unlikely which is further reinforced by the overall strength of the Company s liquidity, asset quality and capital position as of that date. Moreover, the Company does not otherwise intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company s amortized cost at September 30, 2014.

The Company intends to further review the underlying security agreements for each of its collateralized loan obligations to determine if the terms of such agreements could potentially allow for the inclusion of ineligible assets within the security s structure in the future. To the extent the agreements contain such provisions and cannot or will not be modified by the issuer to ensure ongoing compliance with the Volcker Rule, the Bank may consider selling such

securities in the future.

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In light of the factors noted, the Company does not consider its balance of collateralized loan obligations with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

Corporate Bonds.

The carrying value of the Company s corporate bonds totaled $162.3 million at September 30, 2014 and comprised 12.0% of total investments and 4.6% of total assets as of that date. This category of securities is comprised entirely of floating-rate corporate debt obligations of large financial institutions.

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

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

At September 30, 2014, each of the Company s impaired corporate bonds were consistently rated by Moody s and S&P above the thresholds that generally support the Company s investment grade assessment with such ratings equaling A- or higher by S&P and/or Baa1 or higher by Moody s, where rated by those agencies.

Given the absence of any expectation for an adverse change in cash flows signifying a credit loss, the unrealized losses on the Company s investment in corporate bonds are due largely to the combined effects of several market-related factors including changes in market interest rates and fluctuating demand for such securities in the marketplace. In general, the fair value of certain debt securities, including the Company s corporate bonds, move inversely with changes in market interest rates. As market interest rates increase, the value of the securities decline and vice-versa. However, the floating-rate nature of the Company s corporate bonds greatly reduces their sensitivity to such changes in market rates.

More significantly, the market price of corporate bonds is also influenced by the overall supply and demand for such securities in the marketplace. While these factors may generally reflect the level of available liquidity in the marketplace, demand for individual securities will specifically reflect investors assessment of an issuer s creditworthiness and resulting expectations for timely and full repayment in accordance with the terms of the applicable security agreement. Absent other factors, an increase in the demand for, or a decrease in the supply of, a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of, a security decreases its price.

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

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of September 30, 2014. In light of the factors noted, the Company does not consider its balance of corporate bonds with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

Trust Preferred Securities.

The carrying value of the Company s trust preferred securities totaled $7.9 million at September 30, 2014 and comprised less than one percent of total investments and total assets as of that date. The category comprises a total of five single-issuer (i.e. non-pooled) trust preferred securities, four of which are impaired as of September 30, 2014, that were originally issued by four separate financial institutions. As a result of bank mergers involving the issuers of these securities, the Company s five trust preferred securities currently represent the de-facto obligations of three separate financial institutions.

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

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

At September 30, 2014, the Company owned two securities at an amortized cost of $3.0 million that were consistently rated by Moody s and S&P above the thresholds that generally support the Company s investment grade assessment. The securities were originally issued through Chase Capital II and currently represent de facto obligations of JPMorgan Chase & Co.

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

With regard to interest rates, the Company s impaired trust preferred securities are variable rate securities whose interest rates generally float with three-month LIBOR plus a margin. Based upon the historically low level of short-term market interest rates, the current yield on these securities is comparatively low. Consequently, the fair value of the securities, as determined based upon their market price, reflects the adverse effects of the historically low market interest rates at September 30, 2014.

More significantly, the market prices of the impaired trust preferred securities also currently reflect the effect of reduced demand for such securities in the current marketplace. Additionally, such prices reflect the effects of increased supply arising from financial institutions selling such investments.

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

The Company s evaluation of the unrealized loss associated with these securities considered a variety of factors to determine if any portion of the impairment was credit-related at September 30, 2014. Factors generally considered in such evaluations included the financial strength and viability of the issuer and its parent company, the security s historical performance through prior business and economic cycles, rating consistency or variability among rating companies, the security s current and anticipated status regarding payment default or deferral of contractual payments to investors and the impact of these factors on the present value of the security s expected future cash flows in relation to its amortized cost basis.

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

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

Finally, the Company does not intend to sell the temporarily impaired available for sale securities prior to the recovery of their fair value to a level equal to or greater than the Company s amortized cost. Furthermore, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of September 30, 2014. In light of the factors noted, the Company does not consider its investments in trust preferred securities with unrealized losses at September 30, 2014 to be other-than-temporarily impaired as of that date.

11. LOAN QUALITY AND ALLOWANCE FOR LOAN LOSSES

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

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

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

Acquired Loans. Loans that we acquire through acquisitions are recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

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

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

At September 30, 2014, the remaining outstanding principal balance and carrying amount of acquired credit-impaired loans totaled approximately $11,644,000 and $10,035,000, respectively. By comparison, at June 30, 2014, the remaining outstanding principal balance and carrying amount of acquired credit-impaired loans totaled approximately $11,778,000 and $10,138,000, respectively.

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The carrying amount of acquired credit-impaired loans for which interest is not being recognized due to the uncertainty of the cash flows relating to such loans totaled $2,349,000 and $2,374,000 at September 30, 2014 and June 30, 2014, respectively.

The balance of the allowance for loan losses at September 30, 2014 and June 30, 2014 included approximately $99,000 and $98,000 of valuation allowances, respectively, for a specifically identified impairment attributable to acquired credit-impaired loans. The valuation allowances were attributable to additional impairment recognized on the applicable loans subsequent to their acquisition, net of any charge offs recognized during that time.

The following table presents the changes in the accretable yield relating to the acquired credit-impaired loans for the three months ended September 30, 2014 and September 30, 2013.

	Three Months Ended September 30, 2014 (in thousands)	Three Months Ended September 30, 2013 (in thousands)
Beginning balance	$ 1,891	$ 741
Accretion to interest income	(64)	(55)
Disposals		
Reclassifications from nonaccretable difference		1,494
Ending balance	$ 1,827	$ 2,180

Classification of Assets. In compliance with 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. The classification of loan impairment as Loss is based upon a confirmed expectation for loss. For loans primarily secured by real estate, the expectation for loss is generally confirmed when: (a) impairment is identified on a loan individually evaluated in the manner described below, and (b) the loan is presumed to be collateral-dependent such that the source of loan repayment is expected to arise solely from sale of the collateral securing the applicable loan. Impairment identified on non-collateral-dependent loans may or may not be eligible for a

Loss classification depending upon the other salient facts and circumstances that affect the manner and likelihood of loan repayment. However, loan impairment that is classified as Loss is charged off against the allowance for loan losses concurrent with that classification.

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. 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.

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.

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

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

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

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

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The loans considered by the Company to be eligible for individual impairment review include its commercial mortgage loans, comprising multi-family and nonresidential real estate loans, construction loans, commercial business loans as well as its one-to-four family mortgage loans, 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 collateral securing the loan is generally used as a measurement proxy for that of the impaired loan itself as a practical expedient. In the case of real estate collateral, 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 value of non-real estate collateral is similarly determined based upon an independent assessment of fair market value by a qualified resource.

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

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

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

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

Valuation allowances established through the second tier of the loss measurement process utilize historical and environmental loss factors to collectively estimate the level of probable losses within defined segments of the Company s loan portfolio. These segments aggregate homogeneous subsets of loans with similar risk characteristics based upon loan type. For allowance for loan loss calculation and reporting purposes, the Company currently stratifies its loan portfolio into seven primary segments: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans, home equity loans, home equity lines of credit and other consumer loans.

The risks presented by residential mortgage loans are primarily related to adverse changes in the borrower s financial condition that threaten repayment of the loan in accordance with its contractual terms. Such risk to repayment can arise from job loss, divorce, illness and the personal bankruptcy of the borrower. For collateral dependent residential mortgage loans, additional risk of loss is presented by potential declines in the fair value of the collateral securing the loan.

Home equity loans and home equity lines of credit generally share the same risks as those applicable to residential mortgage loans. However, to the extent that such loans represent junior liens, they are comparatively more susceptible to such risks given their subordinate position behind senior liens.

In addition to sharing similar risks as those presented by residential mortgage loans, risks relating to commercial mortgage also arise from comparatively larger loan balances to single borrowers or groups of related borrowers. Moreover, the repayment of such loans is typically dependent on the successful operation of an underlying real estate project and may be further threatened by adverse changes to demand and supply of commercial real estate as well as changes generally impacting overall business or economic conditions.

The risks presented by construction loans are generally considered to be greater than those attributable to residential and commercial mortgage loans. Risks from construction lending arise, in part, from the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property s value at completion of the project and the estimated cost, including interest, of the project. The nature of these loans is such that they are comparatively more difficult to evaluate and monitor than permanent mortgage loans.

Commercial business loans are also considered to present a comparatively greater risk of loss due to the concentration of principal in a limited number of loans and/or borrowers and the effects of general economic conditions on the business. Commercial business loans may be secured by varying forms of collateral including, but not limited to, business equipment, receivables, inventory and other business assets which may not provide an adequate source of repayment of the outstanding loan balance in the event of borrower default. Moreover, the repayment of commercial business loans is primarily dependent on the successful operation of the underlying business which may be threatened by adverse changes to the demand for the business products and/or services as well as the overall efficiency and effectiveness of the business operations and infrastructure.

Finally, our unsecured consumer loans generally have shorter terms and higher interest rates than other forms of lending but generally involve more credit risk due to the lack of collateral to secure the loan in the event of borrower default. Consumer loan repayment is dependent on the borrower s continuing financial stability, and therefore is more likely to be adversely affected by job loss, divorce, illness and personal bankruptcy. By contrast, our consumer loans also include account loans that are fully secured by the borrower s deposit accounts and generally present nominal risk to the Bank.

Each primary segment is further stratified to distinguish between loans originated and purchased through third parties from loans acquired through business combinations. Commercial business loans include secured and unsecured loans as well as loans originated through SBA programs. Additional criteria may be used to further group loans with common risk characteristics. For example, such criteria may distinguish between loans secured by different collateral types or separately identify loans supported by government guarantees such as those issued by the SBA.

In regard to historical loss factors, the Company s allowance for loan loss calculation calls for an analysis of historical charge-offs and recoveries for each of the defined segments within the loan portfolio. The Company 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.

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. During fiscal 2014, the environmental factors utilized by the Company in its allowance for loan loss calculation were expanded to include changes in the nature, volume and terms of loans, changes in the quality of loan review systems and resources and the effects of regulatory, legal and other external factors.

For each category of the loan portfolio, a level of risk, developed from a number of internal and external resources, is assigned to each of the qualitative criteria utilizing a scale ranging from zero (negligible risk) to 15 (high risk), with higher values potentially ascribed to exceptional levels of risk that exceed the standard range, as appropriate. The sum of the risk values, expressed as a whole number, is multiplied by .01% to arrive at an overall environmental loss factor, expressed in basis points, for each loan category.

The Company incorporates its credit-rating classification system into the calculation of environmental loss factors by loan type by including risk-rating classification weights in its calculation of those factors. The Company s risk-rating classification system ascribes a numerical rating of 1 through 9 to each loan within the portfolio. The ratings 5 through 9 represent the numerical equivalents of the traditional loan classifications Watch , Special Mention , Substandard , Doubtful and Loss , respectively, while lower ratings, 1 through 4 , represent risk-ratings within the least risky Pass category. The environmental loss factor applicable to each non-impaired loan within a category, as described above, is weighted by a multiplier based upon the loan s risk-rating classification. Within any single loan category, a higher environmental loss factor is 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 the Company s allowance for loans losses is established in accordance with management s best estimate, actual losses are dependent upon future events and, as such, further additions to the level of loan loss allowances may be necessary.

The following tables present the balance of the allowance for loan losses at September 30, 2014 and June 30, 2014 based upon the calculation methodology described above. The tables identify the valuation allowances attributable to specifically identified impairments on individually evaluated loans, including those acquired with deteriorated credit quality, as well as valuation allowances for impairments on loans evaluated collectively. The tables include the underlying balance of loans receivable applicable to each category as of those dates as well as the activity in the allowance for loan losses for the three months ended September 30, 2014 and 2013. Unless otherwise noted, the balance of loans reported in the tables below excludes yield adjustments and the allowance for loan loss.

