SALESFORCE COM INC
Form 4
May 27, 2014

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
SMITH GRAHAM

(Last) (First) (Middle)

THE LANDMARK@ONE MARKET STREET, SUITE 300

(Street)

SAN FRANCISCO, CA 94105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SALESFORCE COM INC [CRM]

3. Date of Earliest Transaction (Month/Day/Year)
05/22/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Financial Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/22/2014		M		1,076	A	$ 0	91,417	D	
Common Stock	05/23/2014		S		569	D	$ 52.6315 (1)	90,848	D	
Common Stock	05/23/2014		M		1,252	A	$ 0	92,100	D	
Common Stock	05/27/2014		S		661	D	$ 52.854 (2)	91,439	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount o Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amoun or Numbe of Shares
Restricted Stock Units	$ 0.001 (3)	05/22/2014		M			1,076	11/22/2012 (4)	11/22/2015	Common Stock	1,076
Restricted Stock Units	$ 0.001 (3)	05/23/2014		M			1,252	11/23/2011 (5)	11/23/2014	Common Stock	1,252

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SMITH GRAHAM THE LANDMARK@ONE MARKET STREET SUITE 300 SAN FRANCISCO, CA 94105			Chief Financial Officer	

Signatures

/s/ Sarah Dods, Attorney-in-Fact for Graham Smith	05/27/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Weighted average price. These shares were sold in multiple transactions at prices ranging from $52.63 to $52.85 inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(2) Weighted average price. These shares were sold in multiple transactions at prices ranging from $52.85 to $53.5101 inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(3) Restricted stock units convert to shares of common stock on a one-for-one basis.

(4) These restricted stock units vested as to 25% of the original grant on 11/22/2012 and vest as to 1/16 of the original grant quarterly thereafter.

(5) These restricted stock units vested as to 25% of the original grant on 11/23/2011 and vest as to 1/16 of the original grant quarterly thereafter.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ottom" width="1%" style="TEXT-ALIGN: left; PADDING-BOTTOM: 2px"> 39,819 13,295 15,477 124 190,614

Past due:								
30-59 days		-	258	-	45	433	- 8	744
60-89 days		-	186	-	284	62	49 -	581
90+ days	359	1,878	1,686	3,489	297	626	1	8,336
Total past due	359	2,322	1,686	3,818	792	675	9	9,661
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	$500,647	$666,828	$11,851	$70,688	$80,813	$26,613	$4,278	$1,361,718

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The following tables present information relating to the Company's nonperforming and impaired loans at December 31, 2013 and June 30, 2013. 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 December 31, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Performing	$499,414	$ 749,493	$ 3,907	$ 25,998	$68,010	$10,716	$4,201	$1,361,739
Nonperforming:								
90+ days past due accruing	-	-	-	45	-	-	32	77
Nonaccrual	9,803	5,620	-	1,070	138	17	-	16,648
Total nonperforming	9,803	5,620	-	1,115	138	17	32	16,725
Total originated and purchased loans	509,217	755,113	3,907	27,113	68,148	10,733	4,233	1,378,464
Loans acquired at fair value								
Performing	1,250	105,543	2,553	34,700	10,456	14,327	114	168,943
Nonperforming:								
90+ days past due accruing	-	-	-	445	-	-	-	445
Nonaccrual	359	1,631	2,424	3,384	256	680	1	8,735
Total nonperforming	359	1,631	2,424	3,829	256	680	1	9,180
Total loans acquired at fair value	1,609	107,174	4,977	38,529	10,712	15,007	115	178,123
Total loans	$510,826	$ 862,287	$ 8,884	$ 65,642	$78,860	$25,740	$4,348	$1,556,587

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Performance Status of Loans Receivable
at June 30, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Originated and purchased loans								
Performing	$487,671	$ 540,585	$ 5,717	$ 25,975	$66,320	$10,461	$4,118	$1,140,847
Nonperforming:								
90+ days past due accruing	-	-	-	-	-	-	-	-
Nonaccrual	11,316	7,771	-	1,076	406	-	27	20,596
Total nonperforming	11,316	7,771	-	1,076	406	-	27	20,596
Total originated and purchased loans	498,987	548,356	5,717	27,051	66,726	10,461	4,145	1,161,443
Loans acquired at fair value								
Performing	1,301	116,080	3,248	39,877	13,790	15,526	132	189,954
Nonperforming:								
90+ days past due accruing	-	-	-	-	-	-	-	-
Nonaccrual	359	2,392	2,886	3,760	297	626	1	10,321
Total nonperforming	359	2,392	2,886	3,760	297	626	1	10,321
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	$500,647	$ 666,828	$ 11,851	$ 70,688	$80,813	$26,613	$4,278	$1,361,718

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Impairment Status of Loans Receivable
at December 31, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(In Thousands)							
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	$496,299	$ 749,405	$ 3,907	$ 26,043	$67,317	$10,716	$4,233	$1,357,920
Impaired loans:								
Impaired loans with no allowance for impairment	10,305	5,327	-	1,070	730	17	-	17,449
Impaired loans with allowance for impairment:								
Unpaid principal balance	2,613	381	-	-	101	-	-	3,095
Allowance for impairment	(706)	(383)	-	-	(76)	-	-	(1,165)
Balance of impaired loans net of allowance for impairment	1,907	(2)	-	-	25	-	-	1,930
Total impaired loans, excluding allowance	12,918	5,708	-	1,070	831	17	-	20,544
Total originated and purchased loans	509,217	755,113	3,907	27,113	68,148	10,733	4,233	1,378,464
Loans acquired at fair value								
Non-impaired loans	1,250	104,499	2,553	28,057	10,153	14,327	115	160,954
Impaired loans:								
Impaired loans with no allowance for impairment	359	2,184	2,424	10,031	559	680	-	16,237
Impaired loans with allowance for impairment:								
Unpaid principal balance	-	491	-	441	-	-	-	932
Allowance for impairment	-	(33)	-	(281)	-	-	-	(314)

Balance of impaired loans net of allowance for impairment	-	458	-	160	-	-	-	618
Total impaired loans, excluding allowance	359	2,675	2,424	10,472	559	680	-	17,169
Total loans acquired at fair value	1,609	107,174	4,977	38,529	10,712	15,007	115	178,123
Total loans	$510,826	$ 862,287	$ 8,884	$ 65,642	$78,860	$25,740	$4,348	$1,556,587

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Impairment Status of Loans Receivable
at December 31, 2013 (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	$18,543	$ 6,132	$ -	$ 1,114	$848	$17	$ -	$26,654
Loans acquired at fair value	417	3,078	2,976	12,222	592	680	-	19,965
Total impaired loans	$18,960	$ 9,210	$ 2,976	$ 13,336	$1,440	$697	$ -	$46,619
For the three months ended December 31, 2013								
Average balance of impaired loans	$13,781	$ 10,312	$ 2,431	$ 11,638	$1,336	$577	$ -	$40,075
Interest earned on impaired loans	$54	$ 40	$ -	$ 188	$25	$6	$ -	$313
For the six months ended December 31, 2013								
Average balance of impaired loans	$14,124	$ 10,733	$ 2,620	$ 10,056	$1,474	$620	$ -	$39,627
Interest earned on impaired loans	$86	$ 86	$ -	$ 371	$39	$6	$ -	$588
For the three months ended December 31, 2012								
Average balance of impaired loans	$16,303	$ 12,020	$ 1,758	$ 8,918	$1,742	$18	$ -	$40,759
Interest earned on impaired loans	$47	$ 36	$ -	$ 112	$14	$-	$ -	$209
For the six months ended December 31, 2012								
Average balance of	$16,350	$ 12,209	$ 1,805	$ 8,979	$1,757	$37	$ -	$41,137

impaired loans								
Interest earned on impaired loans	$87	$ 54	$ -	$ 242	$30	$-	$ -	$413

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Impairment Status of Loans Receivable
at June 30, 2013

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Carrying value of impaired loans:								
Originated and purchased loans								
Non-impaired loans	$484,575	$ 540,491	$ 5,717	$ 25,975	$65,581	$10,461	$4,145	$1,136,945
Impaired loans:								
Impaired loans with no allowance for impairment	11,758	7,470	-	1,076	1,026	-	-	21,330
Impaired loans with allowance for impairment:								
Unpaid principal balance	2,654	395	-	-	119	-	-	3,168
Allowance for impairment	(697)	(430)	-	-	(110)	-	-	(1,237)
Balance of impaired loans net of allowance for impairment	1,957	(35)	-	-	9	-	-	1,931
Total impaired loans, excluding allowance	14,412	7,865	-	1,076	1,145	-	-	24,498
Total originated and purchased loans	498,987	548,356	5,717	27,051	66,726	10,461	4,145	1,161,443
Loans acquired at fair value								
Non-impaired loans	1,301	115,163	3,248	36,387	13,481	15,526	133	185,239
Impaired loans:								
Impaired loans with no allowance for impairment	359	2,795	2,886	6,251	606	626	-	13,523
Impaired loans with allowance for impairment:								
Unpaid principal balance	-	514	-	999	-	-	-	1,513
Allowance for impairment	-	(84)	-	(757)	-	-	-	(841)

Balance of impaired loans net of allowance for impairment	-	430	-	242	-	-	-	672
Total impaired loans, excluding allowance	359	3,309	2,886	7,250	606	626	-	15,036
Total loans acquired at fair value	1,660	118,472	6,134	43,637	14,087	16,152	133	200,275
Total loans	$500,647	$ 666,828	$ 11,851	$ 70,688	$80,813	$26,613	$4,278	$1,361,718

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Impairment Status of Loans Receivable
at June 30, 2013 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
				(In Thousands)				
Unpaid principal balance of impaired loans:								
Originated and purchased loans	$ 20,682	$ 8,956	$ -	$ 1,120	$1,169	$-	$ -	$31,927
Loans acquired at fair value	417	4,077	3,419	10,168	614	626	-	19,321
Total impaired loans	$ 21,099	$ 13,033	$ 3,419	$ 11,288	$1,783	$626	$ -	$51,248

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.

The following table presents information regarding the restructuring of the Company's troubled debts during the three and six months ended December 31, 2013 and December 31, 2012 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 and six months ended December 31, 2013.

Troubled Debt Restructurings of Loans Receivable
at December 31, 2012

	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 December 31, 2012								
Originated and purchased loans								
Number of loans	2	-	-	-	-	-	-	2
Pre-modification outstanding recorded investment	$331	$ -	$ -	$ -	$-	$-	$ -	$331
Post-modification outstanding recorded investment	269	-	-	-	-	-	-	269
Charge offs against the allowance for loan loss for impairment recognized at modification	63	-	-	-	-	-	-	63
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	$-	$ -	$ -	$ -	$-	$-	$ -	$-

Explanation of Responses:

Troubled Debt Restructurings of Loans Receivable
at December 31, 2012

	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 six months ended December 31, 2012								
Originated and purchased loans								
Number of loans	2	-	-	-	1	-	-	3
Pre-modification outstanding recorded investment	$331	$ -	$ -	$ -	$99	$-	$ -	$430
Post-modification outstanding recorded investment	269	-	-	-	94	-	-	363
Charge offs against the allowance for loan loss for impairment recognized at modification	63	-	-	-	7	-	-	70
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.

11. BORROWINGS

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

	December 31, 2013		June 30, 2013	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
	(Dollars in thousands)			
Maturing in years ending June 30:				
2014	$225,000	0.42 %	$105,000	0.39 %
2021	810	4.94	854	4.94
2023	145,000	3.04	145,000	3.04
	370,810	1.46 %	250,854	1.94 %
Fair value adjustments	69		77	
	$370,879		$250,931	

At December 31, 2013, $225.0 million in advances are due within one year and are comprised entirely of 90-day advances. The remaining $145.8 million in advances are due after one year of which $145.0 million are callable in April 2018.

At December 31, 2013, FHLB advances were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately $684.4 million and $196.4 million, respectively. At June 30, 2013, FHLB advances were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately $433.2 million and $222.7 million, respectively.

Borrowings at December 31, 2013 and June 30, 2013 also included overnight borrowings in the form of depositor sweep accounts totaling $26.0 million and $36.8 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.

