Kaiser Federal Financial Group, Inc.
Form 10-Q
May 13, 2011

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) of THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) of THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-34979

KAISER FEDERAL FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation)	26-1500698 (I.R.S. Employer Identification No.)
1359 N. Grand Avenue, Covina, CA (Address of principal executive offices)	91724 (Zip Code)

(800) 524-2274
(Registrant’s telephone number, including area code)

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

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

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

Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller Reporting Company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $.01 par value – 9,558,960 shares outstanding as of May 13, 2011.

Form 10-Q

KAISER FEDERAL FINANCIAL GROUP, INC.
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Part I — FINANCIAL INFORMATION
Item 1. Financial Statements

KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
(Unaudited)
(Dollars in thousands, except per share data)

	March 31, 2011	June 30, 2010
ASSETS		
Cash and due from banks	$ 8,287	$ 7,785
Federal funds sold	131,880	31,775
Total cash and cash equivalents	140,167	39,560
Interest earning time deposits in other financial institutions	14,146	19,267
Securities available-for-sale, at fair value	1,230	2,290
Securities held-to-maturity, fair value of $2,505 and $3,866 at March 31, 2011 and June 30, 2010, respectively	2,432	3,751
Federal Home Loan Bank (FHLB) stock, at cost	10,797	12,179
Loans receivable, net of allowance for loan losses of $11,824 and $13,309 at March 31, 2011 and June 30, 2010, respectively	701,940	757,985
Accrued interest receivable	2,843	3,234
Premises and equipment, net	2,392	2,035
Goodwill	3,950	3,950
Bank-owned life insurance	12,738	12,372
Real estate owned (REO)	1,623	1,373
Other assets	7,704	8,806
Total assets	$ 901,962	$ 866,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 67,769	$ 53,022
Interest bearing	589,085	577,672
Total deposits	656,854	630,694
Federal Home Loan Bank advances, short-term	45,000	77,000
Federal Home Loan Bank advances, long-term	40,000	60,000
Accrued expenses and other liabilities	4,751	4,403
Total liabilities	746,605	772,097
Commitments and contingent liabilities		
Stockholders' equity		
Nonredeemable serial preferred stock, $.01 par value; 25,000,000 shares authorized; issued and outstanding — none	—	—
Common stock, $0.01 par value; 100,000,000 authorized; March 31, 2011 — 9,558,960 shares issued	96	147

June 30, 2010 — 10,595,640 shares issued				
Additional paid-in capital		100,527		59,513
Retained earnings		59,918		54,996
Accumulated other comprehensive income, net of tax		26		32
Unearned employee stock ownership plan (ESOP) shares		(5,210)		(1,706)
Treasury stock, at cost (March 31, 2011 — none; June 30, 2010 — 1,034,670 shares)		—		(18,277)
Total stockholders' equity		155,357		94,705
Total liabilities and stockholders' equity	$	901,962	$	866,802

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Consolidated Statements of Income and Comprehensive Income
(Unaudited)
(Dollars in thousands, except per share data)

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Interest income				
Interest and fees on loans	$ 10,568	$ 11,049	$ 32,675	$ 33,101
Interest on securities, taxable	43	83	163	278
Federal Home Loan Bank dividends	8	8	34	35
Other interest	76	111	213	374
Total interest income	10,695	11,251	33,085	33,788
Interest expense				
Interest on deposits	2,192	2,676	7,057	8,229
Interest on borrowings	967	1,665	3,807	5,697
Total interest expense	3,159	4,341	10,864	13,926
Net interest income	7,536	6,910	22,221	19,862
Provision for loan losses	—	2,272	950	8,787
Net interest income after provision for loan losses	7,536	4,638	21,271	11,075
Noninterest income				
Service charges and fees	391	528	1,304	1,722
ATM fees and charges	517	457	1,530	1,377
Referral commissions	70	74	221	232
Gain (loss) on equity method investment	51	(75)	(69)	(225)
Bank-owned life insurance	119	123	366	366
Other noninterest income	10	8	19	36
Total noninterest income	1,158	1,115	3,371	3,508
Noninterest expense				
Salaries and benefits	2,426	1,993	6,945	6,254
Occupancy and equipment	627	588	1,808	1,770
ATM expense	454	456	1,356	1,294
Advertising and promotional	84	68	287	279
Professional services	508	283	1,125	682
Federal deposit insurance premiums	232	279	767	771
Postage	67	71	206	207
Telephone	174	173	524	523
REO and foreclosure expense (gain)	32	(119)	287	(129)
Other operating expense	399	458	1,224	1,192
Total noninterest expense	5,003	4,250	14,529	12,843
Income before income tax expense	3,691	1,503	10,113	1,740
Income tax expense	1,430	394	3,818	427