Allowance for Loan Losses and Loans Receivable

at September 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Balance of allowance for loan losses:								
Originated and purchased loans								
Loans individually evaluated for impairment	$ 553	$ 396	$	$	$ 20	$	$	$ 969
Loans collectively evaluated for impairment	1,997	7,012	27	461	238	36	22	9,793
Allowance for loan losses on originated and purchased loans	2,550	7,408	27	461	258	36	22	10,762
Loans acquired at fair value								
Loans acquired with deteriorated credit quality				99				99
Other acquired loans individually evaluated for impairment		153		291	56			500
Loans collectively evaluated for impairment	25	381	31	511	48	48	1	1,045
Allowance for loan losses on loans acquired at fair value	25	534	31	901	104	48	1	1,644
Total allowance for loan losses	$ 2,575	$ 7,942	$ 58	$ 1,362	$ 362	$ 84	$ 23	$ 12,406

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Allowance for Loan Losses and Loans Receivable

at September 30, 2014 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Changes in the allowance for loan losses for the three months ended September 30, 2014:								
At June 30, 2014:								
Allocated	$ 2,729	$ 7,737	$ 67	$ 1,284	$ 460	$ 88	$ 22	$ 12,387
Unallocated								
Total allowance for loan losses	2,729	7,737	67	1,284	460	88	22	12,387
Total charge offs	(303)	(346)		(192)				(841)
Total recoveries				2				2
Total allocated provisions	149	551	(9)	268	(98)	(4)	1	858
Total unallocated provisions								
At September 30, 2014:								
Allocated	2,575	7,942	58	1,362	362	84	23	12,406
Unallocated								
Total allowance for loan losses	**$ 2,575**	**$ 7,942**	**$ 58**	**$ 1,362**	**$ 362**	**$ 84**	**$ 23**	**$ 12,406**

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Allowance for Loan Losses and Loans Receivable

at September 30, 2014 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Changes in the allowance for loan losses for the three months ended September 30, 2013:								
At June 30, 2013:								
Allocated	$ 3,660	$ 5,359	$ 81	$ 1,218	$ 490	$ 76	$ 12	$ 10,896
Unallocated								
Total allowance for loan losses	3,660	5,359	81	1,218	490	76	12	10,896
Total charge offs	(230)	(34)		(408)	(34)		(1)	(707)
Total recoveries	18	28		2	1			49
Total allocated provisions	99	867	22	168	12			1,168
Total unallocated provisions								
At September 30, 2013:								
Allocated	3,547	6,220	103	980	469	76	11	11,406
Unallocated								
Total allowance for loan losses	**$ 3,547**	**$ 6,220**	**$ 103**	**$ 980**	**$ 469**	**$ 76**	**$ 11**	**$ 11,406**

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Allowance for Loan Losses and Loans Receivable

at September 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Balance of loans receivable:								
Originated and purchased loans								
Loans individually evaluated for impairment	$ 12,291	$ 4,759	$	$ 1,259	$ 949	$ 46	$	$ 19,304
Loans collectively evaluated for impairment	496,771	906,758	3,134	38,884	64,184	10,889	4,781	1,525,401
Total originated and purchased loans	509,062	911,517	3,134	40,143	65,133	10,935	4,781	1,544,705
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	740	1,079		8,216				10,035
Other acquired loans individually evaluated for impairment	368	2,347	1,424	2,131	618	957		7,845
Loans collectively evaluated for impairment	65,854	99,825	1,840	22,453	7,186	12,597	89	209,844
	66,962	103,251	3,264	32,800	7,804	13,554	89	227,724

Total loans acquired at fair value								
Total loans	**$ 576,024**	**$ 1,014,768**	**$ 6,398**	**$ 72,943**	**$ 72,937**	**$ 24,489**	**$ 4,870**	1,772,429
Unamortized yield adjustments								(1,432)
Loans receivable								**$ 1,770,997**

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Allowance for Loan Losses and Loans Receivable

at June 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Balance of allowance for loan losses:								
Originated and purchased loans								
Loans individually evaluated for impairment	$ 528	$ 404	$	$	$ 75	$	$	$ 1,007
Loans collectively evaluated for impairment	2,172	6,760	29	352	272	35	21	9,641
Allowance for loan losses on originated and purchased loans	2,700	7,164	29	352	347	35	21	10,648
Loans acquired at fair value								
Loans acquired with deteriorated credit quality				98				98
Other acquired loans individually evaluated for impairment		165		346	57			568
Loans collectively evaluated for impairment	29	408	38	488	56	53	1	1,073
Allowance for loan losses on loans acquired at fair value	29	573	38	932	113	53	1	1,739
Total allowance for loan losses	**$ 2,729**	**$ 7,737**	**$ 67**	**$ 1,284**	**$ 460**	**$ 88**	**$ 22**	**$ 12,387**

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Allowance for Loan Losses and Loans Receivable

at June 30, 2014 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Balance of loans receivable:								
Originated and purchased loans								
Loans individually evaluated for impairment	$ 11,923	$ 5,403	$	$ 1,263	$ 1,010	$ 17	$	$ 19,616
Loans collectively evaluated for impairment	494,522	873,340	3,619	31,326	66,163	10,529	4,248	1,483,747
Total originated and purchased loans	506,445	878,743	3,619	32,589	67,173	10,546	4,248	1,503,363
Loans acquired at fair value								
Loans acquired with deteriorated credit quality	742	1,071		8,325				10,138
Other acquired loans individually evaluated for impairment		1,895	1,448	2,456	692	964		7,455
Loans collectively evaluated for impairment	73,425	102,046	2,214	23,891	7,746	12,500	90	221,912
Total loans acquired at fair value	74,167	105,012	3,662	34,672	8,438	13,464	90	239,505
Total loans	**$ 580,612**	**$ 983,755**	**$ 7,281**	**$ 67,261**	**$ 75,611**	**$ 24,010**	**$ 4,338**	1,742,868

Unamortized yield adjustments	(1,397)
Loans receivable	**$ 1,741,471**

The following tables present key indicators of credit quality regarding the Company s loan portfolio based upon loan classification and contractual payment status at September 30, 2014 and June 30, 2014.

Credit-Rating Classification of Loans Receivable

at September 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Non-classified	$ 494,976	$ 905,343	$ 2,911	$ 38,766	$ 63,928	$ 10,645	$ 4,778	$ 1,521,347
Classified:								
Special mention	1,863	350	223	118	148	150	2	2,854
Substandard	12,223	5,544		1,259	1,057	140	1	20,224
Doubtful		280						280
Loss								
Total classified loans	14,086	6,174	223	1,377	1,205	290	3	23,358
Total originated and purchased loans	509,062	911,517	3,134	40,143	65,133	10,935	4,781	1,544,705
Loans acquired at fair value								
Non-classified	65,593	94,932		17,751	7,031	12,105	67	197,479
Classified:								
Special mention	261	4,471	353	7,253	80	244	19	12,681
Substandard	1,108	3,848	2,911	7,790	693	1,205	3	17,558
Doubtful				6				6
Loss								
Total classified loans	1,369	8,319	3,264	15,049	773	1,449	22	30,245
Total loans acquired at fair value	66,962	103,251	3,264	32,800	7,804	13,554	89	227,724

Total loans	**$ 576,024**	**$ 1,014,768**	**$ 6,398**	**$ 72,943**	**$ 72,937**	**$ 24,489**	**$ 4,870**	**$ 1,772,429**

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Credit-Rating Classification of Loans Receivable

at June 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Non-classified	$ 492,531	$ 872,063	$ 3,461	$ 31,301	$ 66,016	$ 10,352	$ 4,247	$ 1,479,971
Classified:								
Special mention	1,626	357	158	25	146	84	1	2,397
Substandard	12,288	6,039		1,263	1,011	110		20,711
Doubtful		284						284
Loss								
Total classified loans	13,914	6,680	158	1,288	1,157	194	1	23,392
Total originated and purchased loans	506,445	878,743	3,619	32,589	67,173	10,546	4,248	1,503,363
Loans acquired at fair value								
Non-classified	73,425	96,758		18,946	7,582	12,003	71	208,785
Classified:								
Special mention		4,600	353	4,602	45	245	16	9,861
Substandard	742	3,654	3,309	11,118	811	1,216	3	20,853
Doubtful				6				6
Loss								
Total classified loans	742	8,254	3,662	15,726	856	1,461	19	30,720
Total loans acquired at fair value	74,167	105,012	3,662	34,672	8,438	13,464	90	239,505
Total loans	**$ 580,612**	**$ 983,755**	**$ 7,281**	**$ 67,261**	**$ 75,611**	**$ 24,010**	**$ 4,338**	**$ 1,742,868**

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Contractual Payment Status of Loans Receivable

at September 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Current	$ 497,648	$ 908,987	$ 3,134	$ 38,766	$ 64,509	$ 10,763	$ 4,577	$ 1,528,384
Past due:								
30-59 days	3,315	254		25	71	125	203	3,993
60-89 days	181			93	86			360
90+ days	7,918	2,276		1,259	467	47	1	11,968
Total past due	11,414	2,530		1,377	624	172	204	16,321
Total originated and purchased loans	509,062	911,517	3,134	40,143	65,133	10,935	4,781	1,544,705
Loans acquired at fair value								
Current	65,593	99,885	2,429	29,644	7,306	12,502	87	217,446
Past due:								
30-59 days		649		840	90		2	1,581
60-89 days	261	833		263	80	95		1,532
90+ days	1,108	1,884	835	2,053	328	957		7,165
Total past due	1,369	3,366	835	3,156	498	1,052	2	10,278
Total loans acquired at fair value	66,962	103,251	3,264	32,800	7,804	13,554	89	227,724
Total loans	$ 576,024	$ 1,014,768	$ 6,398	$ 72,943	$ 72,937	$ 24,489	$ 4,870	$ 1,772,429

Contractual Payment Status of Loans Receivable

at June 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Current	$ 495,330	$ 875,887	$ 3,619	$ 31,081	$ 66,548	$ 10,499	$ 4,034	$ 1,486,998
Past due:								
30-59 days	1,385			245	183		60	1,873
60-89 days	1,163				3	30	28	1,224
90+ days	8,567	2,856		1,263	439	17	126	13,268
Total past due	11,115	2,856		1,508	625	47	214	16,365
Total originated and purchased loans	506,445	878,743	3,619	32,589	67,173	10,546	4,248	1,503,363
Loans acquired at fair value								
Current	72,736	102,881	2,810	32,346	7,731	12,390	88	230,982
Past due:								
30-59 days	689	561			152			1,402
60-89 days		427			95	110	1	633
90+ days	742	1,143	852	2,326	460	964	1	6,488
Total past due	1,431	2,131	852	2,326	707	1,074	2	8,523
Total loans acquired at fair value	74,167	105,012	3,662	34,672	8,438	13,464	90	239,505
Total loans	**$ 580,612**	**$ 983,755**	**$ 7,281**	**$ 67,261**	**$ 75,611**	**$ 24,010**	**$ 4,338**	**$ 1,742,868**

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The following tables present information relating to the Company s nonperforming and impaired loans at September 30, 2014 and June 30, 2014. Loans reported as 90+ days past due accruing in the table immediately below are also reported in the preceding contractual payment status table under the heading 90+ days past due .

Performance Status of Loans Receivable

at September 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Performing	$ 499,450	$ 906,836	$ 3,134	$ 38,884	$ 64,651	$ 10,888	$ 4,780	$ 1,528,623
Nonperforming:								
90+ days past due accruing								
Nonaccrual	9,612	4,681		1,259	482	47	1	16,082
Total nonperforming	9,612	4,681		1,259	482	47	1	16,082
Total originated and purchased loans	509,062	911,517	3,134	40,143	65,133	10,935	4,781	1,544,705
Loans acquired at fair value								
Performing	65,854	101,367	1,840	29,471	7,367	12,597	89	218,585
Nonperforming:								
90+ days past due accruing								
Nonaccrual	1,108	1,884	1,424	3,329	437	957		9,139
Total nonperforming	1,108	1,884	1,424	3,329	437	957		9,139
Total loans acquired at fair value	66,962	103,251	3,264	32,800	7,804	13,554	89	227,724

Total loans	**$ 576,024**	**$ 1,014,768**	**$ 6,398**	**$ 72,943**	**$ 72,937**	**$ 24,489**	**$ 4,870**	**$ 1,772,429**

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Performance Status of Loans Receivable

at June 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Performing	$ 497,243	$ 873,421	$ 3,619	$ 31,326	$ 66,734	$ 10,529	$ 4,122	$ 1,486,994
Nonperforming:								
90+ days past due accruing							125	125
Nonaccrual	9,202	5,322		1,263	439	17	1	16,244
Total nonperforming	9,202	5,322		1,263	439	17	126	16,369
Total originated and purchased loans	506,445	878,743	3,619	32,589	67,173	10,546	4,248	1,503,363
Loans acquired at fair value								
Performing	73,425	103,399	2,214	31,016	7,928	12,500	89	230,571
Nonperforming:								
90+ days past due accruing								
Nonaccrual	742	1,613	1,448	3,656	510	964	1	8,934
Total nonperforming	742	1,613	1,448	3,656	510	964	1	8,934
Total loans acquired at fair value	74,167	105,012	3,662	34,672	8,438	13,464	90	239,505
Total loans	**$ 580,612**	**$ 983,755**	**$ 7,281**	**$ 67,261**	**$ 75,611**	**$ 24,010**	**$ 4,338**	**$ 1,742,868**

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Impairment Status of Loans Receivable

at September 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	$ 496,771	$ 906,758	$ 3,134	$ 38,884	$ 64,184	$ 10,889	$ 4,781	$ 1,525,401
Impaired loans:								
Impaired loans with no allowance for impairment	10,137	4,401		1,259	854	46		16,697
Impaired loans with allowance for impairment:								
Recorded investment	2,154	358			95			2,607
Allowance for impairment	(553)	(396)			(20)			(969)
Balance of impaired loans net of allowance for impairment	1,601	(38)			75			1,638
Total impaired loans, excluding allowance	12,291	4,759		1,259	949	46		19,304
Total originated and purchased loans	509,062	911,517	3,134	40,143	65,133	10,935	4,781	1,544,705
Loans acquired at fair value								
Non-impaired loans	65,854	99,825	1,840	22,453	7,186	12,597	89	209,844