12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has entered into interest rate derivative agreements to manage the interest rate exposure relating to certain wholesale funding positions. Such sources of wholesale funding included floating-rate brokered money market deposits indexed to one-month LIBOR as well as 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. All the Company's derivative agreements have been 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 Consolidated Financial Statements for December 31, 2013 and June 30, 2013 are as follows:

		Notional/ Contract Amount		Fair Value		Balance Sheet Location	Expiration Date
				(Dollars in Thousands)			
Derivatives designated as hedging instruments							
At December 31, 2013:							
Interest rate swaps:							
Effective July 1, 2013	$	165,000	$	1,610		Other assets	July 1, 2018
Effective August 19, 2013		75,000		(561	)	Other assets	August 20, 2018
Effective October 9, 2013		50,000		243		Other assets	October 9, 2018
Effective June 5, 2015		60,000		1,491		Other assets	June 5, 2020
Interest rate caps:							
Effective June 5, 2013		40,000		1,375		Other assets	June 5, 2018
Effective July 1, 2013		35,000		1,251		Other assets	July 1, 2018
Total	$	425,000	$	5,409			
At June 30, 2013:							
Interest rate swaps:							
Effective July 1, 2013	$	165,000	$	1,617		Other assets	July 1, 2018
Effective June 5, 2015		60,000		1,220		Other assets	June 5, 2020
Interest rate caps:							
Effective June 5, 2013		40,000		1,485		Other assets	June 5, 2018
Effective July 1, 2013		35,000		1,323		Other assets	July 1, 2018
Total	$	300,000	$	5,645			

	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 December 31, 2013:			
Interest rate swaps:			
Effective July 1, 2013	$ 571	Not Applicable	$ -
Effective August 19, 2013	293	Not Applicable	-
Effective October 9, 2013	144	Not Applicable	-
Effective June 5, 2015	372	Not Applicable	-
Interest rate caps:			-
Effective June 5, 2013	75	Not Applicable	-
Effective July 1, 2013	78	Not Applicable	-
Total	$ 1,533		$ -
For the six months ended December 31, 2013:			
Interest rate swaps:			
Effective July 1, 2013	$ (4)	Not Applicable	$ -
Effective June 5, 2015	160	Not Applicable	-
Effective August 19, 2013	(333)	Not Applicable	-
Effective October 9, 2013	144	Not Applicable	-
Interest rate caps:			-
Effective June 5, 2013	(64)	Not Applicable	-
Effective July 1, 2013	(43)	Not Applicable	-
Total	$ (140)		$ -

There were no derivatives held by the Company at and for the six months ended December 31, 2012.

The Company has in place an enforceable master netting arrangement with each counterparty. All master netting arrangements include rights to offset associated with the Company's recognized derivative assets, derivative liabilities, and cash collateral received and pledged. Accordingly, the Company, where appropriate, offsets all derivative asset and liability positions with the cash collateral received and pledged. At December 31, 2013 and June 30, 2013, the Company's derivatives were in net asset positions totaling $5,409,000 and $5,645,000, respectively, which were included in the balance of other assets as of those dates. At December 31, 2013 and June 30, 2013, the gross asset positions were $5,970,000 and $5,645,000 and gross liability positions were $561,000 and $0, respectively. Financial collateral required under the enforceable master netting arrangement in the amount of $4,480,000 and $5,500,000 at December 31, 2013 and June 30, 2013, respectively, were not included as offsetting amounts.

13. 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 December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(In Thousands)		(In Thousands)	
Service cost	$50	$58	$100	$116
Interest cost	84	77	168	154
Amortization of unrecognized past service liability	12	12	24	24
Amortization of unrecognized net actuarial (gain) loss	(1)	13	(2)	26
Net periodic benefit expense	$145	$160	$290	$320

14. 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.

The 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 December 31, 2013:				
Debt securities available for sale:				
U.S. agency securities	$ -	$ 4,482	$ -	$ 4,482
Obligations of state and political subdivisions	-	25,085	-	25,085
Asset-backed securities	-	72,582	-	72,582
Collateralized loan obligations	-	29,788	-	29,788
Corporate bonds	-	158,695	-	158,695
Trust preferred securities	-	6,424	1,000	7,424
Total debt securities	-	297,056	1,000	298,056
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations	-	57,989	-	57,989
Residential pass-through securities	-	526,248	-	526,248
Commercial pass-through securities	-	80,243	-	80,243
Total mortgage-backed securities	-	664,480	-	664,480
Total securities available for sale	$ -	$ 961,536	$ 1,000	$ 962,536
Derivative instruments:				
Interest rate swaps	$ -	$ 2,783	$ -	$ 2,783
Interest rate caps	-	2,626	-	2,626
Total derivatives	$ -	$ 5,409	$ -	$ 5,409

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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, 2013:				
Debt securities available for sale:				
U.S. agency securities	$ -	$ 5,015	$ -	$ 5,015
Obligations of state and political subdivisions	-	25,307	-	25,307
Asset-backed securities	-	24,798	-	24,798
Collateralized loan obligations	-	78,486	-	78,486
Corporate bonds	-	159,192	-	159,192
Trust preferred securities	-	6,324	1,000	7,324
Total debt securities	-	299,122	1,000	300,122
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations	-	62,482	-	62,482
Residential pass-through securities	-	628,154	-	628,154
Commercial pass-through securities	-	90,016	-	90,016
Total mortgage-backed securities	-	780,652	-	780,652
Total securities available for sale	$ -	$ 1,079,774	$ 1,000	$ 1,080,774
Derivative instruments:				
Interest rate swaps	$ -	$ 2,837	$ -	$ 2,837
Interest rate caps	-	2,808	-	2,808
Total derivatives	$ -	$ 5,645	$ -	$ 5,645

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

The Company holds a trust preferred security with a par value of $1.0 million, a de-facto obligation of Mercantil Commercebank Florida Bancorp, Inc., whose fair value has been determined by using Level 3 inputs. It is a part of a $40.0 million private placement with a coupon of 8.90% issued in

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1998 and maturing in 2028. Generally management has been unable to obtain a market quote due to a lack of trading activity for this security. Consequently, the security's fair value as reported at December 31, 2013 and June 30, 2013 is based upon the present value of its expected future cash flows assuming the security continues to meet all its payment obligations and utilizing a discount rate based upon the security's contractual interest rate.

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.

For the three and six months ended December 30, 2013, 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 those same periods, there were no transfers of assets or liabilities within the fair valuation measurement hierarchy between Level 1 and Level 2 inputs.

The 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 December 31, 2013				
Impaired loans	$ -	$ -	$ 10,966	$ 10,966
Real estate owned	-	-	-	-
At June 30, 2013				
Impaired loans	$ -	$ -	$ 14,603	$ 14,603
Real estate owned	-	-	229	229

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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
At December 31, 2013					
Impaired loans	$	10,966	Market valuation of underlying collateral (1)	Direct disposal costs (3)	6% - 10%
Real estate owned	$	-	Market valuation property (2)	Direct disposal costs (3)	6% - 10%
At June 30, 2013					
Impaired loans	$	14,603	Market valuation of underlying collateral (1)	Direct disposal costs (3)	6% - 10%
Real estate owned	$	229	Market valuation property (2)	Direct disposal costs (3)	6% - 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 December 31, 2013, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling $12.5 million and valuation allowances of $1.5 million reflecting fair values of $11.0 million. By comparison, at June 30, 2013, impaired loans valued using Level 3 inputs comprised loans with principal balances totaling $16.7 million and valuation allowances of $2.1 million reflecting fair values of $14.6 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. For the year-to-date period ended December 31, 2013, there were no real estate properties whose carrying values were written down utilizing Level 3 inputs. By

comparison, real estate owned whose carrying value was written down utilizing Level 3 inputs during the year ended June 30, 2013 comprised one property with a fair value totaling $229,000.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 2013 and June 30, 2013:

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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 on Page 62 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.

Interest Rate Derivatives. See the discussion presented on Page 62 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 95.

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

	Carrying Amount and Fair Value Measurements at December 31, 2013				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (In Thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 153,292	$ 153,292	$ 153,292	$ -	$ -
Debt securities available for sale	298,056	298,056	-	297,056	1,000
Debt securities held to maturity	211,342	203,580	-	203,580	-
Loans receivable	1,543,295	1,527,610	-	-	1,527,610
Mortgage-backed securities available for sale	664,480	664,480	-	664,480	-
Mortgage-backed securities held to maturity	100,245	94,002	-	94,002	-
FHLB Stock	21,064	21,064	-	-	21,064
Interest receivable	7,925	7,925	7,925	-	-
Financial liabilities:					
Deposits (A)	2,377,617	2,386,540	1,412,216	-	974,324
Borrowings	396,868	399,387	-	-	399,387
Interest payable on borrowings	1,028	1,028	1,028	-	-
Derivative instruments:					
Interest rate swaps	2,783	2,783	-	2,783	-
Interest rate caps	2,626	2,626	-	2,626	-

(A) Includes accrued interest payable on deposits of $70,000 at December 31, 2013.

	Carrying Amount and Fair Value Measurements at June 30, 2013				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (In Thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 127,034	$ 127,034	$ 127,034	$ -	$ -
Debt securities available for sale	300,122	300,122	-	299,122	1,000
Debt securities held to maturity	210,015	202,328	-	202,328	-
Loans receivable	1,349,975	1,359,799	-	-	1,359,799
Mortgage-backed securities available for sale	780,652	780,652	-	780,652	-
Mortgage-backed securities held to maturity	101,114	96,447	-	96,447	-
FHLB Stock	15,666	15,666	-	-	15,666
Interest receivable	8,028	8,028	8,028	-	-
Financial liabilities:					
Deposits (A)	2,370,508	2,376,290	1,389,044	-	987,246
Borrowings	287,695	295,914	-	-	295,914
Interest payable on borrowings	938	938	938	-	-
Derivative instruments:					
Interest rate swaps	2,837	2,837	-	2,837	-
Interest rate caps	2,808	2,808	-	2,808	-

(A) Includes accrued interest payable on deposits of $47,000 at June 30, 2013.

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.

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

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15. COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss included in stockholders' equity at December 31, 2013 and June 30, 2013 are as follows:

	December 31, 2013	June 30, 2013
	(Dollars in thousands)	
Net unrealized loss on securities available for sale	$ (17,453)	$ (7,375)
Tax effect	5,916	2,021
Net of tax amount	(11,537)	(5,354)
Fair value adjustments on derivatives	2,871	3,107
Tax effect	(1,173)	(1,269)
Net of tax amount	1,698	1,838
Benefit plan adjustments	(228)	(1,053)
Tax effect	93	430
Net of tax amount	(135)	(623)
Accumulated other comprehensive loss	$ (9,974)	$ (4,139)

Other comprehensive loss and related tax effects for the three and six months ended December 31, 2013 and December 31, 2012 are presented in the following table:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Net realized gain on securities available for sale (2)	$ (226)	$ (1,097)	$ (226)	$ (1,097)
Net unrealized holding loss on securities available for sale	$ (11,329)	$ (8,172)	$ (9,852)	$ (884)
Net unrealized gain (loss) on derivatives	2,591	-	(236)	-
Benefit plans:				
Amortization of:				
Actuarial (gain) loss (1)	(1)	13	(2)	26
Past service cost (1)	12	12	24	24
New actuarial gain (loss)	-	-	803	(1,186)
Net change in benefit plans accrued expense	11	25	825	(1,136)
Other comprehensive loss before taxes	(8,953)	(9,244)	(9,489)	(3,117)
Tax effect (3)	3,366	3,748	3,654	1,288
Other comprehensive loss	$ (5,587)	$ (5,496)	$ (5,835)	$ (1,829)

(1)

Represents amounts reclassified out of accumulated other comprehensive income and included in the computation of net periodic pension expense. See Note 13 – Benefit Plans for additional information

(2) Represents amounts reclassified out of accumulated other comprehensive income and included in gain on sale of securities.

(3) The amounts included in income taxes for items reclassified out of accumulated other comprehensive income totaled $(89), $244, $(422) and $(916) for the three and six months ended December 31, 2013 and 2012, respectively.

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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 te variations on those terms, or the negative of those terms. The actual results of the Company could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities. Additional potential factors include changes in interest rates, deposit flows, cost of funds, demand for loan products and financial services, competition, 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.

Restructuring and Wholesale Growth Transactions

The following discussion presents an overview of certain balance sheet restructuring and wholesale growth transactions executed by the Company during the prior fiscal year ended June 30, 2013 and will serve as a point of reference for subsequent discussions included in this report.

The Company completed a series of balance sheet restructuring and wholesale growth transactions during the latter half of fiscal 2013 that improved the financial position and operating results of the Company and the Bank. Through the restructuring transactions, the Company reduced its concentration in agency mortgage-backed securities ("MBS") in favor of other investment sectors within the portfolio. As a result, the Company reduced its exposure to residential mortgage prepayment and extension risk while enhancing the overall yield of the investment portfolio and providing some additional protection to earnings against potential movements in market interest rates. The gains recognized through the sale of MBS enabled the Company to fully offset the costs of prepaying a portion of its high-rate Federal Home Loan Bank ("FHLB") advances during the year. The Company also modified the terms of its remaining high-rate FHLB advances to a lower interest rate while extending the duration of that modified funding to better protect against potential increases in interest rates in the future.

The key features and characteristics of the restructuring transactions executed during the latter half of fiscal 2013 were as follows:

- The Company sold available for sale agency MBS totaling approximately $330.0 million with a weighted average book yield of 1.78% resulting in a one-time gain on sale totaling approximately $9.1 million;
- A portion of the proceeds from the noted MBS sales were used to prepay $60.0 million of fixed-rate FHLB advances at a weighted average rate of 3.99% resulting in a one-time expense of $8.7 million largely attributable to the prepayment penalties paid to the FHLB to extinguish the debt; and

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Explanation of Responses:

- The Company reinvested the remaining proceeds from the noted MBS sales into a diversified mix of high-quality securities with an aggregate tax-effective yield modestly exceeding that of the MBS sold. Such securities primarily included:

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

- The Company modified the terms of its remaining $145.0 million of "putable" FHLB advances with a weighted average cost of 3.68% and weighted average remaining maturity of approximately 4.5 years. Such advances were subject to the FHLB's quarterly "put" option enabling it to demand repayment in full in the event of an increase in interest rates. The terms of the modified advances extended their "non-putable" period to five years with a final stated maturity of ten years while reducing their average interest rate by 0.64% to 3.04% at no immediate cost to the Company.

The Company augmented the restructuring transaction noted above by also executing a limited wholesale growth strategy during the latter half of fiscal 2013. The strategy has further enhanced the Company's net interest income and operating results without significantly impacting the sensitivity of its Economic Value of Equity ("EVE") to movements in interest rates - a key measure of long-term exposure to interest rate risk.

In conjunction with the wholesale growth strategy, the Company drew an additional $300.0 million of wholesale funding that was utilized to purchase a diverse set of high-quality investment securities of an equivalent amount. The key features and characteristics of the wholesale growth transactions were as follows:

- Wholesale funding sources utilized in the strategy included 90-day FHLB borrowings and money-market deposits indexed to one-month LIBOR acquired through Promontory Interfinancial Network's ("Promontory") Insured Network Deposits ("IND") program.

- The Company utilized interest rate derivatives in the form of "plain vanilla" swaps and caps with aggregate notional amounts totaling $300.0 million to serve as cash flow hedges to manage the interest rate risk exposure of the floating rate funding sources noted above.

- The investment securities acquired with this funding primarily included:

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

Comparison of Financial Condition at December 31, 2013 and June 30, 2013

General. Total assets increased by $113.7 million to $3.26 billion at December 31, 2013 from $3.15 billion at June 30, 2013. The increase in total assets was primarily attributable to increases in the balances of loans, FHLB stock and cash and cash equivalents that were partially offset by a decline in the balance of mortgage-backed securities. The net increase in total assets was complemented by increases in the balances of deposits and borrowings that were partially offset by a decline in stockholders' equity.

Cash and Cash Equivalents. Cash and cash equivalents, which consist primarily of interest-earning and non-interest-earning deposits in other banks, increased by $26.3 million to $153.3 million at December 31, 2013 from $127.0 million at June 30, 2013. The increase in the balance of cash and cash equivalents at December 31, 2013 primarily reflected additional cash held to fulfill the Company's commitment to fund $39.0 million of new commercial mortgage loans that closed during the first week of January 2014.

Notwithstanding the additional liquidity held at December 31, 2013, the Company generally expects to continue maintaining the average balance of interest-earning and non-interest-earning cash and equivalents at comparatively lower levels than those maintained during prior years to reduce the opportunity cost of holding excess liquidity in the current low rate environment. Management will continue to monitor the level of short term, liquid assets in relation to the expected need for such liquidity to fund the Company's strategic initiatives – particularly those relating to the expansion of its commercial lending functions. The Company may alter its liquidity reinvestment strategies based upon the timing and relative success of those initiatives.

Debt Securities Available for Sale. Debt securities classified as available for sale decreased by $2.1 million to $298.1 million at December 31, 2013 from $300.1 million at June 30, 2013. The net decrease primarily reflected security sales of totaling $55.4 million during the six months ended December 31, 2013 that were partially offset by security purchases totaling $55.2 million during the same period. The security sales primarily reflected the Company's decision to reduce its investment in certain collateralized loan obligations that may become ineligible investments under the terms of the "Volcker Rule" whose provisions were enacted by regulatory agencies during the quarter ended December 31, 2013 in conjunction with the ongoing adoption and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Security purchases for the period primarily reflect the reinvestment of the security sale proceeds into other eligible sectors within the portfolio.

The net change in debt securities available for sale also reflected a net increase in the net unrealized loss within the portfolio coupled with repayments of principal attributable to amortization during the first six months of fiscal 2014. The net unrealized loss for this portfolio increased by $1.5 million to $6.7 million at December 31, 2013 from $5.2 million at June 30, 2013. The increase in the net unrealized loss was primarily attributable to declines in the fair value of several sectors within the portfolio that resulted from recent increases in market interest rates. Partially offsetting these declines was an increase in the fair value of the Company's investment in single-issuer, trust preferred securities whose unrealized losses decreased by $95,000 to $1.5 million at December 31, 2013 from $1.6 million at June 30, 2013.

At December 31, 2013, 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 December 31, 2013 is presented in Note 7 and Note 9 to the unaudited consolidated financial statements.

Debt Securities Held to Maturity. Debt securities classified as held to maturity increased by $1.3 million to $211.3 million at December 31, 2013 from $210.0 million at June 30, 2013. The net increase primarily reflected purchases of municipal obligations totaling $2.5 million during the six months ended December 31, 2013 that were partially offset by maturities and repayments of such securities during that same period.

At December 31, 2013, 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 the 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 December 31, 2013 is presented in Note 8 and Note 9 to the unaudited consolidated financial statements.

Loans Receivable. Loans receivable, net of unamortized premiums, deferred costs and the allowance for loan losses, increased by $193.3 million to $1.54 billion at December 31, 2013 from $1.35 billion at June 30, 2013. The increase in net loans receivable was primarily attributable to new loan origination and purchase volume outpacing loan repayments during the six months ended December 31, 2013.

Residential mortgage loans, including home equity loans and lines of credit, increased by $7.4 million to $615.4 million at December 31, 2013 from $608.1 million at June 30, 2013. The components of the net increase included an increase in the balance of one-to-four family first mortgage loans of $10.2 million to $510.8 million at December 31, 2013 from $500.6 million at June 30, 2013. Partially offsetting this increase was a net reduction in the balance of home equity loans of $2.0 million to $78.9 million at December 31, 2013 from $80.8 million for those same comparative periods. Additionally, the balance of home equity lines of credit decreased by $875,000 to $25.7 million at December 31, 2013 from $26.6 million at June 30, 2013.

Residential mortgage loan activity for the six months ended December 31, 2013 continues to reflect the Company's diminished strategic focus on such loans coupled with the reduced level of "new purchase" loan demand resulting from a weak economy and lower real estate values. The modest increase in the outstanding balance of the portfolio reflected slowing refinancing activity resulting primarily from longer-term mortgage rates increasing from their historical lows during the current period. Such increases in mortgage rates were largely attributable to market expectations for a reduction or "tapering" in the Federal Reserve's efforts to stimulate the economy by maintaining longer-term interest rates at historically low levels through quantitative easing. Through this policy, the Federal Reserve has aggressively purchased mortgage-backed securities in the open market thereby driving the yield on such securities, and their underlying mortgage loans, to historical lows. Slowing the rate of such purchases by the Federal Reserve is expected to result in an increase in longer-term interest rates. The likelihood of such action by the Federal Reserve was reinforced by their formal announcement in December 2013 indicating their expectation to begin the process of tapering in early 2014.

As a portfolio lender cognizant of potential exposure to interest rate risk, the Bank has generally refrained from lowering its long-term, fixed-rate residential mortgage rates to the levels available in the marketplace. Consequently, a portion of the Company's residential mortgage borrowers may continue to seek long-term, fixed-rate refinancing opportunities from other market resources resulting in further declines in the outstanding balance of its residential mortgage loan portfolio.

In total, residential mortgage loan origination and purchase volume for the six months ended December 31, 2013 was $50.1 million and $10.3 million, respectively, while aggregate originations of home equity loans and home equity lines of credit totaled $18.4 million for that same period.

Commercial loans, in aggregate, increased by $190.4 million to $927.9 million at December 31, 2013 from $737.5 million at June 30, 2013. The components of the aggregate increase included an increase in commercial mortgage loans totaling $195.4 million that was partially offset by a decline in commercial business loans of $5.0 million. The ending balances of commercial mortgage loans and commercial business loans at December 31, 2013 were $862.3 million and $65.6 million, respectively. Commercial loan origination volume for the six months ended December 31, 2013 totaled $212.1 million comprising $203.8 million and $8.3 million of commercial mortgage and commercial business loans originations, respectively. Commercial loan originations were augmented with the purchase of commercial loan participations totaling $48.0 million during the six months ended December 31, 2013.

The outstanding balance of construction loans, net of loans-in-process, decreased by $3.0 million to $8.9 million at December 31, 2013 from $11.9 million at June 30, 2013. Construction loan disbursements for the six months ended December 31, 2013 totaled $2.4 million.

Finally, other loans, primarily comprising account loans, deposit account overdraft lines of credit and other consumer loans, increased $70,000 to $4.4 million at December 31, 2013 from $4.3 million at June 30, 2013. Other loan originations for the six months ended December 31, 2013 totaled approximately $974,000.

Additional information regarding loans receivable at December 31, 2013 is presented in Note 10 to the unaudited consolidated financial statements.

Nonperforming Loans. At December 31, 2013, nonperforming loans decreased by $5.0 million to $25.9 million or 1.67% of total loans from $30.9 million or 2.27% of total loans as of June 30, 2013. The balance of nonperforming loans at December 31, 2013 included $25.4 million and $522,000 of "nonaccrual" loans and loans reported as "over 90 days past due and accruing", respectively. By comparison, the balance of nonperforming loans at June 30, 2013 was comprised entirely of "nonaccrual" loans.

The composition of nonperforming loans at December 31, 2013 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 $8.9 million or 34.3% of total nonperforming loans at December 31, 2013. As of that same date, the Company owned a total of 84 residential mortgage loans with an aggregate outstanding balance of $37.3 million that were originally acquired from Countrywide. Of these loans, an additional five loans totaling $1.6 million are 30-89 days past due and are in various stages of collection.

Additional information about the Company's nonperforming loans at December 31, 2013 is presented in Note 10 to the unaudited consolidated financial statements.

Allowance for Loan Losses. During the six months ended December 31, 2013, the balance of the allowance for loan losses increased by approximately $597,000 to $11.5 million or 0.74% of total loans at December 31, 2013 from $10.9 million or 0.80% of total loans at June 30, 2013. The increase resulted from provisions of $1.7 million during the six months ended December 31, 2013 that were partially offset by charge offs, net of recoveries, totaling approximately $1.1 million.

With regard to loans individually evaluated for impairment, the balance of the Company's allowance for loan losses attributable to such loans decreased by $599,000 to $1.5 million at December 31, 2013 from $2.1 million at June 30, 2013. The balance of this portion of the allowance at December 31, 2013 reflected the allowance for impairment identified on $4.0 million of impaired loans while an additional $33.7 million of impaired loans had no allowance for impairment as of that date. By comparison, the comparable portion of the allowance at June 30, 2013 reflected the impairment identified on $4.7 million of impaired loans while an additional $34.8 million of impaired loans had no impairment as of that date. The outstanding balances of impaired loans reflect the cumulative effects of various adjustments including, but not limited to, purchase accounting valuations and prior charge offs, where applicable, which are considered in the evaluation of impairment.

With regard to loans evaluated collectively for impairment, the balance of the Company's allowance for loan losses attributable to such loans increased by $1.2 million to $10.0 million at December 31, 2013 from $8.8 million at June 30, 2013. The increase in the balance of this portion of the allowance largely reflected the additional allowance attributable to an overall increase of $196.7 million in the non-impaired portion of the loan portfolio between comparative periods. The increase in the allowance also reflected changes in the Company's historical and environmental loss factors made in accordance with its allowance for loan loss calculation methodology as discussed earlier.