Impaired loans:								
Impaired loans with no allowance for impairment	1,108	2,445	1,424	9,624	544	957		16,102
Impaired loans with allowance for impairment:								
Recorded investment		981		723	74			1,778
Allowance for impairment		(153)		(390)	(56)			(599)
Balance of impaired loans net of allowance for impairment		828		333	18			1,179
Total impaired loans, excluding allowance	1,108	3,426	1,424	10,347	618	957		17,880
Total loans acquired at fair value	66,962	103,251	3,264	32,800	7,804	13,554	89	227,724
Total loans	**$ 576,024**	**$ 1,014,768**	**$ 6,398**	**$ 72,943**	**$ 72,937**	**$ 24,489**	**$ 4,870**	**$ 1,772,429**

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Impairment Status of Loans Receivable

at September 30, 2014 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Unpaid principal balance of impaired loans:								
Originated and purchased loans	$ 18,480	$ 5,670	$	$ 1,407	$ 968	$ 47	$	$ 26,572
Loans acquired at fair value	1,108	3,689	1,534	12,120	633	975		20,059
Total impaired loans	**$ 19,588**	**$ 9,359**	**$ 1,534**	**$ 13,527**	**$ 1,601**	**$ 1,022**	**$**	**$ 46,631**
For the three months ended September 30, 2014								
Average balance of impaired loans	$ 13,169	$ 8,407	$ 1,432	$ 11,903	$ 1,639	$ 1,055	$	$ 37,605
Interest earned on impaired loans	$ 29	$ 46	$	$ 189	$ 11	$	$	$ 275
For the three months ended September 30, 2013								
Average balance of impaired loans	$ 14,655	$ 11,305	$ 2,764	$ 8,927	$ 1,579	$ 664	$	$ 39,894
Interest earned on impaired loans	$ 47	$ 46	$	$ 183	$ 16	$	$	$ 292

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Impairment Status of Loans Receivable

at June 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	$ 494,522	$ 873,340	$ 3,619	$ 31,326	$ 66,163	$ 10,529	$ 4,248	$ 1,483,747
Impaired loans:								
Impaired loans with no allowance for impairment	9,800	5,037		1,263	911	17		17,028
Impaired loans with allowance for impairment:								
Recorded investment	2,123	366			99			2,588
Allowance for impairment	(528)	(404)			(75)			(1,007)
Balance of impaired loans net of allowance for impairment	1,595	(38)			24			1,581
Total impaired loans, excluding allowance	11,923	5,403		1,263	1,010	17		19,616
Total originated and purchased loans	506,445	878,743	3,619	32,589	67,173	10,546	4,248	1,503,363
Loans acquired at fair value								
Non-impaired loans	73,425	102,046	2,214	23,891	7,746	12,500	90	221,912

Impaired loans:								
Impaired loans with no allowance for impairment	742	1,690	1,448	10,141	617	964		15,602
Impaired loans with allowance for impairment:								
Recorded investment		1,276		640	75			1,991
Allowance for impairment		(165)		(444)	(57)			(666)
Balance of impaired loans net of allowance for impairment		1,111		196	18			1,325
Total impaired loans, excluding allowance	742	2,966	1,448	10,781	692	964		17,593
Total loans acquired at fair value	74,167	105,012	3,662	34,672	8,438	13,464	90	239,505
Total loans	**$ 580,612**	**$ 983,755**	**$ 7,281**	**$ 67,261**	**$ 75,611**	**$ 24,010**	**$ 4,338**	**$ 1,742,868**

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Impairment Status of Loans Receivable

at June 30, 2014 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Unpaid principal balance of impaired loans:								
Originated and purchased loans	$ 17,655	$ 5,919	$	$ 1,407	$ 1,027	$ 17	$	$ 26,025
Loans acquired at fair value	742	3,264	1,547	12,495	726	975		19,749
Total impaired loans	**$ 18,397**	**$ 9,183**	**$ 1,547**	**$ 13,902**	**$ 1,753**	**$ 992**	**$**	**$ 45,774**

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

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

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

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The following table presents information regarding the restructuring of the Company s troubled debts during the three months ended September 30, 2014 and any defaults during those periods of TDRs that were restructured within 12 months of the date of default. There were no restructurings or applicable defaults of the Company s troubled debt during the three months ended September 30, 2013.

Troubled Debt Restructurings of Loans Receivable

at September 30, 2014

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(Dollars in Thousands)							
Troubled debt restructuring activity for the three months ended September 30, 2014								
Originated and purchased loans								
Number of loans	2							2
Pre-modification outstanding recorded investment	$ 664	$	$	$	$	$	$	$ 664
Post-modification outstanding recorded investment	673							673
Charge offs against the allowance for loan loss for impairment recognized at modification	33							33
Loans acquired at fair value								
Number of loans								
Pre-modification outstanding recorded investment	$	$	$	$	$	$	$	$
Post-modification outstanding recorded investment								
Charge offs against the allowance for loan loss for impairment recognized at modification								
Troubled debt restructuring defaults								
Originated and purchased loans								
Number of loans								

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

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

Interest Rate Reduction: Temporary or permanent reduction of the interest rate charged against the outstanding balance of the loan.

Capitalization of Prior Past Dues: Capitalization of prior amounts due to the outstanding balance of the loan.

Extension of Maturity or Balloon Date: Extending the term of the loan past its original balloon or maturity date.

Deferral of Principal Payments: Temporary deferral of the principal portion of a loan payment.

Payment Recalculation and Re-amortization: Recalculation of the recurring payment obligation and resulting loan amortization/repayment schedule based on the loan s modified terms.

12. BORROWINGS

Fixed rate advances from the FHLB of New York mature as follows:

	September 30, 2014		June 30, 2014	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
	(Dollars in thousands)			
Maturing in years ending June 30:				
2015	$ 375,000	0.38%	$ 320,000	0.38%
2016	7,500	1.09	7,500	1.09
2017	3,000	1.05	3,000	1.05
2018	5,225	1.18	5,225	1.18
2021	742	4.94	765	4.94
2023	145,000	3.04	145,000	3.04
	536,467	1.13%	481,490	1.21%
Fair value adjustments	24		29	
	$ 536,491		$ 481,519	

At September 30, 2014, $375.0 million in advances are due within one year while the remaining $161.5 million in advances are due after one year of which $145.0 million are callable in April 2018.

At September 30, 2014, FHLB advances were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately $754.1 million and $198.6 million, respectively. At June 30, 2014, FHLB advances were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately $739.4 million and $204.2 million, respectively.

Borrowings at September 30, 2014 and June 30, 2014 also included overnight borrowings in the form of depositor sweep accounts totaling $28.4 million and $30.7 million, respectively. 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.

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13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

At September 30, 2014 and June 30, 2014, the Company was subject to the terms of certain interest rate derivative agreements that were utilized by the Company to manage the interest rate exposure arising from specific wholesale funding positions. Such wholesale funding sources include floating-rate brokered money market deposits indexed to one-month LIBOR as well as a number of 90 day fixed-rate FHLB advances that are forecasted to be periodically redrawn at maturity for the same 90 day term as the original advance. The derivatives, comprising eight interest rate swaps and two interest rate caps, were designated as cash flow hedges with changes in their fair value recorded as an adjustment through other comprehensive income on an after-tax basis.

The effects of derivative instruments on the statements of condition included in the Consolidated Financial Statements at September 30, 2014 and June 30, 2014 and for the three months ended September 30, 2014 and 2013 are as follows:

	Notional/ Contract Amount	Fair Value	Balance Sheet Location	Expiration Date
		(Dollars in Thousands)		
Derivatives designated as hedging instruments				
At September 30, 2014:				
Interest rate swaps:				
Effective July 1, 2013	$ 165,000	$ 1,195	Other assets	July 1, 2018
Effective August 19, 2013	75,000	(425)	Other assets	August 20, 2018
Effective October 9, 2013	50,000	213	Other assets	October 9, 2018
Effective March 28, 2014	75,000	(491)	Other assets	March 28, 2019
Effective June 5, 2015	60,000	(46)	Other assets	June 5, 2020
Effective July 28, 2015	50,000	(213)	Other assets	July 28, 2020
Effective September 28, 2015	40,000	(90)	Other assets	September 28, 2020
Effective December 28, 2015	35,000	(88)	Other assets	December 28, 2020
Interest rate caps:				
Effective June 5, 2013	40,000	994	Other assets	June 5, 2018
Effective July 1, 2013	35,000	873	Other assets	July 1, 2018
Total	$ 625,000	$ 1,922		
At June 30, 2014:				
Interest rate swaps:				
Effective July 1, 2013	$ 165,000	$ 103	Other liabilities	July 1, 2018
Effective August 19, 2013	75,000	(1,109)	Other liabilities	August 20, 2018
Effective October 9, 2013	50,000	(234)	Other liabilities	October 9, 2018
Effective March 28, 2014	75,000	(1,203)	Other liabilities	March 28, 2019
Effective June 5, 2015	60,000	(271)	Other liabilities	June 5, 2020
Interest rate caps:				
Effective June 5, 2013	40,000	913	Other liabilities	June 5, 2018
Effective July 1, 2013	35,000	826	Other liabilities	July 1, 2018

Total	$ 500,000	$ (975)

	Amount of Gain (Loss) Recognized in OCI on Derivatives, net of tax (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)
		(Dollars in Thousands)	
Derivatives in cash flow hedges			
For the three months ended September 30, 2014:			
Interest rate swaps:			
Effective July 1, 2013	$ 645	Not Applicable	$
Effective August 19, 2013	405	Not Applicable	
Effective October 9, 2013	265	Not Applicable	
Effective March 28, 2014	421	Not Applicable	
Effective June 5, 2015	133	Not Applicable	
Effective July 28, 2015	(126)	Not Applicable	
Effective September 28, 2015	(53)	Not Applicable	
Effective December 28, 2015	(52)	Not Applicable	
Interest rate caps:			
Effective June 5, 2013	53	Not Applicable	
Effective July 1, 2013	31	Not Applicable	
Total	$ 1,722		$
For the three months ended September 30, 2013:			
Interest rate swaps:			
Effective July 1, 2013	$ (574)	Not Applicable	$
Effective August 19, 2013	(625)	Not Applicable	
Effective June 5, 2015	(212)	Not Applicable	
Interest rate caps:			
Effective June 5, 2013	(140)	Not Applicable	
Effective July 1, 2013	(121)	Not Applicable	
Total	$ (1,672)		$

The Company has in place enforceable master netting arrangements with all counterparties. All master netting arrangements include rights to offset associated with the Company s recognized derivative assets, derivative liabilities, and cash collateral received and pledged.

At September 30, 2014, four of the Company s derivatives were in an asset position totaling $3.3 million while the remaining six derivatives were in a liability position totaling $1.4 million. In total, the Company s derivatives were in a net asset position of $1.9 million at September 30, 2014 and included in other assets as of that date. As required under

the enforceable master netting arrangement with its derivatives counterparties, the Company posted financial collateral to one counterparty in the amount of $310,000 at September 30, 2014 and received financial collateral in the amount of $1,960,000 from a separate counterparty as of that same date. The financial collateral posted and received were not included as offsetting amounts at September 30, 2014.

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At June 30, 2014, three of the Company s derivatives were in an asset position totaling $1.8 million while the remaining four derivatives were in a liability position totaling $2.8 million. In total, the Company s derivatives were in a net liability position of $975,000 at June 30, 2014 and included in other liabilities as of that date. As required under the enforceable master netting arrangement with its derivatives counterparty, the Company posted financial collateral in the amount of $1,090,000 at June 30, 2014 that was not included as an offsetting amount.

14. BENEFIT PLANS

Components of Net Periodic Expense

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

	Three Months Ended September 30,	
	2014	2013
	(In Thousands)	
Service cost	$ 57	$ 50
Interest cost	82	84
Amortization of unrecognized past service liability	12	12
Amortization of unrecognized net actuarial loss (gain)	7	(1)
Net periodic benefit expense	$ 158	$ 145

Stock Compensation Plans

The following is a summary of the Company s stock option activity and related information for its option plans for the three months ended September 30, 2014:

	Options (In Thousands)	Weighted Average Exercise Price	Range of Prices	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Outstanding at June 30, 2014	3,035	$ 12.37	$10.16 - $14.79	2.0 years	
Exercised	(2,785)	$ 12.26	$11.55 - $12.71	1.2 years	
Outstanding at September 30, 2014	250	$ 13.59	$10.16 - $14.79	8.7 years	$ 206
Exercisable at September 30, 2014	39	$ 10.16	$10.16	6.5 years	$ 124

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A total of 2,785,122 vested options with an aggregate intrinsic value of $7.4 million were exercised during the three months ended September 30, 2014. The Company issued 107,382 shares from treasury stock carrying an average cost of $11.48 per share in conjunction with the equivalent number of options exercised during the period. The cash proceeds received in conjunction with the exercise of these options totaled approximately $1.4 million.

The Company elected to settle the exercise of the remaining 2,677,740 stock options exercised during the period in cash based upon the difference between the exercise price of the options and the closing price of the Company s stock on the date of exercise. The net cash proceeds of these exercises resulted in a direct reduction of stockholders equity totaling approximately $7.2 million. No additional shares of the Company s capital stock were issued and no cash proceeds were received in relation to the exercise of these options. A portion of the exercises settled in cash during the period represented disqualifying dispositions of incentive stock options for which the Company recognized approximately $416,000 in income tax benefits.