Specifically, the Company's loan portfolio experienced a net annualized average charge-off rate of 15 basis points during the six months ended December 31, 2013 representing a decrease of 13 basis points from the 28 basis points of charge offs reported for fiscal 2013. The historical loss factors used in the Company's 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. In conjunction with the net changes to the outstanding balance of the applicable loans, the changes to these factors resulted in a net decrease of $214,000 in the applicable portion of the allowance to $2.2 million at December 31, 2013 from $2.4 million as of June 30, 2013.

Regarding environmental loss factors, changes to such factors during the six month period ended December 31, 2013 were limited to increases applicable to the Company's acquired portfolio of SBA loans. All such loans were initially recorded at fair value at acquisition reflecting any impairment identified on such loans at that time. Subsequent to their acquisition, however, the Company has identified and recognized additional impairment and charge offs attributable to this subset of acquired loans. While the level of this "post-acquisition" impairment has generally been limited, the Company considers such losses in developing the environmental loss factors used to calculate the required allowance applicable to the non-impaired portion of such loans. In recognition of these considerations, the Company has modified the following environmental loss factors applicable to the acquired SBA loans during the six months ended December 31, 2013 from those levels that were in effect at June 30, 2013:

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

Given their prior acquisition at fair value, the environmental loss factors established for loans acquired though business combinations generally reflect a comparatively lower level of risk than those applicable to the remaining portfolio. The level of environmental loss factors attributable to these loans continue to be monitored and adjusted, as above, to reflect the Company's best judgment as to the level of incurred losses on the acquired loans that are collectively evaluated for impairment.

In conjunction with the net changes to the outstanding balance of the applicable loans, the noted increase in the environmental loss factors resulted in a net increase of $1.4 million in the applicable valuation allowances to $7.8 million at December 31, 2013 from $6.4 million at June 30, 2013.

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The following tables 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 December 31, 2013 and June 30, 2013.

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at December 31, 2013

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
Residential mortgage loans			
Originated	0.06%	0.30%	0.36%
Purchased	2.58%	0.75%	3.33%
Acquired in merger	1.62%	0.24%	1.86%
Home equity loans			
Originated	0.13%	0.36%	0.49%
Acquired in merger	0.35%	0.24%	0.59%
Home equity lines of credit			
Originated	0.00%	0.36%	0.36%
Acquired in merger	0.00%	0.24%	0.24%
Construction loans			
1-4 family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Commercial mortgage loans			
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Nonresidential			
Originated	0.10%	0.72%	0.82%
Acquired in merger	0.00%	0.24%	0.24%
Commercial business loans			
Secured (1-4 family)			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Secured (Other)			
Originated	0.08%	0.72%	0.80%
Acquired in merger	0.06%	0.24%	0.30%

Unsecured			
Originated	0.00%	0.57%	0.57%
Acquired in merger	0.00%	0.18%	0.18%

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Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at December 31, 2013 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
SBA 7A			
Originated	0.00%	0.72%	0.72%
Acquired in merger	19.01%	0.27%	19.28%
SBA Express			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.27%	0.27%
SBA Line of Credit			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.52%	0.27%	0.79%
SBA Other			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.27%	0.27%
Other consumer loans (1)	-	-	-

(1) The Company generally maintains an environmental loss factor of 0.18% - 0.27% on other consumer loans while historical loss factors range from 0.00% to 60.23% based on loan type. Resulting balances in the allowance for loan losses are immaterial and therefore excluded from the presentation.

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

Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at June 30, 2013

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
Residential mortgage loans			
Originated	0.09%	0.30%	0.39%
Purchased	2.78%	0.75%	3.53%
Acquired in merger	1.62%	0.24%	1.86%
Home equity loans			
Originated	0.15%	0.36%	0.51%
Acquired in merger	0.30%	0.24%	0.54%
Home equity lines of credit			
Originated	0.00%	0.36%	0.36%
Acquired in merger	0.00%	0.24%	0.24%
Construction loans			
1-4 family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Nonresidential			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Commercial mortgage loans			
Multi-family			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Nonresidential			
Originated	0.13%	0.72%	0.85%
Acquired in merger	0.11%	0.24%	0.35%
Commercial business loans			
Secured (1-4 family)			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Secured (Other)			
Originated	0.08%	0.72%	0.80%
Acquired in merger	0.07%	0.24%	0.31%
Unsecured			
Originated	0.00%	0.57%	0.57%
Acquired in merger	0.00%	0.18%	0.18%

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Allowance for Loan Losses
Allocation of Loss Factors on Loans Collectively Evaluated for Impairment
at June 30, 2013 (continued)

Loan Category	Historical Loss Factors	Environmental Loss Factors (2)	Total
SBA 7A			
Originated	0.00%	0.72%	0.72%
Acquired in merger	1.58%	0.24%	1.82%
SBA Express			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
SBA Line of Credit			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
SBA Other			
Originated	0.00%	0.72%	0.72%
Acquired in merger	0.00%	0.24%	0.24%
Other consumer loans (1)	-	-	-

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

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

Additional information about the Company’s allowance for loan losses at December 31, 2013 is presented in Note 10 to the unaudited consolidated financial statements.

Mortgage-backed Securities Available for Sale. Mortgage-backed securities available for sale decreased by $116.2 million to $664.5 million at December 31, 2013 from $780.7 million at June 30, 2013. The net decrease partly reflected sales of securities totaling $52.1 million during the six months ended December 31, 2013 partially offset by purchases totaling $17.1 million during the same period. The proceeds from mortgage-backed security sales were primarily used to fund loan growth during the period while security purchases represented 30-year, fixed-rate agency MBS that were acquired based upon their Community Reinvestment Act eligibility.

The net decrease in mortgage-backed securities available for sale also reflected cash repayment of principal, net of discount accretion and premium amortization as well as an aggregate decrease in the fair value of the applicable securities resulting in an increase in the unrealized loss in the portfolio between comparative periods.

At December 31, 2013, the available for sale mortgage-backed securities portfolio included agency pass-through securities and agency collateralized mortgage 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 mortgage-backed securities available for sale at December 31, 2013 is presented in Note 7 and Note 9 to the unaudited consolidated financial statements.

Mortgage-backed Securities Held to Maturity. Mortgage-backed securities held to maturity, decreased by $869,000 to $100.2 million at December 31, 2013 from $101.1 million at June 30, 2013. The decrease was largely attributable to cash repayment of principal, net of discount accretion and premium amortization.

At December 31, 2013, the held to maturity mortgage-backed securities portfolio primarily included agency pass-through securities and agency collateralized mortgage obligations. As of that date, the Company also held a nominal balance of non-agency mortgage-backed securities whose aggregate carrying values and market values totaled $93,000 and $93,000, 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 December 31, 2013 is presented in Note 8 and Note 9 to the unaudited consolidated financial statements.

Other Assets. The aggregate balance of other assets, including premises and equipment, FHLB stock, interest receivable, goodwill, bank owned life insurance, deferred income taxes and other miscellaneous assets, increased by $11.9 million to $288.3 million at December 31, 2013 from $276.4 million at June 30, 2013. The increase in other assets partly reflected a $5.4 million increase in the investment in FHLB stock resulting from an increase in the Bank's mandatory investment attributable to the increase in the balance of borrowings with the FHLB. The change also reflected a $3.5 million increase in net deferred income tax assets resulting primarily from increases in the unrealized losses within the available for sale securities portfolio and a $1.4 million increase in the cash surrender value of the Company's bank owned life insurance.

The balance of real estate owned ("REO"), included in other assets, increased by $319,000 to $2.4 million at December 31, 2013 from $2.1 million at June 30, 2013 while the number of properties held in REO increased to ten from eight for those same comparative periods, respectively. The net change in the carrying value and number of REO properties reflected the acquisition and sale of several properties during the period. Two properties with aggregate carrying values totaling $273,000 and $245,000, respectively, were under contract for sale at December 31, 2013 with such values generally reflecting the net sale proceeds that the Bank expects to receive based upon the terms of that contract.

The remaining increases and decreases in other assets generally comprised normal growth or operating fluctuations in their respective balances.

Deposits. The balance of total deposits increased by $7.1 million to $2.38 billion at December 31, 2013 from $2.37 billion at June 30, 2013. The net increase in deposit balances reflected a $4.5 million increase in interest-bearing deposits as well as an increase of $2.6 million in non-interest-bearing checking accounts. The increase in interest-bearing deposit accounts comprised a $14.5 million increase in interest-bearing checking accounts coupled with a $6.1 million increase in savings accounts. These increases were partially offset by a $16.1 million decline in certificates of deposit.

The increase in interest-bearing checking accounts largely reflected aggregate growth in retail accounts while the balance of the Company's brokered money market deposits remained generally stable

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between comparative periods. The Company's brokered money market deposits were originally acquired through Promontory Interfinancial Network's Insured Network Deposits ("IND") program in conjunction with the wholesale funding transactions completed during the latter half of fiscal 2013. The Company's IND deposit balances totaled approximately $229.5 million at December 31, 2013 compared to $229.6 million at June 30, 2013.

The net decline in the balance of certificates of deposit partly reflects the Company's active management of deposit pricing during the six months ended December 31, 2013 to support net interest rate spread and margin which continued to allow for some degree of controlled outflow of shorter-term retail time deposits. However, the net change in certificate of deposit balances also reflected the Company's efforts to extend the duration of its time deposits for interest rate risk management purposes. Toward that end, the Bank increased its offering rates on certain longer-term retail time deposits during the quarter ended December 31, 2013 with an emphasis on attracting "new money" within the four-to-five year maturity tranche. Concurrently, the Bank also began to utilize a deposit listing service through which it has attracted "non-brokered" wholesale time deposits targeting institutional investors with a three-to-five investment horizon. The Bank generally prohibits the withdrawal of its listing service deposits prior to maturity further reinforcing the resiliency of those deposits in a rising rate environment. The balance of the Bank's listing service deposits totaled approximately $9.0 million at December 31, 2013 with the balance of funding expected to increase over the near term. Finally, the Bank acquired a small portfolio of longer-term, brokered certificates of deposit during the current quarter whose balances totaled approximately $19.2 million at December 31, 2013.

Borrowings. The balance of borrowings increased by $109.2 million to $396.9 million at December 31, 2013 from $287.7 million at June 30, 2013. The reported increase primarily reflected an additional $120.0 million of FHLB advances drawn primarily to fund loan growth during the period. For interest rate risk management purposes, the Company has utilized interest rate derivatives to effectively swap the rolling 90-day maturity/repricing characteristics of the new borrowings into fixed rate for five years.

The change in borrowing balances also reflected a $10.8 million decline in the balance of customer sweep accounts to $26.0 million at December 31, 2013 from $36.8 million at June 30, 2013. 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 owned by the Company.

Other Liabilities. The balance of other liabilities, including advance payments by borrowers for taxes and other miscellaneous liabilities, increased by $576,000 to $20.0 million at December 31, 2013 from $19.5 million at June 30, 2013 reflecting normal operating fluctuations in such balances.

Stockholders' Equity. Stockholders' equity decreased $3.2 million to $464.5 million at December 31, 2013 from $467.7 million at June 30, 2013. The decrease was partly attributable a $5.8 million increase in accumulated other comprehensive loss due primarily to a net decline in the fair value of the Company's available for sale securities that was partially offset by an increase in the fair value of its derivatives portfolio. The net decline in stockholders' equity also reflected a $3.8 million increase in Treasury stock resulting from the Company's repurchase of 365,880 shares of its common stock during the period at an average price of $10.36 per share. These decreases were partially offset by $5.6 million in net income coupled with a reduction of unearned ESOP shares for plan shares earned during the current period.

Comparison of Operating Results for the Three Months Ended December 31, 2013 and December 31, 2012

General. The Company reported net income of $2,987,000 or $0.05 per diluted share for the three months ended December 31, 2013; an increase of $1,810,000 compared to net income of $1,177,000 or $0.02 per diluted share for the three months ended December 31, 2012. The increase in net income between comparative quarters reflected an increase in net interest income coupled with 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. In total, these factors resulted in an overall increase in pre-tax income and the provision for income taxes.

Net Interest Income. Net interest income for the three months ended December 31, 2013 was $18.5 million, an increase of $2.5 million from $16.0 million for the three months ended December 31, 2012. The increase in net interest income between the comparative periods resulted from an increase in interest income coupled with a decline in interest expense. In general, the increase in interest income was attributable to an increase in the average balance of interest-earning assets that was partially offset by a decrease in their average yield. The decrease in interest expense primarily reflected a decline in the cost of interest-bearing liabilities that was partially offset by an increase in their average balance.