There were no vested options exercised during the three months ended September 30, 2013.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
	(In Thousands)			
At September 30, 2014:				
Debt securities available for sale:				
U.S. agency securities	$	$ 4,140	$	$ 4,140
Obligations of state and political subdivisions		27,035		27,035
Asset-backed securities		87,881		87,881
Collateralized loan obligations		123,228		123,228
Corporate bonds		162,347		162,347
Trust preferred securities		7,892		7,892
Total debt securities		412,523		412,523
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations		80,087		80,087
Residential pass-through securities		325,345		325,345
Commercial pass-through securities		8,446		8,446
Total mortgage- backed securities		413,878		413,878
Total securities available for sale	$	$ 826,401	$	$ 826,401
Derivative instruments:				
Interest rate swaps	$	$ 55	$	$ 55
Interest rate caps		1,867		1,867
Total derivatives	$	$ 1,922	$	$ 1,922

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	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
	(In Thousands)			
At June 30, 2014:				
Debt securities available for sale:				
U.S. agency securities	$	$ 4,205	$	$ 4,205
Obligations of state and political subdivisions		26,773		26,773
Asset-backed securities		87,316		87,316
Collateralized loan obligations		119,572		119,572
Corporate bonds		162,234		162,234
Trust preferred securities		7,798		7,798
Total debt securities		407,898		407,898
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations		83,270		83,270
Residential pass-through securities		353,953		353,953
Total mortgage- backed securities		437,223		437,223
Total securities available for sale	$	$ 845,121	$	$ 845,121
Derivative instruments:				
Interest rate swaps	$	$ (2,714)	$	$ (2,714)
Interest rate caps		1,739		1,739
Total derivatives	$	$ (975)	$	$ (975)

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

The Company has contracted with a third party vendor to provide periodic valuations for its interest rate derivatives to determine the fair value of its interest rate caps and swaps. The vendor utilizes standard valuation methodologies applicable to interest rate derivatives such as discounted cash flow analysis and extensions of the Black-Scholes model. Such valuations are based upon readily observable market data and are therefore considered Level 2 valuations by the Company.

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For the three months ended September 30, 2014, there were no purchases, sales, issuances, or settlements of assets or liabilities whose fair values are determined based upon Level 3 inputs on a recurring basis. For that same period, there were no transfers of assets or liabilities within the fair valuation measurement hierarchy between Level 1 and Level 2 inputs.

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
	(In Thousands)			
At September 30, 2014				
Impaired loans	$	$	$ 10,905	$ 10,905
Real estate owned			161	161
At June 30, 2014				
Impaired loans	$	$	$ 10,387	$ 10,387

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

	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value Estimate (In Thousands)	Valuation Techniques	Unobservable Input	Range	Weighted Average
At September 30, 2014					
Impaired loans	$ 10,905	Market valuation of underlying collateral [1]	Direct disposal costs [3]	6% - 10%	8.83%
Real estate owned	$ 161	Market valuation property [2]	Direct disposal costs [3]	6% - 10%	6.74%
At June 30, 2014					
Impaired loans	$ 10,387	Market valuation of underlying collateral [1]	Direct disposal costs [3]	6% - 10%	7.10%

(1) The fair value basis of impaired loans is generally determined based on an independent appraisal of the market value of a loan s underlying collateral.

(2) The fair value basis of real estate owned is generally determined based upon the lower of an independent appraisal of the property s market value or the applicable listing price or contracted sales price.

(3) The fair value basis of impaired loans and real estate owned is adjusted to reflect management estimates of disposal costs including, but not necessarily limited to, real estate brokerage commissions and title transfer fees,

with such cost estimates generally ranging from 6% to 10% of collateral or property market value.

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

At September 30, 2014, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling $12.5 million and valuation allowances of $1.6 million reflecting fair values of $10.9 million. By comparison, at June 30, 2014, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling $12.1 million and valuation allowances of $1.7 million reflecting fair values of $10.4 million.

Once a loan is foreclosed, the fair value of the real estate owned continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan. At September 30, 2014, real estate owned whose carrying value was written down utilizing Level 3 inputs during the prior three months comprised two properties with a fair values totaling $161,000. By comparison, at June 30, 2014, the Company held no real estate owned whose carrying value was written down utilizing Level 3 inputs during fiscal 2014.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at September 30, 2014 and June 30, 2014:

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

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

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

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

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

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

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Interest Rate Derivatives. See the discussion presented above concerning assets measured at fair value on a recurring basis.

Commitments. The fair value of commitments to fund credit lines and originate or participate in loans is estimated using fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented on Page 85.

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

	Carrying Amount and Fair Value Measurements at September 30, 2014				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 126,786	$ 126,786	$ 126,786	$	$
Debt securities available for sale	412,523	412,523		412,523	
Debt securities held to maturity	215,454	212,934		212,934	
Loans receivable	1,758,591	1,754,539			1,754,539
Mortgage-backed securities available for sale	413,878	413,878		413,878	
Mortgage-backed securities held to maturity	309,017	307,178		307,178	
FHLB stock	27,383	27,383			27,383
Interest receivable	9,308	9,308	9,308		
Financial liabilities:					
Deposits [(A)]	2,449,313	2,461,804	1,418,225		1,043,579
Borrowings	564,860	574,744			574,744
Interest payable on borrowings	1,043	1,043	1,043		
Derivative instruments:					
Interest rate swaps	55	55		55	
Interest rate caps	1,867	1,867		1,867	

(A) Includes accrued interest payable on deposits of $81,000 at September 30, 2014.

	Carrying Amount and Fair Value Measurements at June 30, 2014				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 135,034	$ 135,034	$ 135,034	$	$
Debt securities available for sale	407,898	407,898		407,898	
Debt securities held to maturity	216,414	213,472		213,472	
Loans receivable	1,729,084	1,711,972			1,711,972
Mortgage-backed securities available for sale	437,223	437,223		437,223	
Mortgage-backed securities held to maturity	295,658	293,781		293,781	
FHLB stock	25,990	25,990			25,990
Interest receivable	9,013	9,013	9,013		
Financial liabilities:					
Deposits [(A)]	2,479,941	2,490,933	1,442,723		1,048,210
Borrowings	512,257	521,839			521,839
Interest payable on borrowings	1,001	1,001	1,001		
Derivative instruments:					
Interest rate swaps	(2,714)	(2,714)		(2,714)	
Interest rate caps	1,739	1,739		1,739	

[(A)] Includes accrued interest payable on deposits of $69,000 at June 30, 2014.

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

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

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16. COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss included in stockholders equity at September 30, 2014 and June 30, 2014 are as follows:

	September 30, 2014	June 30, 2014
	(In thousands)	
Net unrealized loss on securities available for sale	$ (1,980)	$ 1,091
Tax effect	449	(592)
Net of tax amount	(1,531)	499
Net unrealized loss on securities available for sale transferred to held to maturity	$ (988)	$ (990)
Tax effect	404	404
Net of tax amount	(584)	(586)
Fair value adjustments on derivatives	(590)	(3,501)
Tax effect	241	1,430
Net of tax amount	(349)	(2,071)
Benefit plan adjustments	(550)	(206)
Tax effect	224	84
Net of tax amount	(326)	(122)
Accumulated other comprehensive loss	$ (2,790)	$ (2,280)

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Other comprehensive loss and related tax effects for the three months ended September 30, 2014 and September 30, 2013 are presented in the following table:

	Three Months Ended September 30,	
	2014	2013
	(In thousands)	
Net unrealized holding (loss) gain on securities available for sale	$ (3,071)	$ 1,477
Net unrealized loss on Derivatives	2,911	(2,827)
Amortization of unrealized holding loss on securities available for sale transferred to held to maturity [3]	2	
Benefit plans:		
Amortization of:		
Actuarial loss (gain) [1]	7	(1)
Past service cost [1]	12	12
New actuarial (loss) gain	(363)	803
Net change in benefit plans accrued expense	(344)	814
Other comprehensive loss before taxes	(502)	(536)
Tax effect [2]	(8)	288
Other comprehensive loss	$ (510)	$ (248)

(1) Represents amounts reclassified out of accumulated other comprehensive income and included in the computation of net periodic pension expense. See Note 14 Benefit Plans for additional information

(2) The amounts included in income taxes for items reclassified out of accumulated other comprehensive income totaled $(9) and $(4) for the three months ended September 30, 2014 and 2013, respectively

(3) Represents amounts reclassified out of accumulated other comprehensive income and included in interest income on taxable securities.

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ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

Comparison of Financial Condition at September 30, 2014 and June 30, 2014

General. Total assets increased by $21.1 million to $3.53 billion at September 30, 2014 from $3.51 billion at June 30, 2014. The increase in total assets was primarily attributable to increases in the balances of loans, debt securities and other assets that were partially offset by a decline in the balance of cash and cash equivalents and total mortgage-backed securities. The net increase in total assets was complemented by an increase in borrowings that was partially offset by a decline in the balances of deposits and stockholders equity.

Cash and Cash Equivalents. Cash and cash equivalents, which consist primarily of interest-earning and non-interest-earning deposits in other banks, decreased by $8.2 million to $126.8 million at September 30, 2014 from $135.0 million at June 30, 2014 with the decrease reflecting normal operating fluctuations in the balance of short-term liquid assets between comparative periods.

Notwithstanding day-to-day fluctuations in cash and cash equivalents, we generally sought to maintain the level of cash and cash equivalents to minimize the opportunity cost of excess liquidity. Management will continue to monitor and adjust the level of short term, liquid assets in relation to the Company s near-term operating liquidity needs and related reserve requirements while also considering the funding needed to support its longer-term strategic initiatives particularly those relating to the expansion of its commercial lending functions and capital management strategies.

Debt Securities Available for Sale. Debt securities classified as available for sale increased by $4.6 million to $412.5 million at September 30, 2014 from $407.9 million at June 30, 2014. The net increase primarily reflected the purchase of $4.0 million in floating-rate collateralized loan obligations during the three months ended September 30, 2014. The increase also reflected a $680,000 increase in the fair value of the portfolio to a net unrealized loss of $2.7 million at September 30, 2014 from a net unrealized loss of $3.3 million at June 30, 2014. The decrease in the net unrealized loss was primarily attributable to changes in the fair value of the various sectors within the portfolio arising primarily

from movements in market interest rates. The net increase in the portfolio was partially offset by $22,000 in principal repayments, net of premium amortization and discount accretion during the same period.

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At September 30, 2014, the available for sale debt securities portfolio included U.S. agency debentures, single-issuer trust preferred securities, corporate bonds, asset-backed securities, collateralized loan obligations and municipal obligations. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio as of that date.

Additional information regarding debt securities available for sale at September 30, 2014 is presented in Note 8 and Note 10 to the unaudited consolidated financial statements.

Debt Securities Held to Maturity. Debt securities classified as held to maturity decreased by $960,000 to $215.5 million at September 30, 2014 from $216.4 million at June 30, 2014. The net decrease primarily reflected calls and maturities of such securities as well as repayments, net of premium amortization and discount accretion, totaling $1.3 million during the three months ended September 30, 2014. The net decrease in the portfolio was partially offset by the purchase of municipal obligations totaling $350,000 during the same period.

At September 30, 2014, the held to maturity debt securities portfolio included U.S. agency debentures and municipal obligations, a small portion of which represent non-rated, short term, bond anticipation notes (BANs) issued by New Jersey municipalities with whom Kearny Bank maintains or seeks to maintain deposit relationships. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio as of that date.

Additional information regarding debt securities held to maturity at September 30, 2014 is presented in Note 9 and Note 10 to the unaudited consolidated financial statements.

Loans Receivable. Loans receivable, net of unamortized premiums, deferred costs and the allowance for loan losses, increased by $29.5 million to $1.76 billion at September 30, 2014 from $1.73 billion at June 30, 2014. The increase in net loans receivable was primarily attributable to new loan origination, purchase and acquisition volume outpacing loan repayments during the three months ended September 30, 2014.

Residential mortgage loans, including home equity loans and lines of credit, decreased by $6.8 million to $673.5 million at September 30, 2014 from $680.2 million at June 30, 2014. The components of the net decrease included a decrease in the balance of one-to-four family first mortgage loans of $4.6 million to $576.0 million at September 30, 2014 from $580.6 million at June 30, 2014 coupled with a $2.7 million decrease in the balance of home equity loans to $72.9 million at September 30, 2014 from $75.6 million at June 30, 2014. Partially offsetting this decrease was a $479,000 increase in the balance of home equity lines of credit to $24.5 million at September 30, 2014 from $24.0 million at June 30, 2014.

Residential mortgage loan activity for the three months ended September 30, 2014 continued to reflect our decreased strategic focus on residential mortgage lending coupled with the effects of the diminished level of demand for new purchase mortgages reflecting continued weakness in the economy. Moreover, as a portfolio lender cognizant of potential exposure to interest rate risk, we have generally refrained from lowering our long-term, fixed-rate residential mortgage rates to the levels available in the marketplace. Consequently, a portion of our residential mortgage borrowers may continue to seek long-term, fixed-rate refinancing opportunities from other market resources, further limiting growth within this segment of the loan portfolio.

In total, residential mortgage loan origination and purchase volume for the three months ended September 30, 2014 was $10.5 million and $6.4 million, respectively, while aggregate originations of home equity loans and home equity lines of credit totaled $4.4 million for that same period.

Commercial loans, in aggregate, increased by $36.7 million to $1.09 billion at September 30, 2014 from $1.05 billion at June 30, 2014. The components of the aggregate increase included an increase in commercial mortgage loans totaling $31.0 million and an increase in commercial business loans of $5.7 million. The ending balances of commercial mortgage loans and commercial business loans at September 30, 2014 were $1.01 billion and $72.9 million, respectively. Commercial loan origination volume for the three months ended September 30, 2014 totaled $59.5 million, comprising $55.8 million and $3.7 million of commercial mortgage and commercial business loan originations, respectively. Commercial loan originations were augmented with the purchase of participations in commercial business loans totaling $6.5 million during the three months ended September 30, 2014.

The outstanding balance of construction loans, net of loans-in-process, decreased by $883,000 to $6.4 million at September 30, 2014 from $7.3 million at June 30, 2014. Construction loan disbursements for the three months ended September 30, 2014 totaled $415,000.

Other loans, primarily comprising account loans, deposit account overdraft lines of credit and other consumer loans, increased $532,000 to $4.9 million at September 30, 2014 from $4.3 million at June 30, 2014. Other loan originations for the three months ended September 30, 2014 totaled approximately $868,000.

Additional information regarding loans receivable at September 30, 2014 is presented in Note 11 to the unaudited consolidated financial statements.

Nonperforming Loans. Nonperforming loans decreased by $82,000 to $25.2 million or 1.42% of total loans at September 30, 2014 from $25.3 million or 1.45% of total loans at June 30, 2014. The balance of nonperforming loans at September 30, 2014 was comprised entirely of nonaccrual loans. By comparison, the balance of nonperforming loans at June 30, 2014 included $25.2 million and $125,000 of nonaccrual loans and loans reported as over 90 days past due and accruing , respectively.

The composition of nonperforming loans at September 30, 2014 continued to include a disproportionate balance of residential mortgage loans originally acquired from Countrywide Home Loans, Inc. (Countrywide) which continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP (BOA). In total, nonperforming Countrywide loans totaled $8.8 million, or 34.7% of total nonperforming loans, at September 30, 2014. As of that same date, we owned a total of 73 residential mortgage loans with an aggregate outstanding balance of $31.3 million that were originally acquired from Countrywide. Of these loans, an additional five loans totaling $2.4 million are 30-89 days past due and are in various stages of collection.

Additional information about the Company s nonperforming loans at September 30, 2014 is presented in Note 11 to the unaudited consolidated financial statements.

Allowance for Loan Losses. During the three months ended September 30, 2014, the balance of the allowance for loan losses increased by $19,000 to $12.4 million or 0.70% of total loans at September 30, 2014 from $12.4 million or 0.71% of total loans at June 30, 2014. The increase resulted from provisions of $858,000 during the three months ended September 30, 2014 that were largely offset by charge offs, net of recoveries, totaling approximately $839,000.

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With regard to loans individually evaluated for impairment, the balance of our allowance for loan losses attributable to such loans decreased by $105,000 to $1.6 million at September 30, 2014 from $1.7 million at June 30, 2014. The balance at September 30, 2014 reflected the allowance for impairment identified on $4.4 million of impaired loans while an additional $32.8 million of impaired loans had no allowance for impairment as of that date. By comparison, the balance at June 30, 2014 reflected the allowance for impairment identified on $4.6 million of impaired loans while an additional $32.6 million of impaired loans had no allowance for impairment as of that date. The outstanding balances of impaired loans reflected the cumulative effects of various adjustments including, but not limited to, purchase accounting valuations and prior charge-offs, where applicable, which are considered in the evaluation of impairment.

With regard to loans evaluated collectively for impairment, the balance of our allowance for loan losses attributable to such loans increased by $124,000 to $10.8 million at September 30, 2014 from $10.7 million at June 30, 2014. The increase in valuation was partly attributable to a $29.6 million increase in the aggregate outstanding balance of loans collectively evaluated for impairment to $1.74 billion at September 30, 2014 from $1.71 billion at June 30, 2014, as well as the ongoing reallocation of loans within the portfolio in favor of commercial loans against which we generally assign comparatively higher historical and environmental loss factors in our ALLL calculation.

The change in the allowance also reflected updates to historical loss factors at September 30, 2014. Specifically, our loan portfolio experienced a net annualized average charge-off rate of 19 basis points during the three months ended September 30, 2014 representing an increase of seven basis points from the 12 basis points of charge-offs reported for fiscal 2014. The historical loss factors used in our allowance for loan loss calculation methodology were updated to reflect the effect of these charge offs on the average annualized historical charge off rates by loan segment over the two year look-back period used by that methodology. The effect of the noted increase in charge offs during the current period was more than offset by the reduced consideration given to the comparatively higher level of charge offs during fiscal 2013 in the calculation of average charge off rates as the two year look-back period was rolled forward to capture the current quarter ended September 30, 2014. These offsetting factors resulted in a net decrease in the average charge off rates used by the historical loss factors at September 30, 2014 compared to those used at June 30, 2014. The effect of the net decrease in average charge-off rates was partially offset by a concurrent increase in the overall balance of the unimpaired portion of the loan portfolio resulting in a net decrease of $29,000 in the applicable portion of the allowance to $2.0 million as of September 30, 2014 compared to $2.1 million as of June 30, 2014.

Environmental loss factors remained unchanged at September 30, 2014 from June 30, 2014. As such, the change in the balance of allowance for loan losses relating to such factors was attributable solely to the increase in the overall balance of the unimpaired portion of the loan portfolio during that period. The effects of the net growth in loans resulted in a $152,000 increase in the applicable portion of the allowance to $8.8 million at September 30, 2014 from $8.7 million at June 30, 2014.

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 September 30, 2014 and June 30, 2014.

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Allowance for Loan Losses

Allocation of Loss Factors on Loans Collectively Evaluated for Impairment

at September 30, 2014

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
Residential mortgage loans			
Originated	0.02%	0.27%	0.29%
Purchased	2.57	0.75	3.32
Acquired in merger	2.85	0.30	3.15
Home equity loans			
Originated	0.08	0.33	0.41
Acquired in merger	0.31	0.30	0.61
Home equity lines of credit			
Originated	0.00	0.33	0.33
Acquired in merger	0.00	0.30	0.30
Construction loans			
1-4 family			
Originated	0.07	0.69	0.76
Acquired in merger	0.00	0.30	0.30
Multi-family			
Originated	0.00	0.69	0.69
Acquired in merger	0.00	0.30	0.30
Nonresidential			
Originated	0.00	0.69	0.69
Acquired in merger	0.00	0.30	0.30
Commercial mortgage loans			
Multi-family			
Originated	0.00	0.72	0.72
Acquired in merger	0.00	0.30	0.30
Nonresidential			
Originated	0.11	0.72	0.83
Acquired in merger	0.00	0.30	0.30
Commercial business loans			
Secured (1-4 family)			
Originated	0.00	0.69	0.69
Acquired in merger	0.00	0.30	0.30
Secured (Other)			
Originated	0.48	0.69	1.17
Purchased	1.19	0.36	1.55
Acquired in merger	0.04	0.30	0.34
Unsecured			
Originated	0.00	0.54	0.54

Acquired in merger	0.00	0.21	0.21

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Allowance for Loan Losses

Allocation of Loss Factors on Loans Collectively Evaluated for Impairment

at September 30, 2014 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
SBA 7A			
Originated	0.00%	0.69%	0.69%
Acquired in merger	17.65	0.33	17.98
SBA Express			
Originated	0.00	0.69	0.69
Acquired in merger	44.53	0.33	44.86
SBA Line of Credit			
Originated	0.00	0.69	0.69
Acquired in merger	12.70	0.33	13.03
Other consumer loans (1)			

(1) The Company generally maintains an environmental loss factor of 0.21% 0.30% on other consumer loans while historical loss factors range from 0.00% to 12.20% 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 M 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%).

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Allowance for Loan Losses

Allocation of Loss Factors on Loans Collectively Evaluated for Impairment

at June 30, 2014

Loan Category	Historical Loss Factors	Environmental Loss Factors [2]	Total
Residential mortgage loans			
Originated	0.03%	0.27%	0.30%
Purchased	2.56	0.75	3.31
Acquired in merger	3.25	0.30	3.55
Home equity loans			
Originated	0.11	0.33	0.44
Acquired in merger	0.36	0.30	0.66
Home equity lines of credit			
Originated	0.00	0.33	0.33
Acquired in merger	0.00	0.30	0.30
Construction loans			
1-4 family			
Originated	0.09	0.69	0.78
Acquired in merger	0.00	0.30	0.30
Multi-family			
Originated	0.00	0.69	0.69
Acquired in merger	0.00	0.30	0.30
Nonresidential			
Originated	0.00	0.69	0.69
Acquired in merger	0.00	0.30	0.30
Commercial mortgage loans			
Multi-family			
Originated	0.00	0.72	0.72
Acquired in merger	0.00	0.30	0.30
Nonresidential			
Originated	0.10	0.72	0.82
Acquired in merger	0.00	0.30	0.30
Commercial business loans			
Secured (1-4 family)			
Originated	0.00	0.69	0.69
Acquired in merger	0.00	0.30	0.30
Secured (Other)			
Originated	0.50	0.69	1.19
Purchased	1.19	0.36	1.55
Acquired in merger	0.06	0.30	0.36
Unsecured			
Originated	0.00	0.54	0.54

Acquired in merger	0.00	0.21	0.21

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Allowance for Loan Losses

Allocation of Loss Factors on Loans Collectively Evaluated for Impairment

at June 30, 2014 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors [2]	Total
SBA 7A			
Originated	0.00%	0.69%	0.69%
Acquired in merger	18.91	0.33	19.24
SBA Express			
Originated	0.00	0.69	0.69
Acquired in merger	0.00	0.33	0.33
SBA Line of Credit			
Originated	0.00	0.69	0.69
Acquired in merger	0.53	0.33	0.86
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 M 400%, Substandard : 600%, Doubtful : 800%. (e.g. Environmental loss factor applicable to originated residential mortgage loan rated as Substandard : 0.30% x 600% = 1.8%).

Additional information about our allowance for loan losses at June 30, 2014 is presented in Note 11 to the unaudited consolidated financial statements.

Mortgage-backed Securities Available for Sale. Mortgage-backed securities available for sale decreased by $23.3 million to $413.9 million at September 30, 2014 from $437.2 million at June 30, 2014. The net decrease partly reflected cash repayment of principal, net of discount accretion and premium amortization, totaling $19.6 million during the three months ended September 30, 2014 as well as a $3.8 million decline in the fair value of the portfolio to an unrealized gain of $670,000 at September 30, 2014 from an unrealized gain of $4.4 million at June 30, 2014.

At September 30, 2014, the available for sale mortgage-backed securities portfolio primarily included agency pass-through securities and agency collateralized mortgage obligations. As of that date, we also held one non-agency mortgage-backed security within the available for sale portfolio whose aggregate carrying value and market value totaled $195,000 and $195,000, respectively. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio as of that date.

Additional information regarding mortgage-backed securities available for sale at September 30, 2014 is presented in Note 8 and Note 10 to the unaudited consolidated financial statements.

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Mortgage-backed Securities Held to Maturity. Mortgage-backed securities held to maturity increased by $13.4 million to $309.0 million at September 30, 2014 from $295.7 million at June 30, 2014. The increase in the portfolio largely reflected purchases of fixed-rate securities totaling $16.7 million that were acquired based upon their Community Reinvestment Act eligibility. This increase was partially offset by cash repayment of principal, net of discount accretion and premium amortization, totaling $3.3 million during the three months ended September 30, 2014.

At September 30, 2014, the held to maturity mortgage-backed securities portfolio primarily included agency pass-through securities and agency collateralized mortgage obligations. As of that date, we also held four non-agency mortgage-backed securities in the held to maturity portfolio whose aggregate carrying values and market values totaled $48,000 and $47,000, respectively. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio as of that date.

Additional information regarding mortgage-backed securities held to maturity at September 30, 2014 is presented in Note 9 and Note 10 to the unaudited consolidated financial statements.

Other Assets. The aggregate balance of other assets, including premises and equipment, FHLB stock, accrued interest receivable, goodwill, bank owned life insurance, deferred income taxes and other miscellaneous assets, increased by $6.1 million to $294.8 million at September 30, 2014 from $288.7 million at June 30, 2014. The increase in other assets partly reflected a $1.9 million increase in the fair value of the Company s interest rate derivatives primarily attributable to changes in market interest rates during the three months ended September 30, 2014. The increase also reflected an obligatory $1.4 million increase in the balance of FHLB stock resulting from additional advances drawn during the period.

The balance of real estate owned (REO) decreased by $51,000 to $1.57 million at September 30, 2014 from $1.63 million at June 30, 2014 representing the net carrying values of eight and seven properties held at the close of each period, respectively.

The remaining increases and decreases in other assets during the three months ended September 30, 2014 generally comprised normal growth or operating fluctuations in their respective balances.