As a result of these factors, the Company’s net interest rate spread increased eight basis points to 2.33% for the three months ended December 31, 2013 from 2.25% for the three months ended December 31, 2012. The increase in the net interest rate spread reflected a 20 basis point decrease in the cost of interest-bearing liabilities to 0.85% from 1.05% that was partially offset by decline in the yield on earning assets of 12 basis points to 3.18% from 3.30% for the same comparative periods. A discussion of the factors contributing to the overall change in yield on earning assets and cost of interest-bearing liabilities is presented in the separate discussion and analysis of interest income and interest expense below.

The factors contributing to the increase in net interest rate spread were also reflected in the Company’s net interest margin. However, those effects were partially offset by other factors resulting in a four basis point increase in the Company’s net interest margin to 2.46% for the three months ended December 31, 2013 from 2.42% for the three months ended December 31, 2012. The additional factors resulting in the comparatively smaller increase in net interest margin include the foregone interest income associated with the use of earning assets to fund the Company’s share repurchase programs. For the three months ended December 31, 2013, the average balance of treasury stock increased by $5.8 million to $74.6 million from $68.9 million for the three months ended December 31, 2012.

Interest Income. Total interest income increased by $2.1 million to $23.9 million for the three months ended December 31, 2013 from $21.8 million for the three months ended December 31, 2012. As noted above, the increase in interest income reflected a $362.2 million increase in the average balance of interest-earning assets to $3.01 billion for the quarter ended December 31, 2013 from $2.64 billion for the quarter ended December 31, 2012. The effect on interest income from the increase in average balance was partially offset by a 12 basis point decline in the average yield on interest earning assets to 3.18% from 3.30% those same comparative periods.

Interest income from loans increased $1.3 million to $16.5 million for the three months ended December 31, 2013 from $15.2 million for the three months ended December 31, 2012. The increase in interest income on loans was attributable to an increase in their average balance that was partially offset by a decrease in their average yield.

The average balance of loans increased by $230.9 million to $1.51 billion for the three months ended December 31, 2013 from $1.28 billion for the three months ended December 31, 2012. The

Explanation of Responses:

reported increase in the average balance of loans reflected an aggregate increase of $281.0 million in the average balance of commercial loans to $885.4 million for the three months ended December 31, 2013 from $604.4 million for the three months ended December 31, 2012. The Company's commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans.

The increase in the average balance of commercial loans was partially offset by a decline in the average balance of residential mortgage loans which decreased by $42.2 million to $616.6 million for the three months ended December 31, 2013 from $658.8 million for the three months ended December 31, 2012. The Company's residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit.

The net increase in the average balance of loans also reflected a $7.0 million decline in the average balance of construction loans whose aggregate average balances decreased to $9.7 million for the three months ended December 31, 2013 from $16.7 million for the three months ended December 31, 2012. For those same comparative periods, the average balance of consumer loans also decreased by $216,000 to $4.4 million from $4.6 million.

The effect on interest income attributable to the increase in the average balance of loans was partially offset by a decrease in their average yield. The average yield on loans decreased by 37 basis points to 4.36% for the three months ended December 31, 2013 from 4.73% for the three months ended December 31, 2012. The reduction in the overall yield on the Company's loan portfolio primarily reflects the effect of loan origination volume at comparatively lower market interest rates than the aggregate portfolio coupled with the effects of the downward re-pricing of adjustable-rate loans.

Interest income from mortgage-backed securities decreased $657,000 to $5.5 million for the three months ended December 31, 2013 from $6.2 million for the three months ended December 31, 2012. The decrease in interest income reflected a decline 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 $280.2 million to $835.9 million for the three months ended December 31, 2013 from $1.12 billion for the three months ended December 31, 2012. For those same comparative periods, the average yield on mortgage-backed securities increased 42 basis points to 2.63% for the three months ended December 31, 2013 from 2.21% for the three months ended December 31, 2012.

The decrease in the average balance of mortgage-backed securities primarily reflected the net effects of the restructuring and wholesale growth transactions completed during the latter half of fiscal 2013. The decrease in average balance also reflected other security sales and principal repayments outpacing the level of other security purchases during the period. As noted earlier, a significant portion of mortgage-backed security sale proceeds during the current fiscal year have been used to fund commercial loan originations while the purchases of such securities have resulted largely from the Bank's Community Reinvestment Act commitments.

The increase in the overall yield of the mortgage-backed securities portfolio was primarily attributable to a decrease in purchased premium amortization during the current quarter arising from a reduction in loan prepayments reflecting the overall increase in longer-term market interest rates during the quarter that reduced the incentive for borrowers to refinance.

Interest income from non-mortgage-backed securities increased $1.4 million to $1.7 million for the three months ended December 31, 2013 from $280,000 for the three months ended December 31, 2012. The increase in interest income reflected increases in both the average balance and average yield of non-mortgage-backed securities between comparative periods. The average balance of these securities

increased $408.3 million to $513.7 million for the three months ended December 31, 2013 from $105.4 million for the three months ended December 31, 2012. For those same comparative periods, the average yield on non-mortgage-backed securities increased by 24 basis points to 1.31% from 1.07%.

The increase in the average balance of non-mortgage-backed securities primarily reflected the net effects of the restructuring and wholesale growth transactions completed during the latter half of fiscal 2013. The increase in average balance also reflected other security purchases outpacing the level of other sales and principal repayments during the period.

The increase in the average balance of non-mortgage backed securities included a $315.7 million increase in the average balance of taxable securities to $419.0 million during the three months ended December 31, 2013 from $103.3 million during the three months ended December 31, 2012. For those same comparative periods, the average balance of tax-exempt securities increased by $92.6 million to $94.7 million from $2.1 million.

The increase in the average yield on non-mortgage backed securities reflected a 10 basis point increase in the yield of taxable securities to 1.17% during the three months ended December 31, 2013 from 1.07% during the three months ended December 31, 2012 augmented by an 87 basis point increase in the average yield on tax-exempt securities to 1.94% from 1.07% between those same comparative periods. The changes in the average yields of the taxable and tax-exempt sectors of the non-mortgage-backed securities portfolios primarily reflected the restructuring and wholesale growth transactions completed during the latter half of fiscal 2013 coupled with the effects of other security purchases and sales within the portfolio during the current fiscal year.

Interest income from other interest-earning assets increased by $43,000 to $238,000 for the three months ended December 31, 2013 from $195,000 for the three months ended December 31, 2012. The increase in interest income was primarily attributable to an 11 basis point increase in average yield to 0.67% for the three months ended December 31, 2013 from 0.56% for the three months ended December 31, 2012. For those same comparative periods, the average balance of other interest-earning assets increased by $3.3 million to $142.9 million from $139.7 million.

The nominal change in the average balance of other interest-earning assets between comparative periods largely reflects a consistent level of such assets maintained by the Company in the aggregate between comparative periods. The corresponding increase in the average yield, however, reflects proportionately greater average balances of higher yielding assets within the category, such as FHLB stock, in relation to other, lower yielding asset types such as interest-bearing deposits.

Interest Expense. Total interest expense decreased $350,000 to $5.5 million for the three months ended December 31, 2013 from $5.8 million for the three months ended December 31, 2012. As noted earlier, the decrease in interest expense reflected a decrease in the average cost of interest-bearing liabilities which declined 20 basis points to 0.85% for the three months ended December 31, 2013 from 1.05% for the three months ended December 31, 2012. The decrease in the average cost was partially offset by a $355.1 million increase in the average balance of interest-bearing liabilities to $2.57 billion from $2.22 billion for the same comparative periods.

Interest expense attributed to deposits decreased $179,000 to $3.6 million for the three months ended December 31, 2013 from $3.8 million for the three months ended December 31, 2012. The decrease in interest expense was attributable to a decline in the average cost of interest-bearing deposits that was partially offset by an increase in their average balance.

The cost of interest-bearing deposits declined by 10 basis points to 0.67% for the three months ended December 31, 2013 from 0.77% for the three months ended December 31, 2012. The reported decline in the average cost was reflected in the decreases in the average costs of certificates of deposit and savings accounts that were partially offset by an increase in the average cost of interest-bearing checking accounts. For those comparative periods, the average cost of certificates of deposit declined 16 basis points to 1.02% from 1.18% while the average cost of savings accounts decreased five basis points to 0.16% from 0.21%.

In contrast, the average cost of interest-bearing checking accounts increased by 14 basis points to 0.53% for the three months ended December 31, 2013 from 0.39% for the three months ended December 31, 2012. The increase in cost primarily reflected the effect of money-market deposits maintained as a wholesale funding source through Promontory Interfinancial Network's Insured Network Deposits ("IND") program in conjunction with the wholesale growth transactions completed during the latter half of fiscal 2013. The comparatively higher cost of such "non-retail" funding in relation to the Company's "retail" money market accounts primarily reflects the use of derivatives instruments to hedge the interest rate risk of that floating rate funding source for a period of five years.

The overall decrease in the average cost of interest-bearing deposits was partially offset by a $184.9 million increase in their average balance to $2.15 billion for the three months ended December 31, 2013 from $1.97 billion for the three months ended December 31, 2012. The reported increase in the average balance was primarily attributable to a $243.4 million increase in the average balance of interest-bearing checking accounts to $727.4 million for the three months ended December 31, 2013 from $483.9 million for the three months ended December 31, 2012. The reported increase in the average balance of interest-bearing checking accounts was largely attributable to the "non-retail" money market funding that was acquired in conjunction with the wholesale growth transactions noted above. The average balance of this funding source totaled $226.3 million for the three months ended December 31, 2013 with no such balances being reported during the earlier comparative period.

The increase in interest-bearing deposits also reflected a $31.4 million increase in the average balance of savings accounts to $467.3 million for the three months ended December 31, 2013 from $436.0 million for the three months ended December 31, 2012.

The reported increases in average balance of interest-bearing checking and savings accounts were partially offset by a decline in the average balance of certificates of deposit. For those same comparative periods, the average balance of certificates of deposit decreased $89.9 million to $955.6 million from $1.05 billion. As noted earlier, the reported decline in certificates of deposit was largely attributable to the Company's active management of deposit pricing to support net interest rate spread and margin which continued to allow for some degree of controlled outflow of short-term time deposits during the six months ended December 31, 2013. Partially offsetting this decline was an increase in average balance of longer-term certificates of deposit originated through the Bank's retail branch and "non-retail" deposit listing service resources.

Interest expense attributed to borrowings decreased by $171,000 to $1.9 million for the three months ended December 31, 2013 from $2.0 million for the three months ended December 31, 2012. The decrease in interest expense on borrowings reflected a decrease in their average cost that was partially offset by an increase in their average balance. The average cost of borrowings decreased by 145 basis points to 1.76% for the three months ended December 31, 2013 from 3.21% for the three months ended December 31, 2012. For those same comparative periods, the average balance of borrowings increased $170.2 million to $423.7 million from $253.5 million.

The decrease in the average cost of borrowings and the increase in their average balance partly reflected the effects of restructuring and wholesale growth transactions completed during the latter half of fiscal 2013. The decrease also reflects effects of the additional FHLB advances drawn during the first six months of the current fiscal year as well as the effects of the associated interest rate derivatives used to hedge the cost of those advances. In total, the average cost of FHLB advances decreased by 179 basis points to 1.87% for the three months ended December 31, 2013 from 3.66% for the three months ended December 31, 2012. For those same comparative periods, the average balance of FHLB advances increased by $172.0 million to $388.7 million from $216.7 million.

The noted increase in the average balance of FHLB advances was partially offset by a $1.9 million decrease in the average balance of other borrowings to $35.0 million for the three months ended December 31, 2013 from $36.9 million for the three months ended December 31, 2012. For those same comparative periods, the average cost of other borrowings declined by five basis points to 0.50% from 0.55%. Other borrowings primarily include depositor overnight sweep accounts.

Provision for Loan Losses. The provision for loan losses decreased by $834,000 to $559,000 for the three months ended December 31, 2013 from $1.4 million for the three months ended December 31, 2012. The decrease in the provision primarily reflected a lower level of specific losses recognized on nonperforming loans individually reviewed for impairment coupled with an overall reduction in net charge offs between comparative periods. This net reduction in provision expense was partially offset by a greater provision for loan losses on non-impaired loans due largely to their comparatively greater aggregate growth during the current period. Non-impaired loans are collectively evaluated for impairment using historical and environmental loss factors which were updated during the current period in accordance with the Bank’s allowance for loan loss calculation methodology.

Additional information regarding the allowance for loan losses and the associated provisions recognized during the three months ended December 31, 2013 is presented in Note 10 to the unaudited consolidated financial statements as well as the Comparison of Financial Condition at December 31, 2013 and June 30, 2013 presented earlier.