Deposits. The balance of total deposits decreased by $30.6 million to $2.45 billion at September 30, 2014 from $2.48 billion at June 30, 2014. The net decrease in deposit balances included an $8.5 million decrease in non-interest-bearing checking accounts coupled with a $22.1 million net decrease in interest-bearing deposits. The net decrease in interest-bearing deposits comprised a $4.8 million decline in interest-bearing checking accounts, an $11.2 million decrease in savings and club accounts and a $6.1 million decrease in certificates of deposit.

The change in deposit balances for the period reflected changes in the balances of retail deposits as well as non-retail deposits acquired through various wholesale channels. The decline in the balance of interest-bearing checking accounts included a $5.8 million decrease in the balance of brokered money market deposits acquired through Promontory s IND program to $207.7 million or 8.5% of total deposits at September 30, 2014 from $213.5 million or 8.6% of total deposits at June 30, 2014. The terms of the IND program generally establish a reciprocal commitment for Promontory to deliver and us to accept such deposits for a period of no less than five years during which time total aggregate balances shall be maintained within a range of $200.0 million to $230.0 million. Such deposits are generally sourced by Promontory from large retail and institutional brokerage firms whose individual clients seek to have a portion of their investments held in interest-bearing accounts at FDIC-insured institutions. The decline in interest-bearing checking accounts attributable to the fluctuation in IND program deposits was partially offset by an increase in retail account balances.

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The decrease in savings and club accounts partly reflected the annual close out of holiday club accounts and fluctuating balances of attorney escrow accounts as well as an outflow of funds originally received from an individual customer relating to the sale of their business.

We continued to utilize a deposit listing service through which we attracted non-brokered wholesale time deposits targeting institutional investors with a three-to-five year investment horizon. We generally prohibit the withdrawal of our listing service deposits prior to maturity. The balance of our listing service time deposits increased by $2.9 million to $63.5 million or 2.6% of total deposits at September 30, 2014 from $60.6 million or 2.4% of total deposits at June 30, 2014.

We also maintain a small portfolio of longer-term, brokered certificates of deposit that were originally acquired during fiscal 2014 whose balances totaled approximately $18.5 million at September 30, 2014. In combination with Promontory IND money market deposits noted above, our brokered deposits totaled $226.2 million or 9.2% of deposits at September 30, 2014.

The growth in certificates of deposit acquired through wholesale sources were partially offset by a net decline in other retail time deposit balances that largely reflected our efforts to manage our cost of deposits which allowed for some controlled outflow of shorter-term time deposits during the three months ended September 30, 2014. However, we did maintain our attractive offering rates on certain longer-term time deposits during that period which continued to attract retail funding within the four-to-five year maturity tranches and supported our larger goal of extending the duration of time deposits for interest rate risk management purposes.

Borrowings. The balance of borrowings increased by $52.6 million to $564.9 million at September 30, 2014 from $512.3 million at June 30, 2014. The reported increase primarily reflected an additional $75.0 million of FHLB advances drawn primarily to fund a portion of our recent growth in loans. For interest rate risk management purposes, we have utilized interest rate derivatives to effectively swap the rolling 90-day maturity/repricing characteristics of the new borrowings into a fixed rate for five years. This increase was partially offset by the repayment of $17.0 million of FHLB overnight advances that were outstanding at June 30, 2014.

The change in borrowing balances also reflected a $2.4 million decline in the balance of customer sweep accounts to $28.4 million at September 30, 2014, from $30.7 million at June 30, 2014. Sweep accounts are short-term borrowings representing funds that are withdrawn from a customer s non-interest-bearing deposit account and invested in an uninsured overnight investment account that is collateralized by specified investment securities we own.

Other Liabilities. The balance of other liabilities, including advance payments by borrowers for taxes and other miscellaneous liabilities, increased by $1.8 million to $25.0 million at September 30, 2014 from $23.1 million at June 30, 2014. The increase in other liabilities generally reflected normal operating fluctuations in such balances. Such fluctuations were partially offset by a decrease in other liabilities attributable to an increase in the fair value of our interest rate derivatives resulting in their aggregate balances being reported in other assets at September 30, 2014 compared to such balances being reported in other liabilities at June 30, 2014.

Stockholders Equity. Stockholders equity decreased $2.8 million to $491.9 million at September 30, 2014 from $494.7 million at June 30, 2014. The decrease in stockholders equity partly reflected the exercise of certain stock options on September 10, 2014. On that date, members of

management and the Board of Directors exercised a total of 2,677,740 vested stock options that were granted in 2005 and would otherwise expire in 2015. Pursuant to the terms of the Company s 2005 Stock Compensation and Incentive Plan, we elected to settle the exercise of all such stock options in cash based upon the difference between the exercise price of the options and the closing price of the Company s stock on the date of exercise. The net cash proceeds of these exercises resulted in a direct reduction of stockholders equity totaling approximately $7.2 million that was partially offset by a reduction of income tax expense of approximately $416,000 during the quarter ended September 30, 2014, and described below. Based on this manner of settlement, no additional shares of the Company s capital stock were issued in relation to the exercise of these options.

The decrease in stockholders equity also reflected a $510,000 decrease in accumulated other comprehensive loss due primarily to changes in the composition and fair value of the Company s available for sale securities portfolio and outstanding derivatives whose changes in fair value are reflected in accumulated other comprehensive income on an after tax basis.

The noted decreases in stockholder s equity were partially offset by $2.9 million in net income for the current quarter coupled with a reduction of unearned ESOP shares for plan shares earned during the period. The change in stockholders equity also reflected a net decrease in Treasury stock resulting from the re-issuance of 107,382 shares at an average cost of $11.48 resulting from additional exercises of stock options during in the current quarter that preceded the exercise of those discussed above.

Comparison of Operating Results for the Three Months Ended September 30, 2014 and September 30, 2013

General. Net income for the three months ended September 30, 2014 was $2.9 million or $0.04 per diluted share; an increase of $337,000 compared to $2.6 million or $0.04 per diluted share for the three months ended September 30, 2013. The increase in net income reflected an increase in net interest income and a decrease in the provision for loan losses that were partially offset by a decline in non-interest income and an increase in non-interest expense. These factors contributed to an overall decrease in pre-tax net income between comparative periods. However, a reduction in the provision for income taxes reflecting a lower effective tax rate for the current quarter resulted in the increase in net income.

Net Interest Income. Net interest income for the three months ended September 30, 2014 was $19.5 million; an increase of $1.3 million from $18.2 million for the three months ended September 30, 2013. The increase in net interest income between the comparative periods resulted primarily from an increase in interest income that was partially offset by an increase in interest expense. The increase in interest income was primarily attributable to an increase in the average balance of interest-earning assets while their yield remained unchanged between comparative periods. The increase in interest expense resulted from an increase in the average balance of interest-bearing liabilities coupled with a concurrent increase in their average cost. The reported increase in the average balances of interest-earning assets and interest-bearing liabilities between comparative periods partly reflected the impact of the acquisition of Atlas Bank (Atlas) on June 30, 2014.

As a result of these factors, our net interest rate spread decreased seven basis points to 2.28% for the three months ended September 30, 2014 from 2.35% for the three months ended September 30, 2013. The decrease in the net interest rate spread reflected an increase in the average cost of interest-bearing liabilities of seven basis points to 0.89% for three months ended September 30, 2014 from 0.82% for the three months ended September 30, 2013 while the yield on earning assets remained unchanged at 3.17% for the same comparative periods. A discussion of the factors contributing to changes in the average yield and average cost of categories within interest-earning assets and interest-bearing liabilities, respectively, is presented in the separate discussion and analysis of interest income and interest expense below.

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The factors resulting in the reported decrease in our net interest rate spread also affected our net interest margin which also decreased by seven basis points to 2.41% for the three months ended September 30, 2014 from 2.48% for the three months ended September 30, 2013.

Interest Income. Total interest income increased $2.4 million to $25.7 million for the three months ended September 30, 2014 from $23.3 million for the three months ended September 30, 2013. As noted above, the increase in interest income reflected an increase in the average balance of interest-earning assets while their overall average yield remained unchanged at 3.17% between comparative periods. The average balance of interest-earning assets increased by $303.8 million to $3.24 billion for the three months ended September 30, 2014 from $2.94 billion for the three months ended September 30, 2013.

Interest income from loans increased $2.6 million to $18.4 million for the three months ended September 30, 2014 from $15.8 million for the three months ended September 30, 2013. The increase in interest income on loans was attributable to a net increase in the average balance of loans that was partially offset by a decline in their average yield.

The average balance of loans increased by $322.8 million to $1.75 billion for the three months ended September 30, 2014 from $1.43 billion for the three months ended September 30, 2013. The reported increase in the average balance of loans primarily reflected an aggregate increase of $258.9 million in the average balance of commercial loans to $1.06 billion for the three months ended September 30, 2014 from $800.7 million for the three months ended September 30, 2013. Our commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans.

The increase in the average balance of commercial loans was augmented by a $68.6 million increase in the average balance of residential mortgage loans to $680.4 million for the three months ended September 30, 2014 from $611.8 million for the three months ended September 30, 2013. Our residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit.

For those same comparative periods, the average balance of other loans, comprising account loans, deposit account overdraft lines of credit and other consumer loans, also increased by $347,000 to $4.7 million from $4.4 million.

The noted increases in the average balances of loans were partially offset by a $4.3 million decrease in the average balance of construction loans which declined to $6.9 million for the three months ended September 30, 2014 from $4.4 million for the three months ended September 30, 2013.

The effect on interest income attributable to the net increase in the average balance of loans was partially offset by the noted decrease in their average yield. The average yield on loans decreased by 22 basis points to 4.21% for the three months ended September 30, 2014 from 4.43% for the three months ended September 30, 2013. The reduction in the overall yield on our loan portfolio partly reflects the effect of low market interest rates which provides rate reduction refinancing incentive to existing borrowers while also contributing to the downward re-pricing of adjustable rate loans. Additionally, the average yield on newly originated loans that have provided the incremental growth in the portfolio between comparative periods also reflects the low interest rates prevalent in the marketplace which further reduces the overall yield of the loan portfolio.

Interest income from mortgage-backed securities decreased by $778,000 to $4.8 million for the three months ended September 30, 2014 from $5.6 million for the three months ended September 30, 2013. The decrease in interest income reflected a decrease in the average balance of mortgage-backed securities that was partially offset by an increase in their average yield.

The average balance of mortgage-backed securities decreased by $144.0 million to $730.0 million for the three months ended September 30, 2014 from $873.9 million for the three months ended September 30, 2013. The decrease in the average balance of mortgage-backed securities largely reflects principal repayments and security sales that outpaced the level of security purchases between comparative periods.

For those same comparative periods, the average yield on mortgage-backed securities increased by eight basis points to 2.62% from 2.54%. The increase in the overall yield of the mortgage-backed securities portfolio partly reflected the comparatively higher yields of securities purchased reflecting a modest increase in market interest rates between comparative periods. More notably, the increase in yield also reflected a decrease in purchased premium amortization resulting from a decline in loan prepayments attributable to the noted increase in market rates and the resulting decline in rate reduction refinancing incentive to mortgagors.

Interest income from debt securities increased by $488,000 to $2.2 million for the three months ended September 30, 2014 from $1.7 million for the three months ended September 30, 2013. The increase in interest income reflected an increase in the average balance of debt securities augmented by an increase in their average yield. The average balance of debt securities increased $111.5 million to $628.1 million for the three months ended September 30, 2014 from $516.6 million for the three months ended September 30, 2013. For those same comparative periods, the average yield of debt securities increased seven basis points to 1.41% from 1.34%.

The increase in the average balance of debt securities was partly attributable to a $105.1 million increase in the average balance of taxable securities to $528.7 million for the three months ended September 30, 2014 from $423.6 million for the three months ended September 30, 2013. For those same comparative periods, the average balance of tax-exempt securities increased by $6.3 million to $99.4 million from $93.1 million.

The increase in the average yield on debt securities reflected a ten basis point increase in the yield on taxable securities to 1.31% during the three months ended September 30, 2014 from 1.21% during the three months ended September 30, 2013. For those same comparative periods, the yield on tax-exempt securities remained unchanged at 1.95%.

Interest income from other interest-earning assets increased by $99,000 to $297,000 for the three months ended September 30, 2014 from $198,000 for the three months ended September 30, 2013 reflecting an increase in the average yield that was augmented by an increase in the average balance. The average yield of other interest-earning assets increased by 24 basis points to 0.91% for the three months ended September 30, 2014 from 0.67% for the three months ended September 30, 2013. For those same comparative periods, the average balance of other interest-earning assets increased by $13.6 million to $131.1 million from $117.6 million.

The increase in the average balance and average yield on other interest-earning assets between comparative periods largely reflects an increase in the average balance of our investment in FHLB stock arising from additional advances drawn and its comparatively higher yield in relation to the short-term, liquid assets that comprise the remainder of such assets.

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Interest Expense. Total interest expense increased by $1.1 million to $6.2 million for the three months ended September 30, 2014 from $5.1 million for the three months ended September 30, 2013. As noted earlier, the increase in interest expense resulted from an increase in the average balance of interest-bearing liabilities coupled with an increase in their average cost. The average balance of interest-bearing liabilities increased by $263.4 million to $2.77 billion for the three months ended September 30, 2014 from $2.50 billion for the three months ended September 30, 2013. For those same comparative periods, the average cost of interest-bearing liabilities increased seven basis points to 0.89% from to 0.82%.