Non-Interest Income. Non-interest income decreased $356,000 to $1.9 million for the three months ended December 31, 2013 from $2.3 million for the three months ended December 31, 2012. However, excluding gains and losses on the sale of securities and real estate owned (“REO”), non-interest income increased by $276,000 between those same comparative periods. The increase in non-interest income, as adjusted, was largely attributable to a $314,000 increase in income from bank owned life insurance that was due primarily to an increase in the average balance of the underlying insurance assets between comparative periods. The increase in non-interest income also reflected increases in electronic banking and other fees and service charges due to an increase in applicable transaction activity. Partially offsetting these increases was a $62,000 decline in miscellaneous income due largely to reduced levels of REO rental income between comparative periods.

The overall decrease in non-interest income also reflected an $871,000 decline in security sale gains reflecting a lower level of net gains arising from security sales during the current period. This decline in non-interest income was partially offset by the absence in the current period of losses on the sale and write down of REO that totaled $239,000 during the earlier comparative period.

Non-Interest Expenses. Non-interest expense increased by $366,000 to $15.6 million for the three months ended December 31, 2013 from $15.2 million for the three months ended December 31, 2012. The net increase in non-interest expense primarily reflected increases in equipment and systems expense, federal deposit insurance expense and miscellaneous expense. These increases were partially offset by declines in certain employee compensation and premises occupancy expenses. Less noteworthy

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increases and decreases in other categories of non-interest expense reflected normal operating fluctuations within those categories.

The reported increase in equipment and systems expense was largely attributable to certain expenses relating to the Company's upcoming conversion of its primary core processing and related customer-facing systems to more robust and enhanced systems provided by Fiserv, Inc. (“Fiserv”). The Company had previously selected and engaged Fiserv to be its primary source of internal and customer-facing technology solutions including, but not limited to, core and item processing, Internet banking and electronic bill payment, and ATM/debit card management and processing. Fiserv will also provide the Company with technology solutions supporting data communications, electronic document management, data warehouse and reporting, financial accounting and analysis as well as certain forms of loan and credit-related analyses. Through the relationship with Fiserv, the Company also intends to enhance and expand its technology-based services offerings to include mobile banking, person-to-person payments and online account opening.

The conversions to the Fiserv platform are expected to take place during the third and fourth quarters of fiscal 2014 during which the Company expects to incur additional one-time conversion- related expenses. However, upon completing all applicable system conversions and integrations with Fiserv, the Company anticipates that its recurring technology service provider expenses will be reduced by approximately $1.0 million per year. Such anticipated cost savings are based upon the current composition and transactional characteristics of the Company’s customer account base and may vary over time based upon changes to those factors.

The reported increase in deposit insurance expense reflects an increase in the Bank’s FDIC insurance premiums arising primarily from the growth in the Bank’s total assets which, when offset by tangible capital, generally establishes the calculation basis of those premiums.

The increase in miscellaneous expense includes the recognition of certain costs associated with professional services rendered in support of the Company’s strategic efforts to expand its business into insurance agency activities and commercial and industrial (“C&I”) lending.

The decrease in salaries and employee benefits expense primarily reflected changes to actuarial assumptions relating to the Bank’s multi-employer defined benefit pension plan for employees that reduced the required contributions and associated expense to be recognized during fiscal 2014.

Finally, the overall increase in non-interest expense was further offset by a decline in premises occupancy expenses that were primarily attributable to a net reduction in property tax expense resulting from the Company’s tax appeal efforts to reduce its property tax obligations on certain branch facilities.

Provision for Income Taxes. The provision for income taxes increased $783,000 to $1.3 million for the three months ended December 31, 2013 from $518,000 for the three months ended December 31, 2012. The variance in income tax expense between comparative quarters was largely attributable to underlying differences in the level of the taxable portion of pre-tax income between comparative periods. The Company’s effective tax rate during the three months ended December 31, 2013 was 30.3% which, in relation to statutory income tax rates, reflected the effects of tax-favored income sources included in pre-tax income. By comparison, the Company’s effective tax rate for the three months ended December 31, 2012 was 30.6%.

Comparison of Operating Results for the Six Months Ended December 31, 2013 and December 31, 2012

General. The Company reported net income of $5,573,000 or $0.08 per diluted share for the six months ended December 31, 2013; an increase of $2,736,000 compared to net income of $2,837,000 or $0.04 per diluted share for the six months ended December 31, 2012. The increase in net income between comparative quarters reflected increases in net interest income and non-interest income coupled with a decrease in the provision for loan losses that were partially offset by an increase in non-interest expense. In total, these factors resulted in an overall increase in pre-tax income and the provision for income taxes.

Net Interest Income. Net interest income for the six months ended December 31, 2013 was $36.7 million, an increase of $3.8 million from $32.9 million for the six months ended December 31, 2012. The increase in net interest income between the comparative periods resulted from an increase in interest income coupled with a decline in interest expense. In general, the increase in interest income was attributable to an increase in the average balance of interest-earning assets that was partially offset by a decrease in their average yield. The decrease in interest expense primarily reflected a decline in the cost of interest-bearing liabilities that was partially offset by an increase in their average balance.

As a result of these factors, the Company’s net interest rate spread increased four basis points to 2.35% for the six months ended December 31, 2013 from 2.31% for the six months ended December 31, 2012. The increase in the net interest rate spread reflected a 26 basis point decrease in the cost of interest-bearing liabilities to 0.83% from 1.09% that was partially offset by decline in the yield on earning assets of 22 basis points to 3.18% from 3.40% for the same comparative periods. A discussion of the factors contributing to the overall change in yield on earning assets and cost of interest-bearing liabilities is presented in the separate discussion and analysis of interest income and interest expense below.

The factors contributing to the increase in net interest rate spread were also reflected in the Company’s net interest margin. However, those effects were more than offset by other factors resulting in a two basis point decrease in the Company’s net interest margin to 2.47% for the six months ended December 31, 2013 from 2.49% for the six months ended December 31, 2012. The additional factors resulting in the decrease in net interest margin include the foregone interest income associated with the use of earning assets to fund the Company’s share repurchase programs. For the six months ended December 31, 2013, the average balance of treasury stock increased by $5.2 million to $73.6 million from $68.4 million for the six months ended December 31, 2012.

Interest Income. Total interest income increased by $2.2 million to $47.2 million for the six months ended December 31, 2013 from $45.0 million for the six months ended December 31, 2012. As noted above, the increase in interest income reflected a $322.1 million increase in the average balance of interest-earning assets to $2.97 billion for the six months ended December 31, 2013 from $2.65 billion for the six months ended December 31, 2012. The effect on interest income from the increase in average balance was partially offset by a 22 basis point decline in the average yield on interest earning assets to 3.18% from 3.40% those same comparative periods.

Interest income from loans increased $1.4 million to $32.3 million for the six months ended December 31, 2013 from $30.9 million for the six months ended December 31, 2012. The increase in interest income on loans was attributable to an increase in their average balance that was partially offset by a decrease in their average yield.

The average balance of loans increased by $186.1 million to $1.47 billion for the six months ended December 31, 2013 from $1.28 billion for the six months ended December 31, 2012. The reported increase in the average balance of loans reflected an aggregate increase of $248.9 million in the average

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balance of commercial loans to $843.1 million for the six months ended December 31, 2013 from $594.2 million for the six months ended December 31, 2012. The Company's commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans.

The increase in the average balance of commercial loans was partially offset by a decline in the average balance of residential mortgage loans which decreased by $55.1 million to $614.2 million for the six months ended December 31, 2013 from $669.3 million for the six months ended December 31, 2012. The Company's residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit.

The net increase in the average balance of loans also reflected a $7.6 million decline in the average balance of construction loans whose aggregate average balances decreased to $10.5 million for the six months ended December 31, 2013 from $18.1 million for the six months ended December 31, 2012. For those same comparative periods, the average balance of consumer loans also decreased by $76,000 to $4.4 million from $4.5 million.

The effect on interest income attributable to the net increase in the average balance of loans was partially offset by a decrease in their average yield. The average yield on loans decreased by 42 basis points to 4.40% for the six months ended December 31, 2013 from 4.82% for the six months ended December 31, 2012. The reduction in the overall yield on the Company's loan portfolio primarily reflects the effect of loan origination volume at comparatively lower market interest rates than the aggregate portfolio coupled with the effects of the downward re-pricing of adjustable rate loans.

Interest income from mortgage-backed securities decreased $2.1 million to $11.1 million for the six months ended December 31, 2013 from $13.2 million for the six months ended December 31, 2012. The decrease in interest income reflected a decline 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 $303.9 million to $854.9 million for the six months ended December 31, 2013 from $1.16 billion for the six months ended December 31, 2012. For those same comparative periods, the average yield on mortgage-backed securities increased 32 basis points to 2.59% for the six months ended December 31, 2013 from 2.27% for the six months ended December 31, 2012.

The decrease in the average balance of mortgage-backed securities primarily reflected the net effects of the restructuring and wholesale growth transactions completed during the latter half of fiscal 2013. The decrease in average balance also reflected other security sales and principal repayments outpacing the level of other security purchases during the period. As noted earlier, a significant portion of mortgage-backed security sale proceeds during the current fiscal year have been used to fund commercial loan originations while the purchases of such securities have resulted largely from the Bank's Community Reinvestment Act commitments.

The increase in the overall yield of the mortgage-backed securities portfolio was primarily attributable to a decrease in purchased premium amortization during the current quarter arising from a reduction in loan prepayments reflecting the overall increase in longer-term market interest rates during the quarter that reduced the incentive for borrowers to refinance.

Interest income from non-mortgage-backed securities increased $2.9 million to $3.4 million for the six months ended December 31, 2013 from $512,000 for the six months ended December 31, 2012. The increase in interest income reflected an increase in the average balance of such securities that was partially offset by a decline in their average yield between comparative periods. The average balance of non-mortgage-backed securities increased $439.0 million to $515.2 million for the six months ended

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December 31, 2013 from $76.2 million for the six months ended December 31, 2012. For those same comparative periods, the average yield on non-mortgage-backed securities decreased by three basis points to 1.32% from 1.35%.

The increase in the average balance of non-mortgage-backed securities primarily reflected the net effects of the restructuring and wholesale growth transactions completed during the latter half of fiscal 2013. The increase in average balance also reflected other security purchases outpacing the level of other sales and principal repayments during the period.

The increase in the average balance of non-mortgage backed securities included a $347.3 million increase in the average balance of taxable securities to $421.3 million during the six months ended December 31, 2013 from $74.0 million during the six months ended December 31, 2012. For those same comparative periods, the average balance of tax-exempt securities increased by $91.7 million to $93.9 million from $2.2 million.

The decrease in the average yield on non-mortgage backed securities reflected a 16 basis point decline in the yield of taxable securities to 1.19% during the six months ended December 31, 2013 from 1.35% during the six months ended December 31, 2012. This decline in yield was partially offset by an 87 basis point increase in the average yield on tax-exempt securities to 1.95% from 1.08% between those same comparative periods. The changes in the average yields of the taxable and tax-exempt sectors of the non-mortgage-backed securities portfolios primarily reflected the restructuring and wholesale growth transactions completed during the latter half of fiscal 2013 coupled with the effects of other security purchases and sales within the portfolio during the current fiscal year.

Interest income from other interest-earning assets increased by $46,000 to $436,000 for the six months ended December 31, 2013 from $390,000 for the six months ended December 31, 2012. The increase in interest income was primarily attributable to a seven basis point increase in average yield to 0.67% for the six months ended December 31, 2013 from 0.60% for the six months ended December 31, 2012. For those same comparative periods, the average balance of other interest-earning assets increased by $891,000 to $130.2 million from $129.3 million.

The nominal change in the average balance of other interest-earning assets between comparative periods largely reflects a consistent level of such assets maintained by the Company in the aggregate between comparative periods. The corresponding increase in the average yield, however, reflects proportionately greater average balances of higher yielding assets within the category, such as FHLB stock, in relation to other, lower yielding asset types such as interest-bearing deposits.

Interest Expense. Total interest expense decreased $1.6 million to $10.6 million for the six months ended December 31, 2013 from $12.1 million for the six months ended December 31, 2012. As noted earlier, the decrease in interest expense reflected a decrease in the average cost of interest-bearing liabilities which declined 26 basis points to 0.83% for the six months ended December 31, 2013 from 1.09% for the six months ended December 31, 2012. The decrease in the average cost was partially offset by a $307.5 million increase in the average balance of interest-bearing liabilities to $2.54 billion from $2.23 billion for the same comparative periods.

Interest expense attributed to deposits decreased $824,000 to $7.2 million for the six months ended December 31, 2013 from $8.1 million for the six months ended December 31, 2012. The decrease in interest expense was attributable to a decline in the average cost of interest-bearing deposits that was partially offset by an increase in their average balance.

The cost of interest-bearing deposits declined by 14 basis points to 0.67% for the six months ended December 31, 2013 from 0.81% for the six months ended December 31, 2012. The reported decline in the average cost was reflected in the decreases in the average costs of certificates of deposit and savings accounts that were partially offset by an increase in the average cost of interest-bearing checking accounts. For those comparative periods, the average cost of certificates of deposit declined 19 basis points to 1.03% from 1.22% while the average cost of savings accounts decreased seven basis points to 0.16% from 0.23%.

In contrast, the average cost of interest-bearing checking accounts increased by 10 basis points to 0.53% for the six months ended December 31, 2013 from 0.43% for the six months ended December 31, 2012. The increase in cost primarily reflected the effect of money-market deposits maintained as a wholesale funding source through Promontory IND program in conjunction with the wholesale growth transactions completed during the latter half of fiscal 2013. The comparatively higher cost of such "non-retail" funding in relation to the Company's "retail" money market accounts primarily reflects the use of derivatives instruments to hedge the interest rate risk of that floating rate funding source for a period of five years.

The overall decrease in the average cost of interest-bearing deposits was partially offset by a $173.7 million increase in their average balance to $2.15 billion for the six months ended December 31, 2013 from $1.98 billion for the six months ended December 31, 2012. The reported increase in the average balance was primarily attributable to a $249.5 million increase in the average balance of interest-bearing checking accounts to $727.6 million for the six months ended December 31, 2013 from $478.0 million for the six months ended December 31, 2012. The reported increase in the average balance of interest-bearing checking accounts was largely attributable to the "non-retail" money market funding that was acquired in conjunction with the wholesale growth transactions noted above. The average balance of this funding source totaled $226.9 million for the six months ended December 31, 2013 with no such balances being reported during the earlier comparative period.

The increase in interest-bearing deposits also reflected a $34.1 million increase in the average balance of savings accounts to $467.9 million for the six months ended December 31, 2013 from $433.8 million for the six months ended December 31, 2012.

The reported increases in average balance of interest-bearing checking and savings accounts were partially offset by a decline in the average balance of certificates of deposit. For those same comparative periods, the average balance of certificates of deposit decreased $110.0 million to $959.0 million from $1.07 billion. As noted earlier, the reported decline in certificates of deposit was largely attributable to the Company's active management of deposit pricing to support net interest rate spread and margin which continued to allow for some degree of controlled outflow of short-term time deposits during the six months ended December 31, 2013. Partially offsetting this decline was an increase in average balance of longer-term certificates of deposit originated through the Bank's retail branch and "non-retail" deposit listing service resources.

Interest expense attributed to borrowings decreased by $753,000 to $3.3 million for the six months ended December 31, 2013 from $4.1 million for the six months ended December 31, 2012. The decrease in interest expense on borrowings reflected a decrease in their average cost that was partially offset by an increase in their average balance. The average cost of borrowings decreased by 153 basis points to 1.74% for the six months ended December 31, 2013 from 3.27% for the six months ended December 31, 2012. For those same comparative periods, the average balance of borrowings increased $133.8 million to $384.2 million from $250.4 million.

The decrease in the average cost of borrowings and the increase in their average balance partly reflected the effects of restructuring and wholesale growth transactions completed during the latter half of fiscal 2013. The decrease also reflects effects of the additional FHLB advances drawn during the first six months of the current fiscal year as well as the effects of the associated interest rate derivatives used to hedge the cost of those advances. In total, the average cost of FHLB advances decreased by 186 basis points to 1.86% for the six months ended December 31, 2013 from 3.72% for the six months ended December 31, 2012. For those same comparative periods, the average balance of FHLB advances increased by $135.1 million to $349.0 million from $213.9 million.

The noted increase in the average balance of FHLB advances was partially offset by a $1.2 million decrease in the average balance of other borrowings to $35.2 million for the six months ended December 31, 2013 from $36.4 million for the six months ended December 31, 2012. For those same comparative periods, the average cost of other borrowings declined by eight basis points to 0.50% from 0.58%. Other borrowings primarily include depositor overnight sweep accounts.

Provision for Loan Losses. The provision for loan losses remained consistent at $1.7 million for the comparative six month periods ended December 31, 2013 and December 31, 2012. However, the provision in the current period reflected a lower level of specific losses recognized on nonperforming loans individually reviewed for impairment coupled with an overall reduction in net charge offs between comparative periods. This net reduction in provision expense was substantially offset by a greater provision for loan losses on non-impaired loans due largely to their comparatively greater aggregate growth during the current period. Non-impaired loans are collectively evaluated for impairment using historical and environmental loss factors which were updated during the current period in accordance with the Bank’s allowance for loan loss calculation methodology.

Additional information regarding the allowance for loan losses and the associated provisions recognized during the six months ended December 31, 2013 is presented in Note 10 to the unaudited consolidated financial statements as well as the Comparison of Financial Condition at December 31, 2013 and June 30, 2013 presented earlier.

Non-Interest Income. Non-interest income increased $305,000 to $3.8 million for the six months ended December 31, 2013 from $3.5 million for the six months ended December 31, 2012. Excluding gains and losses on the sale of securities and REO, non-interest income increased by $642,000 between those same comparative periods. The increase in non-interest income, as adjusted, was largely attributable to a $633,000 increase in income from bank owned life insurance that was due primarily to an increase in the average balance of the underlying insurance assets between comparative periods. The increase in non-interest income also reflected increases in electronic banking and other fees and service charges due to an increase in applicable transaction activity. Non-interest income during the current period also reflected gains relating to the sale of SBA loan originations for which no such sale gains were reported during the earlier comparative period.

Partially offsetting these increases was an $185,000 decline in miscellaneous income due, in part, to the absence in the current period of a gain on the sale of a parcel of vacant land adjacent to one of the Bank’s branches that was recorded during the earlier comparative period. The decline in miscellaneous income also reflected reduced levels of REO rental income between comparative periods.

The overall decrease in non-interest income also reflected an $871,000 decline in security sale gains reflecting a lower level of net gains arising from security sales during the current period. This decline in non-interest income was partially offset by $1,000 in net gains on the sale of REO during the current period compared to sale losses and write down of REO that totaled $533,000 during the earlier comparative period.

Explanation of Responses:

Non-Interest Expenses. Non-interest expense increased by $375,000 to $30.8 million for the six months ended December 31, 2013 from $30.5 million for the six months ended December 31, 2012. Such increases were reflected across most categories of non-interest expense including salaries and employee benefits expense, premises occupancy expense, equipment and systems expense, federal deposit insurance expense and miscellaneous expense. Less noteworthy increases and decreases in other categories of non-interest expense reflected normal operating fluctuations within those categories.

The increase in salaries and employee benefits expense primarily reflected increases in employee wages and salaries expense and health insurance expense. The increases in these expenses were partially offset by a decrease in the expense associated with the Bank's multi-employer defined benefit pension plan for employees due to changes in actuarial assumptions that reduced the required contributions and associated expense to be recognized during fiscal 2014.

The increase in premises occupancy expenses were primarily attributable to an increase in facility rent expense that was partially offset by a net reduction in property tax expense resulting from the Company's tax appeal efforts to reduce its property tax obligations on certain branch facilities.

The reported increase in equipment and systems expense was largely attributable to certain expenses relating to the upcoming conversion of the Company's primary core processing and related customer-facing systems to more robust and enhanced systems provided by Fiserv, Inc. ("Fiserv"). The Company had previously selected and engaged Fiserv to be its primary source of internal and customer-facing technology solutions including, but not limited to, core and item processing, Internet banking and electronic bill payment, and ATM/debit card management and processing. Fiserv will also provide the Company with technology solutions supporting data communications, electronic document management, data warehouse and reporting, financial accounting and analysis as well as certain forms of loan and credit-related analyses. Through the relationship with Fiserv, the Company also intends to enhance and expand its technology-based services offerings to include mobile banking, person-to-person payments and online account opening.

The conversions to the Fiserv platform are expected to take place during the third and fourth quarters of fiscal 2014 during which the Company expects to incur additional one-time conversion- related expenses. However, upon completing all applicable system conversions and integrations with Fiserv, the Company anticipates that its recurring technology service provider expenses will be reduced by approximately $1.0 million per year. Such anticipated cost savings are based upon the current composition and transactional characteristics of the Company's customer account base and may vary over time based upon changes to those factors.

The reported increase in deposit insurance expense reflects an increase in the Bank's FDIC insurance premiums arising primarily from the growth in the Bank's total assets which, when offset by tangible capital, generally establishes the calculation basis of those premiums.

Finally, the increase in miscellaneous expense includes the recognition of certain costs associated with professional services rendered in support of the Company's strategic efforts to expand its business into insurance agency activities and commercial and industrial ("C&I") lending. These increases in expense were partially offset by a decline in REO-related expenses.

Provision for Income Taxes. The provision for income taxes increased $1.0 million to $2.3 million for the six months ended December 31, 2013 from $1.3 million for the six months ended December 31, 2012. The variance in income tax expense between comparative quarters was largely attributable to underlying differences in the level of the taxable portion of pre-tax income between comparative periods. The Company's effective tax rate during the six months ended December 31, 2013 was 29.4% which, in relation to statutory income tax rates, reflected the effects of tax-favored income sources included in pre-tax income. By comparison, the Company's effective tax rate for the six months ended December 31, 2012 was 31.8%.

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 December 31, 2013, which included $664.5 million of mortgage-backed securities and $298.1 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 $26.3 million to $153.3 million at December 31, 2013 from $127.0 million at June 30, 2013. The increase in the balance of cash and cash equivalents at December 31, 2013 primarily reflected additional cash held to fulfill the Company's commitment to fund $39.0 million of new commercial mortgage loans that closed during the first week of January 2014.

Notwithstanding the additional liquidity held at December 31, 2013, the Company generally expects to continue maintaining the average balance of interest-earning and non-interest-earning cash and equivalents at comparatively lower levels than those maintained during prior years to reduce the opportunity cost of holding excess liquidity in the current low rate environment. Management will continue to monitor the level of short term, liquid assets in relation to the expected need for such liquidity to fund the Company's strategic initiatives – particularly those relating to the expansion of its commercial lending functions. The Company may alter its liquidity reinvestment strategies based upon the timing and relative success of those initiatives.

At December 31, 2013, the Company had outstanding commitments to originate and purchase loans totaling approximately $108.9 million compared to $60.1 million at June 30, 2013. Construction loans in process and unused lines of credit were $11.7 million and $61.9 million, respectively, at December 31, 2013 compared to $11.6 million and $69.4 million, respectively, at June 30, 2013. The Company is also subject to the contingent liabilities resulting from letters of credit whose outstanding balances totaled $1.3 million and $1.8 million at December 31, 2013 and June 30, 2013, 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

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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 six months ended December 31, 2013, the balance of total deposits increased by $7.1 million to $2.38 billion reflecting the Company's active management of deposit pricing during the period to support net interest spread and margin while extending the duration of term deposits for interest rate risk management purposes. The balance of certificates of deposit with maturities of greater than 12 months increased to $377.6 million at December 31, 2013 compared to $334.9 million at June 30, 2013 with such balances representing 39.1% and 34.1% 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 December 31, 2013, the Company's outstanding balance of FHLB advances, excluding fair value adjustments, totaled $370.8 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. Short-term FHLB advances at December 31, 2013 included $225.0 million of 90-day, fixed-rate borrowings. The remaining $810,000 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 $26.0 million representing overnight "sweep account" balances linked to customer demand deposits.

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Bank's facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At December 31, 2013, 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 December 31, 2013, the Bank exceeded all capital requirements of federal banking regulators.