Interest expense attributed to deposits increased by $214,000 to $3.8 million for the three months ended September 30, 2014 from $3.6 million for the three months ended September 30, 2013. The increase in interest expense was attributable to an increase in the average cost of interest-bearing deposits coupled with an increase in their average balance.

The average cost of interest-bearing deposits increased by one basis point to 0.68% for the three months ended September 30, 2014 from 0.67% for the three months ended September 30, 2013. The net increase in the average cost was primarily attributable to an increase in the average cost of certificates of deposit which increased two basis points to 1.05% for the three months ended September 30, 2014 from 1.03% for the three months ended September 30, 2013. For those same comparative periods, the average cost of interest-bearing checking accounts and savings and club accounts remained unchanged at 0.53% and 0.16%, respectively.

The increases in the average cost of certificates of deposit largely reflected our efforts to attract and retain accounts with longer terms to maturity for interest rate risk management purposes. Competitive offering rates on longer duration term deposits were made available through both our retail deposit and wholesale funding channels.

The average balance of interest-bearing deposits increased by $94.7 million to $2.25 billion for the three months ended September 30, 2014 from $2.16 billion for the three months ended September 30, 2013. The net increase in the average balance was reflected in an increase in the average balances of savings and club accounts and certificates of deposit that were partially offset by a decrease in the average balance of interest-bearing checking accounts. For the comparative periods noted, the average balance of savings and club accounts increased by $46.9 million to $515.3 million from $468.5 million and the certificates of deposit increased by $63.6 million to $1.03 billion from $962.5 million while the average balance of interest-bearing checking accounts decreased by $15.9 million to $711.9 million from $727.8 million.

Interest expense attributed to borrowings increased by $855,000 to $2.3 million for the three months ended September 30, 2014 from $1.5 million for the three months ended September 30, 2013. The increase in interest expense on borrowings primarily reflected an increase in their average balance coupled with an increase in their average cost. The average balance of borrowings increased by $168.7 million to $513.4 million for the three months ended September 30, 2014 from $344.7 million for the three months ended September 30, 2013. For those same comparative periods, the average cost of borrowings increased by ten basis points to 1.81% from 1.71%.

The increase in the average balance of borrowings largely reflected a $174.5 million increase in the average balance of FHLB advances which increased to $483.8 million for the three months ended September 30, 2014 from $309.3 million for the three months ended September 30, 2013. For those same comparative periods, the average cost of FHLB advances increased four basis points to 1.89% from 1.85%. The noted increase in the average balance of FHLB advances was partially offset by a $5.8 million decrease in the average balance of other borrowings, comprised primarily of depositor sweep accounts, to $29.6 million from $35.4 million. The average cost of sweep accounts remained unchanged at 0.50% between the same comparative periods.

Provision for Loan Losses. The provision for loan losses decreased $310,000 to $858,000 for the three months ended September 30, 2014 from $1.2 million for the three months ended September 30, 2013. The net decrease was largely attributable to a decrease in the provision attributable to loans evaluated collectively for impairment using historical and environmental loss factors primarily reflecting comparatively lower growth within the non-impaired portion of the portfolio between comparative periods. Such decreases were partially offset by an increase in the provision attributable to specific losses recognized on loans individually evaluated for impairment.

Additional information regarding the allowance for loan losses and the associated provisions recognized during the three months ended September 30, 2014 is presented in Note 11 to the unaudited consolidated financial statements as well as the Comparison of Financial Condition at September 30, 2014 and June 30, 2013 presented earlier.

Non-Interest Income. Non-interest income, excluding losses on the sale and write-down of REO, decreased by $129,000 to $1.7 million for the three months ended September 30, 2014 from $1.9 million for the three months ended September 30, 2013. The decrease in non-interest income, excluding REO-related losses, was partly attributable to a $50,000 decrease in income from bank owned life insurance resulting primarily from the lower level of income earned on such assets between comparative periods reflecting the sustained effects of lower long-term market interest rates on policy income earned. The reported decrease in non-interest income also reflected a $60,000 decline in electronic banking fees and charges primarily attributable to a decline in ATM-related fees and charges collected between comparative periods.

The variance in non-interest income also reflected $53,000 in gains on SBA loans sold during the three months ended September 30, 2013 for which no such gains were recognized during the three months ended September 30, 2014. The absence of such gains during the current period reflects our ongoing efforts to reconfigure our SBA lending infrastructure with the expectation and commitment to increase loan origination and sale activity throughout the remainder of fiscal 2015.

The noted decreases in non-interest income were partially offset by a net increase of $8,000 in fees and service charges resulting primarily from an increase in loan-related prepayment charges. Additionally, we recognized a $25,000 non-recurring net gain included in miscellaneous income relating to the disposal of ATM equipment during the three months ended September 30, 2014 for which no such income was recognized during the earlier comparative period.

In addition to the changes in non-interest income noted above, we also recognized $151,000 in losses attributable to the write-down of two foreclosed properties to their reduced fair values during the three months ended September 30, 2014. By comparison, the Company recognized REO-related losses of $1,000 during the three months ended September 30, 2013.

Non-Interest Expenses. Non-interest expense increased $1.5 million to $16.8 million for the three months ended September 30, 2014 from $15.3 million for the three months ended September 30, 2013. The net increase in non-interest expense primarily reflected increases in salary and employee benefit expense and miscellaneous expense that were partially offset by a decrease in advertising and marketing expense. Less noteworthy variances in other categories of non-interest expense such as premises occupancy expense, equipment and systems expense, federal deposit insurance expense and director compensation expense reflected normal growth or operating fluctuations within those categories.

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Salaries and employee benefits increased by $1.1 million to $10.1 million from $9.0 million partly reflecting overall increases in wage and salary expense and benefits expense attributable to our strategic efforts to expand our commercial lending origination and support staff. The increases also include the recognition of additional compensation costs resulting from the acquisition of Atlas Bank on June 30, 2014. Such costs included the ongoing wages and salary expense of retained staff as well as a portion of the expected severance costs resulting from the acquisition.

The increase in salaries and benefits also reflected an increase in non-executive compensation expense arising from the realignment of the Company s annual employee performance assessment and compensation review process from a calendar year to fiscal year cycle. Additionally, the increase reflected the Company s adoption and implementation of the Senior Management Incentive Compensation Plan for fiscal 2015. Through this plan, senior and executive management s annual bonus compensation is based directly on the Company s actual fiscal year performance in relation to specific corporate profitability, growth and risk management goals and objectives outlined in its business plan.

The noted increase also reflected an increase in ESOP expense attributable to the increase in our share value between comparative periods coupled with an increase in stock benefit plan expenses attributable to stock options and shares of restricted stock granted to employees during the fourth quarter of fiscal 2014.

Lastly, the variance in salaries and employee benefits reflected an increase in employer payroll tax expense attributable to the taxable compensation recognized by certain employees resulting from the exercise of stock options during the three months ended September 30, 2014, as discussed earlier.

The reported increase in miscellaneous expense was partly attributable to an increase in professional and consulting service fees including, but not limited to, those relating to personnel recruitment expenses supporting expansion of our commercial lending resources as well as certain consulting expenses relating to our forthcoming second step conversion that are not considered direct costs of the stock offering and are therefore expensed as incurred. Such increases also include additional audit and income tax-related expenses arising from the Company s acquisition of Atlas Bank.

The noted increases in non-interest expense were partially offset by a decrease in advertising and marketing expenses reflecting a temporary reduction of such expenses in anticipation of increased expenditures during the latter half of fiscal 2015 supporting the Bank s forthcoming name change and re-branding strategy that is expected to be initiated in conjunction with the closing of the Company s second step conversion.

Provision for Income Taxes. The provision for income taxes decreased by $468,000 to $553,000 for the three months ended September 30, 2014 from $1.0 million for the three months ended September 30, 2013. As discussed earlier, the variance was largely attributable to a $416,000 reduction in income tax expense arising from the exercise of stock options during the three months ended September 30, 2014. The remaining variance in income tax expense between comparative periods primarily reflected the underlying differences in the level of the taxable portion of pre-tax income between comparative periods.

Our effective tax rate during the three months ended September 30, 2014 was 15.9% which, in relation to statutory income tax rates, reflected the non-recurring effect of the option exercises that reduced income tax expense during the period as well as the recurring effects of tax-favored income sources included in pre-tax income. By comparison, our effective tax rate for the three months ended September 30, 2013 was 28.3% which reflected those same tax-favored income sources.

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Liquidity and Capital Resources

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

The Bank is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe operation. Management generally maintains cash and cash equivalents for this purpose. Investments that qualify as liquid assets are supplemented by those securities classified as available for sale at September 30, 2014, which included $413.9 million of mortgage-backed securities and $412.5 million of debt securities that can readily be sold if necessary.

As noted earlier, the balance of the Company s cash and cash equivalents increased by $8.2 million to $126.8 million at September 30, 2014 from $135.0 million at June 30, 2014 representing normal operating fluctuations in such balances.

At September 30, 2014, the Company had outstanding commitments to originate and purchase loans totaling approximately $57.6 million compared to $29.2 million at June 30, 2014. Construction loans in process and unused lines of credit were $5.9 million and $57.0 million, respectively, at September, 2014 compared to $6.4 million and $59.8 million, respectively, at June 30, 2014. The Company is also subject to the contingent liabilities resulting from letters of credit whose outstanding balances totaled $537,000 and $519,000 at September, 2014 and June 30, 2014, respectively.

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

As noted earlier, for the three months ended September 30, 2014, the balance of total deposits decreased by $30.6 million to $2.45 billion, partly reflecting fluctuating balances of the Company s wholesale deposits as well as its active management of deposit pricing during the period to extend the duration of term deposits for interest rate risk management purposes while supporting net interest spread and margin. The balance of certificates of deposit with maturities of greater than 12 months increased to $470.8 million at September 30, 2014 compared to $455.7 million at June 30, 2014 with such balances representing 47.3% and 43.9% of total certificates of deposit at the close of each period, respectively.

Borrowings from the FHLB of New York are available to supplement the Company s liquidity position and, to the extent that maturing deposits do not remain with the Company, management may replace such funds with advances. As of September 30, 2014, the Company s outstanding balance of FHLB advances, excluding fair value adjustments, totaled $536.5 million. Of these advances, $145.0 million represent long-term, fixed-rate advances maturing in 2023

that have terms enabling the FHLB to

call the borrowing at their option prior to maturity. The remaining balance of long-term, fixed rate advances totaled $15.7 million representing three separate advances maturing during the fiscal years 2016, 2017 and 2018. Short-term FHLB advances at September 30, 2014 included $375.0 million of 90-day, fixed-rate borrowings. The remaining $742,000 of advances represents one fixed-rate, amortizing advance maturing in 2021.

The Company has the capacity to borrow additional funds from the FHLB, through a line of credit or by taking additional short-term or long-term advances. Such borrowings are an option available to management if funding needs change or to lengthen liabilities. Most of the Bank s mortgage-backed and debt securities are held in safekeeping at the FHLB of New York with a majority being available as collateral if necessary. In addition to the FHLB advances, the Bank has other borrowings totaling $28.4 million at September 30, 2014 representing overnight sweep account balances linked to customer demand deposits.

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Bank s facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At September 30, 2014, we had no significant off-balance sheet commitments to purchase securities or for capital expenditures.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of September 30, 2014, the Bank exceeded all capital requirements of federal banking regulators.

The following table sets forth the Bank s capital position at September 30, 2014 and June 30, 2014, as compared to the minimum regulatory capital requirements:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of September 30, 2014:						
Total capital (to risk-weighted assets)	$ 371,360	19.92%	$ 149,117	8.00%	$ 186,396	10.00%
Tier 1 capital (to risk-weighted assets)	358,954	19.26%	74,558	4.00%	111,837	6.00%
Core (Tier 1) capital (to adjusted total assets)	358,954	10.54%	136,164	4.00%	170,205	5.00%
Tangible capital (to adjusted total assets)	358,954	10.54%	51,061	1.50%		
As of June 30, 2014:						
Total capital (to risk-weighted assets)	$ 376,343	20.45%	$ 147,232	8.00%	$ 184,040	10.00%
Tier 1 capital (to risk-weighted assets)	363,956	19.78%	73,616	4.00%	110,424	6.00%
Core (Tier 1) capital (to adjusted total assets)	363,956	10.75%	135,420	4.00%	169,275	5.00%
Tangible capital (to adjusted total assets)	363,956	10.75%	50,783	1.50%		

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Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving Kearny Bank s facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At September 30, 2014, we had no significant off-balance sheet commitments to purchase securities or for capital expenditures.

Recent Accounting Pronouncements

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

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ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Regarding the risk to our earnings, movements in interest rates significantly influence the amount of net interest income we recognized. Net interest income is the difference between:

- the interest income recorded on our earning assets, such as loans, securities and other interest-earning assets; and

- the interest expense recorded on our costing liabilities, such as interest-bearing deposits and borrowings.

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

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

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

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

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

With respect to the maturity and re-pricing of our interest-bearing liabilities, at September 30, 2014, $525.1 million or 52.7% of our certificates of deposit mature within one year with an additional $186.1 million or 18.7% maturing after one year but within two years. The remaining $284.7 million, or 28.6% of certificates, at September 30, 2014 have remaining terms to maturity exceeding two years. Based on current market interest rates, the majority of these certificates are projected to re-price to a level at or below their current rates to the extent they remain with us at maturity and are renewed at the same original term to maturity.

Excluding fair value adjustments, the balance of FHLB advances totaled $536.5 million at September 30, 2014 and comprises both short-term and long-term advances with fixed rates of interest. Short-term FHLB advances generally have original maturities of less than one year and may include overnight borrowings which Kearny Bank typically utilizes to address short term funding needs as they arise. At September 30, 2014, Kearny Bank had a total of $375.0 million of short-term FHLB advances comprising 90-day FHLB term advances that are generally forecasted to be periodically redrawn at maturity for the same 90 day term as the original advance. Based on this presumption, Kearny Bank has utilized interest rate swaps to effectively extend the duration of each of these advances at the time they were drawn to effectively fix their cost for period of five years.

Long-term advances generally include term advances with original maturities of greater than one year. At September 30, 2014, our outstanding balance of long-term FHLB advances totaled $161.5 million. Such advances included $160.7 million of fixed-rate, non-amortizing advances as well as a $742,000 fixed-rate amortizing advance.

With respect to the maturity and re-pricing of our interest-earning assets, at September 30, 2014, $56.8 million, or 3.2% of our total loans will reach their contractual maturity dates within one year with the remaining $1.72 billion, or 96.8% of total loans having remaining terms to contractual maturity in excess of one year. Of loans maturing after one year, $1.05 billion had fixed rates of interest while the remaining $661.7 million had adjustable rates of interest with such loans representing 61.4% and 38.6% of total loans, respectively.

At September 30, 2014, $4.9 million or 0.4% of our securities will reach their contractual maturity dates within one year with the remaining $1.35 billion, or 99.6% of total securities, having remaining terms to contractual maturity in excess of one year. Of the latter category, $963.1 million comprising 71.2% of our total securities had fixed rates of interest while the remaining $384.8 million comprising 28.4% of our total securities had adjustable or floating rates of interest.

At September 30, 2014, mortgage-related assets, including mortgage loans and mortgage-backed securities, totaled $2.4 billion and comprise 73.9% of total earning assets. In addition to remaining term to maturity and interest rate type as discussed above, other factors contribute significantly to the level of interest rate risk associated with mortgage-related assets. In particular, the scheduled amortization of principal and the borrower s option to prepay any or all of a mortgage loan s principal balance, where applicable, have a significant effect on the average lives of such assets and, therefore, the interest rate risk associated with them. In general, the prepayment rate on lower yielding assets tends to slow as interest rates rise due to the reduced financial incentive for borrowers to refinance their loans. By contrast, the prepayment rate of higher yielding assets tends to accelerate as interest rates decline due to the increased financial incentive for borrowers to prepay or refinance their loans to comparatively lower interest rates. These characteristics tend to diminish the benefits of falling interest rates to liability sensitive institutions while exacerbating the adverse impact of rising interest rates.

We generally retained our liability sensitivity throughout the first three months of fiscal 2015 while the degree of that sensitivity, as measured internally by the institution s one-year and three-year gap percentages, decreased during the period. Specifically, our cumulative one-year gap percentage changed to (12.06)% from (12.08)% at June 30, 2014 while our cumulative three-year gap percentage changed to (9.61)% from (14.20)% over those same comparative periods.

Factors contributing to the tightening of the negative gaps for the cumulative one and three year intervals include an increase in loan-related cash flows re-pricing within those periods due to an increase in mortgage loan prepayment assumptions the effects of which were partially offset by the additional utilization of short-term FHLB advances which increased the balance of interest-bearing liabilities re-pricing within those periods. Our one-year and three-year gap measures do not currently reflect the effect of our interest rate derivatives and the effective extension of liability duration arising from their use as cash flow hedges.

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

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

In general, the interest rates paid on our deposits tend to be determined based upon the level of shorter term interest rates. By contrast, the interest rates earned on our loans and investment securities generally tend to be based upon the level of longer term interest rates to the extent such assets are fixed rate in nature. As such, the overall spread between shorter term and longer interest rates when earning assets and costing liabilities re-price greatly influences our overall net interest spread over time. In general, a wider spread between shorter term and longer term interest rates, implying a steeper yield

curve, is beneficial to our net interest spread. By contrast, a narrower spread between shorter term and longer term interest rates, implying a flatter yield curve, or a negative spread between those measures, implying an inverted yield curve, adversely impacts our net interest spread.

We continue to execute various strategies to mitigate the risk to our net interest rate spread and margin arising from adverse changes in interest rates and the shape of the yield curve. Such strategies include deploying excess liquidity in higher yielding interest-earning assets, such as commercial loans and investment securities, while continuing to generally maintain our cost of interest-bearing liabilities at low levels while extending their duration through various deposit pricing strategies. For example, we have extended the duration of our wholesale funding sources through cost effective use of interest rate derivatives that effectively converted short-term wholesale funding sources into longer-term, fixed-rate funding sources. Through various deposit pricing strategies, we have allowed for some controlled outflow of shorter term certificates while attracting term deposits with longer maturities through both our retail and non-retail deposit listing service channels.

Notwithstanding these efforts, the risk of further net interest rate spread and margin compression is significant as the yield on our interest-earning assets continues to reflect the impact of the greater declines in longer term market interest rates in recent years compared to the lesser concurrent reductions in shorter term market interest rates that affect our cost of interest-bearing liabilities. In particular, our ability to further reduce the cost of our interest-bearing deposits is increasingly limited since most deposit offering rates already well below 1.00% at September 30, 2014. Moreover, our liability sensitivity may adversely affect net income in the future when market interest rates ultimately increase from their historical lows and our cost of interest-bearing liabilities may rise faster than our yield on interest-earning assets.

Given the inherent liability sensitivity of our balance sheet, our business plan also calls for greater expansion into C&I lending. Toward that end, we are continuing to expand our retail lending resources with an experienced team of business lenders focused on the origination of floating-rate and shorter-term fixed-rate loans and the corresponding core deposit account balances typically associated with such relationships. As a complement to this retail business lending strategy, we have implemented strategies through which floating-rate and other shorter-term fixed-rate C&I loans are acquired through wholesale resources.

We maintain an Asset/Liability Management (ALM) Program to address all matters relating to the management of interest rate risk and liquidity risk. The program is overseen by the Board of Directors through our Interest Rate Risk Management Committee comprising five members of the Board with our Chief Operating Officer, Chief Financial Officer and Chief Risk/Investment Officer participating as management s liaison to the committee. The committee meets quarterly to address management of our assets and liabilities, including review of our liquidity and interest rate risk profiles, loan and deposit pricing and production volumes, investment and wholesale funding strategies, and a variety of other asset and liability management topics. The results of the committee s quarterly review are reported to the full Board, which adjusts our ALM policies and strategies, as it considers necessary and appropriate.

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

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

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

Quantitative Analysis. The quantitative analysis regularly conducted by management measures interest rate risk from both a capital and earnings perspective. With regard to capital, our internal interest rate risk analysis calculates the sensitivity of our EVE ratio to movements in interest rates. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts. The EVE ratio represents the dollar amount of our EVE divided by the present value of our total assets for a given interest rate scenario. In essence, EVE attempts to quantify our economic value using a discounted cash flow methodology while the EVE ratio reflects that value as a form of capital ratio. The degree to which the EVE ratio changes for any hypothetical interest rate scenario from its base case measurement is a reflection of an institution s sensitivity to interest rate risk.

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

As illustrated in the tables below, our EVE would be negatively impacted by an increase in interest rates. This result is expected given our liability sensitivity noted earlier. Specifically, based upon the comparatively shorter maturity and/or re-pricing characteristics of our interest-bearing liabilities compared with that of our interest-earning assets, an

upward movement in interest rates would have a disproportionately adverse impact on the present value of our assets compared to the beneficial impact arising from the reduced present value of our liabilities. Hence, our EVE and EVE ratio decline in the increasing interest rate scenarios. Historically low interest rates at September 30, 2014 and June 30, 2014 precluded the modeling of certain scenarios as parallel downward shifts in the yield curve of 100 basis points or more would result in negative interest rates for many points along that curve.

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The following tables present the results of our internal EVE analysis as of September 30, 2014 and June 30, 2014, respectively.

	At September 30, 2014				
	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
Changes in Rates [1]	**$ Amount**	**$ Change**	**% Change**	**Net Portfolio Value Ratio**	**Basis Point Change**
	(In Thousands)				
+300 bps	252,157	(185,783)	(42)%	8.06%	(468) bps
+200 bps	325,426	(112,514)	(26)%	10.06%	(268) bps
+100 bps	389,785	(48,155)	(11)%	11.68%	(106) bps
0 bps	437,940			12.74%	

	At June 30, 2014				
	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
Changes in Rates [1]	**$ Amount**	**$ Change**	**% Change**	**Net Portfolio Value Ratio**	**Basis Point Change**
	(In Thousands)				
+300 bps	221,884	(196,106)	(47)%	7.20%	(509) bps
+200 bps	297,815	(120,175)	(29)%	9.34%	(295) bps
+100 bps	365,983	(52,007)	(12)%	11.11%	(118) bps
0 bps	417,990			12.29%	

(1) The (100) bps, (200) bps and (300) bps scenarios are not shown due to the low prevailing interest rate environment.

As seen in the table above, the dollar amount of EVE and the EVE ratio increased between comparative periods across all scenarios modeled while the sensitivity of those measures to movements in interest rates between comparative periods declined.

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

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

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

As illustrated in the tables below, our net interest income would be negatively impacted by a parallel upward shift in the yield curve. Like the EVE results presented earlier, this result is generally expected given our liability sensitivity noted earlier. However, the tables below reflect a noteworthy decrease in the sensitivity of net interest income to movements in interest rates between the comparative periods as analyzed from this earnings-based perspective. Such decreases largely reflect the aggregate effects of the various balance sheet management strategies we are currently undertaking to reduce our exposure to interest rate risk.

At September 30, 2014

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Change in Rates	Measurement Period	Net Interest Income	Change in Net Interest Income	Change in Net Interest Income
					(In Thousands)		
Base case (No change)		Static	0 bps	One Year	$ 76,951	$	%
Immediate and permanent	Parallel	Static	100 bps	One Year	76,148	(803)	(1.04)
Immediate and permanent	Parallel	Static	200 bps	One Year	75,767	(1,184)	(1.54)
Immediate and permanent	Parallel	Static	300 bps	One Year	75,175	(1,776)	(2.31)

At June 30, 2014

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Change in Rates	Measurement Period	Net Interest Income	Change in Net Interest Income	Change in Net Interest Income
					(In Thousands)		
Base case (No change)		Static	0 bps	One Year	$ 77,238	$	%
Immediate and permanent	Parallel	Static	100 bps	One Year	76,140	(1,098)	(1.42)
Immediate and permanent	Parallel	Static	200 bps	One Year	75,506	(1,732)	(2.24)
Immediate and permanent	Parallel	Static	300 bps	One Year	74,726	(2,512)	(3.25)

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

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ITEM 4.

CONTROLS AND PROCEDURES

As of the end of the period covered by the report, an evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended). Based on that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective.

During the quarter ended September 30, 2014, there was no change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II

ITEM 1. Legal Proceedings

At September 30, 2014, neither the Company nor the Bank were involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company and the Bank.

ITEM 1A. Risk Factors

Management of the Company does not believe there have been any material changes with regard to the Risk Factors previously disclosed under Items 1A. of the Company s Form 10-K for the year ended June 30, 2014 previously filed with the Securities and Exchange Commission.

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

ISSUER PURCHASES OF EQUITY SECURITIES

The following table reports information regarding repurchases of the Company s common stock during the quarter ended September 30, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [1]
July 1-31, 2014		$		699,740
August 1-31, 2014		$		699,740
September 1-30, 2014		$		699,740
Total		$		699,740

[1] On December 2, 2013, the Company announced the authorization of an eighth repurchase program for up to 762,640 shares or 5% of shares outstanding which remains in effect at September 30, 2014.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The following Exhibits are filed as part of this report:

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

[1] Incorporated by reference to the exhibit to the Registrant s Registration Statement on Form S-1 (File No. 333-118815).

[2] Incorporated by reference to the exhibit to the Registrant s Annual Report on Form 10-K filed for the year ended June 30, 2008 (File No. 000-51093).

[3] Incorporated by reference to the exhibit to the Registrant s Annual Report on Form 10-K filed for the year ended June 30, 2014 (File No. 000-51093).

[4] Incorporated by reference to Exhibit 4.1 to the Registrant s Registration Statement on Form S-8 (File No. 333-130204).

[5] Incorporated by reference to the exhibits to the Registrant s Form 8-K filed on August 18, 2005 (File No. 000-51093).

[6] Incorporated by reference to the exhibit to the Registrant s Form 8-K filed on June 30, 2011 (File No. 000-51093).

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SIGNATURES

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

KEARNY FINANCIAL CORP.

Date: November 10, 2014

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

Date: November 10, 2014

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