The following table sets forth the Bank's capital position at December 31, 2013 and June 30, 2013, 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 December 31, 2013:						
Total capital (to risk-weighted assets)	$ 355,552	20.18 %	$ 140,956	8.00 %	$ 176,195	10.00 %
Tier 1 capital (to risk-weighted assets)	344,059	19.53 %	70,478	4.00 %	105,717	6.00 %
Core (Tier 1) capital (to adjusted total assets)	344,059	10.94 %	125,773	4.00 %	157,216	5.00 %
Tangible capital (to adjusted total assets)	344,059	10.94 %	47,165	1.50 %	-	-
As of June 30, 2013:						
Total capital (to risk-weighted assets)	$ 353,386	21.77 %	$ 129,850	8.00 %	$ 162,313	10.00 %
Tier 1 capital (to risk-weighted assets)	342,490	21.10 %	64,925	4.00 %	97,388	6.00 %
Core (Tier 1) capital (to adjusted total assets)	342,490	11.32 %	121,054	4.00 %	151,317	5.00 %
Tangible capital (to adjusted total assets)	342,490	11.32 %	45,395	1.50 %	-	-

Recent Accounting Pronouncements

For a discussion of the expected impact of recently issued accounting pronouncements that have yet to be adopted by the Company, please refer to Note 5 to the unaudited consolidated financial statements.

ITEM 3.
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

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

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

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

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

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

With respect to the maturity and re-pricing of its interest-bearing liabilities, at December 31, 2013, $587.8 million or 60.9% of our certificates of deposit mature within one year with an additional $180.4 million or 18.7% maturing after one year but within two years. The remaining $197.2 million or 20.4% of certificates at December 31, 2013 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 the Company at maturity and are renewed at the same original term to maturity.

Excluding fair value adjustments, the balance of FHLB advances total $370.8 million at December 31, 2013 and comprises both short-term and long-term advances with fixed rates of interest. Of these advances, $145.0 million mature during fiscal 2023, but are initially callable at par during fiscal 2018 and quarterly thereafter until maturity. An additional $225.0 million of FHLB term advances represent short-term, 90-day advances that the Company expects to roll over upon maturity for at least a five-year period from their original draw dates. The Company utilized interest rate derivatives in the form of interest rate swaps and caps to limit its exposure to increasing interest rates related to these short-term advances. The remaining $809,000 of FHLB borrowings represents one amortizing advance maturing in 2021.

With respect to the maturity and re-pricing of the Company's interest-earning assets, at December 31, 2013, $38.2 million, or 2.5% of our total loans will reach their contractual maturity dates within one year with the remaining $1.51 billion, or 97.5% of total loans having remaining terms to contractual maturity in excess of one year. Of loans maturing after one year, $1.00 billion had fixed rates of interest while the remaining $514.0 million had adjustable rates of interest with such loans representing 64.5% and 33.00% of total loans, respectively.

Regarding investment securities, at December 31, 2013, $3.8 million or 0.3% of our securities will reach their contractual maturity dates within one year with the remaining $1.27 billion, or 99.7% of total securities, having remaining terms to contractual maturity in excess of one year. Of the latter category, $975.8 million comprising 76.6% of our total securities had fixed rates of interest while the remaining $294.6 million comprising 23.1% of our total securities had adjustable or floating rates of interest.

At December 31, 2013, mortgage-related assets, including mortgage loans and mortgage-backed securities, total $2.2 billion and comprise 74.9% 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, has a significant effect on the average lives of such assets and, therefore, the interest rate risk associated with them. In general, the prepayment rate on lower yielding assets tends to slow as interest rates rise due to the reduced financial incentive for borrowers to refinance their loans. By contrast, the prepayment rate of higher yielding assets tends to accelerate as interest rates decline due to the increased financial incentive for borrowers to prepay or refinance their loans to comparatively lower interest rates. These characteristics tend to diminish the benefits of falling interest rates to liability sensitive institutions while exacerbating the adverse impact of rising interest rates.

The Company generally retained its liability sensitivity during the six months ended December 31, 2013 while the degree of that sensitivity, as measured internally by the institution's one-year and three-year gap percentages, increased during the period. Specifically, the Company's cumulative one-year gap percentage changed to –11.59% at December 31, 2013 from -1.87% at June 30, 2013 while the Company's cumulative three-year gap percentage changed to –12.52% from +0.11% over those same comparative periods.

The change in the Company's one-year and three-year gaps between comparative periods reflects, in part, modeling assumption changes regarding the Company's brokered money market deposits. This change resulted in a reallocation of brokered money market balances into the one-month re-pricing bucket for gap reporting purposes for analysis periods beginning in fiscal 2014. By contrast, at June 30, 2013, core deposit decay assumptions had been utilized to allocate such balances across the various re-pricing intervals across the maturity gap horizon. This change increased the balance of liabilities re-pricing within the cumulative one and three year periods thereby widening the negative gap reported for those periods.

Other factors contributing to the widening of the negative gaps for the cumulative one and three year intervals include a reduced balance of loan-related cash flows re-pricing within those periods due to slowing of mortgage loan prepayment assumptions coupled with the additional utilization of short-term FHLB advances which increased the balance of interest-bearing liabilities re-pricing within those periods. The Company's one and three year gap measures do not currently reflect the effect of the Company's interest rate derivatives and the effective extension of liability duration arising from their use as cash flow hedges.

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

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

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

As noted earlier, the Company continues to execute various strategies to mitigate the risk to its 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 lower its cost of interest-bearing liabilities by reducing deposit offering rates. More recently, the Company has extended the duration of its 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, the Company has allowed for some controlled outflow of shorter term certificates while attracting term deposits with longer maturities through both its 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 Company's 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 its cost of interest-bearing liabilities. In particular, the Company's ability to further reduce the cost of its interest-bearing deposits is increasingly limited based on most deposit offering rates already falling well below 1.00% at December 31, 2013. Moreover, the Company's liability sensitivity may adversely affect net income in the future when market interest rates ultimately increase from their historical lows and its cost of interest-bearing liabilities may rise faster than its yield on interest-earning assets.

Given the inherent liability sensitivity of its balance sheet, the Company's business plan also calls for greater expansion into commercial and industrial ("C&I") lending. Toward that end, the Company is actively seeking to augment its 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, the Company is also evaluating strategies through which floating-rate and other shorter-term fixed-rate C&I loans may be acquired through wholesale resources.

The Company maintains 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 its 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the 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, the Company's internal interest rate risk analysis calculates the sensitivity of the Company's EVE ratio to movements in interest rates. EVE represents the present value of the expected cash flows from the Bank's assets less the present value of the expected cash flows arising from its liabilities adjusted for the value of off-balance sheet contracts. The EVE ratio represents the dollar amount of the Bank's EVE divided by the present value of its total assets for a given interest rate scenario. In essence, EVE attempts to quantify the economic value of the Company 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.

The Company's 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. The Company's 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, the Company's EVE would be negatively impacted by an increase in interest rates. This result is expected given the Company's liability sensitivity noted earlier. Specifically, based upon the comparatively shorter maturity and/or re-pricing characteristics of its interest-bearing liabilities compared with that of its interest-earning assets, an upward movement in interest rates would have a disproportionately adverse impact on the present value of the Company's assets compared to the beneficial impact arising from the reduced present value of its liabilities. Hence, the Company's EVE and EVE ratio decline in the increasing interest rate scenarios. Historically low interest rates at December 31, 2013 and June 30, 2013 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.

The following tables present the results of the Company's internal EVE analysis as of December 31, 2013 and June 30, 2013, respectively.

At December 31, 2013

	Economic Value of Equity			Economic Value of Equity as % of Present Value of Assets	
Changes in Rates (1)	$ Amount	$ Change	% Change	Net Portfolio Value Ratio	Basis Point Change
	(In Thousands)				
+300 bps	206,138	-187,876	-48%	7.22%	-528 bps
+200 bps	282,009	-112,005	-28%	9.53%	-297 bps
+100 bps	349,291	-44,723	-11%	11.42%	-108 bps
0 bps	394,014	-	-	12.50%	-

At June 30, 2013

	Economic Value of Equity			Economic Value of Equity as % of Present Value of Assets	
Changes in Rates (1)	$ Amount	$ Change	% Change	Net Portfolio Value Ratio	Basis Point Change
	(In Thousands)				
+300 bps	225,946	-192,783	-46%	8.13%	-550 bps
+200 bps	309,100	-109,629	-26%	10.71%	-292 bps
+100 bps	378,311	-40,418	-10%	12.67%	-96 bps
0 bps	418,729	-	-	13.63%	-

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

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The declines in the dollar amount of EVE and the EVE ratio largely reflect the increase in market interest rates during the six months ended December 31, 2013 in relation to the Company's overall IRR profile. Given the Company's overall liability sensitivity as discussed earlier, the increase in market interest rates during that time resulted in a decline in the economic value of the Company's earning assets that more than offset the reduced economic value of its liabilities. Hence, the Company's EVE and EVE ratio declined between comparative periods across all rate scenarios presented.

Notwithstanding the noted declines in EVE and the EVE ratios, the sensitivity of those measures to movements in interest rates between comparative periods remained fairly stable. A comparative industry benchmark regarding interest rate risk is the "sensitivity measure" which is generally defined as the change in an institution's NPV ratio, measured in basis points, in an immediate and permanent, adverse parallel shift in interest rates of plus or minus 200 basis points. Based upon the tables above, the Company's sensitivity measure increased nominally to -297 basis points at December 31, 2013 from -292 basis points at June 30, 2013 which indicates stability in the Bank's sensitivity to movements in interest rates from period to period. This stability in the Company's IRR profile is further reinforced by the nominal changes between comparative periods in the percentage change in EVE across the various interest rate scenarios modeled.

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

As noted earlier, the Company's 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).

The Company is 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, the Company limits the presentation of its 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, the Company's 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 expected given the Company's liability sensitivity noted earlier. The tables below reflect a modest decrease in the sensitivity of net interest income to movements in interest rates between the comparative periods as analyzed from this earnings-based perspective.

At December 31, 2013

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	$ 72,101	$ -	-%
Immediate and permanent	Parallel	Static	+100 bps	One Year	70,399	-1,702	-2.36
Immediate and permanent	Parallel	Static	+200 bps	One Year	69,111	-2,990	-4.15
Immediate and permanent	Parallel	Static	+300 bps	One Year	67,450	-4,651	-6.45

At June 30, 2013

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	$ 72,762	$ -	-%
Immediate and permanent	Parallel	Static	+100 bps	One Year	70,604	-2,158	-2.97
Immediate and permanent	Parallel	Static	+200 bps	One Year	68,736	-4,026	-5.53
Immediate and permanent	Parallel	Static	+300 bps	One Year	66,337	-6,425	-8.83

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.

ITEM 4.
CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. Legal Proceedings

At December 31, 2013, 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, 2013 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 December 31, 2013.

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)
October 1-31, 2013	33,200	$ 10.38	33,200	178,480
November 1-30, 2013	178,480	$ 10.53	178,480	-
December 1-31, 2013	34,200	$ 10.46	34,200	728,440
Total	245,880	$ 10.50	245,880	728,440

(1) On March 23, 2012, the Company announced the authorization of a seventh repurchase program for up to 802,780 shares or 5% of shares outstanding which was completed in November 2013. On December 2, 2013, the Company announced the authorization of a, eighth repurchase program for up to 762,640 shares or 5% of shares outstanding which remains in effect at December 31, 2013.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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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 Sharon Jones (2)
10.2	Employment Agreement between Kearny Federal Savings Bank and William C. Ledgerwood (2)
10.3	Employment Agreement between Kearny Federal Savings Bank and Erika K. Parisi (2)
10.4	Employment Agreement between Kearny Federal Savings Bank and Patrick M. Joyce (2)
10.5	Employment Agreement between Kearny Federal Savings Bank and Craig L. Montanaro (2)
10.6	Directors Consultation and Retirement Plan (1)
10.7	Benefit Equalization Plan (1)
10.8	Benefit Equalization Plan for Employee Stock Ownership Plan (1)
10.9	Kearny Financial Corp. 2005 Stock Compensation and Incentive Plan (3)
10.10	Kearny Federal Savings Bank Director Life Insurance Agreement (4)
10.11	Kearny Federal Savings Bank Executive Life Insurance Agreement (4)
10.12	Employment Agreement between Kearny Federal Savings Bank and Eric B. Heyer (5)
11.0	Statement regarding computation of earnings per share (Filed herewith).
16.0	Letter Regarding Change in Certifying Accountant (6)
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.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
1.01.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).

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

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

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

(6) Incorporated by reference to the exhibit to the Registrant's Current Report on Form 8-K filed on July 5, 2013 (File No. 000-51093).

SIGNATURES

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

KEARNY FINANCIAL CORP.

Date: February 10, 2014	By:	/s/ Craig L. Montanaro Craig L. Montanaro President and Chief Executive Officer (Duly authorized officer and principal executive officer)
Date: February 10, 2014	By:	/s/ Eric B. Heyer Eric B. Heyer Senior Vice President and Chief Financial Officer (Principal financial and accounting officer)

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