Net income	$	2,261	$	1,109	$	6,295	$	1,313
Comprehensive income	$	2,250	$	1,103	$	6,289	$	1,290
Earnings per common share:								
Basic	$	0.25	$	0.12	$	0.68	$	0.14
Diluted	$	0.25	$	0.12	$	0.68	$	0.14

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity
(Unaudited)
(Dollars in thousands, except per share data)

		Common Stock						Treasury Stock		
	Comprehensive Income	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, net	Unearned ESOP Shares	Shares	Amount	Total
Balance June 30, 2010		10,595,640	$ 147	$ 59,513	$ 54,996	$ 32	$ (1,706)	(1,034,670)	$ (18,277)	$ 94,705
Comprehensive income										
Net income for the nine months ended March 31, 2011	$ 6,295	—	—	—	6,295	—	—	—	—	6,295
Other comprehensive loss – unrealized loss on securities, net of tax	(6)	—	—	—	—	(6)	—	—	—	(6)
Total comprehensive income	$ 6,289									
Dividends declared ($0.25 per share) *		—	—	—	(1,373)	—	—	—	—	(1,373)
Items relating to Conversion and stock offering:										
Treasury stock retired pursuant to reorganization		(1,034,670)	(14)	(18,263)	—	—	—	1,034,670	18,277	—
Cancellation of K-Fed Mutual Holding Company shares and fractional shares		(6,377,010)	(101)	101	—	—	—	—	—	—
Proceeds from stock offering, net of expense of $4,665		6,375,000	64	59,021	—	—	—	—	—	59,085

Purchase of shares by ESOP pursuant to reorganization	—	—	—	—	—	(3,825)	—	—	(3,825)
Stock options earned	—	—	61	—	—	—	—	—	61
Allocation of stock awards	—	—	82	—	—	—	—	—	82
Allocation of ESOP common stock	—	—	12	—	—	321	—	—	333
Balance March 31, 2011	9,558,960	$ 96	$ 100,527	$ 59,918	$ 26	$ (5,210)	—	$ —	$ 155,357

* K-Fed Mutual Holding Company waived its receipt of dividends for the quarter ended September 30, 2010 on the shares it owned.

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine months ended March 31, 2011	Nine months ended March 31, 2010
OPERATING ACTIVITIES		
Net income	$ 6,295	$ 1,313
Adjustments to reconcile net income to net cash provided by operating activities:		
(Accretion) Amortization of net premiums on securities	(1)	2
Accretion of net discounts on loan purchases	(20)	(17)
Amortization of net loan origination costs	62	52
Provision for loan losses	950	8,787
Gain on sale of REO	(21)	(128)
REO direct write-down	164	—
Depreciation and amortization	556	588
Amortization of core deposit intangible	35	48
Loss on equity investment	69	225
Increase in cash surrender value of bank-owned life insurance	(366)	(366)
Accretion of debt exchange costs	—	(4)
Allocation of ESOP common stock	333	301
Allocation of stock awards	82	176
Stock options earned	61	203
Net change in accrued interest receivable	391	248
Net change in other assets	772	(4,212)
Net change in accrued expenses and other liabilities	348	33
Net cash provided by operating activities	9,710	7,249
INVESTING ACTIVITIES		
Proceeds from maturities and principal repayments of available-for-sale securities	1,051	1,453
Proceeds from maturities and principal repayments of held-to-maturity securities	1,318	1,426
Net change in interest earning time deposits with other financial institutions	5,121	1,362
Net change in loans	52,950	(15,929)
Proceeds from sale of real estate owned	1,941	1,026
Redemption of FHLB stock	1,382	—
Purchases of premises and equipment	(913)	(193)
Net cash provided by (used in) investing activities	62,850	(10,855)
FINANCING ACTIVITIES		
Repayment of FHLB advances	(52,000)	(60,000)
Dividends paid on common stock	(1,373)	(1,392)

Purchase of treasury stock		—		(115)
Net change in deposits		26,160		82,545
Net proceeds from stock offering		59,085		—
Purchase of shares by ESOP pursuant to reorganization		(3,825)		—
Change in State of California time deposit		—		(25,000)
Net cash provided by (used in) financing activities		28,047		(3,962)
Net increase (decrease) in cash and cash equivalents		100,607		(7,568)
Beginning cash and cash equivalents		39,560		73,705
Ending cash and cash equivalents	$	140,167	$	66,137

The accompanying notes are an integral part of these unaudited consolidated financial statements

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KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Business: Kaiser Federal Financial Group, Inc. (the "Company") is a Maryland corporation that owns all of the outstanding common stock of Kaiser Federal Bank (the "Bank"). It is the successor to K-Fed Bancorp following the completion of the second-step conversion and offering in November 2010. The Company's primary activity is holding all of the outstanding shares of common stock of Kaiser Federal Bank. The Bank is a federally chartered savings bank headquartered in Covina, California. The Bank's principal business activity consists of attracting retail deposits from the general public and originating primarily loans secured by first mortgages on owner-occupied, one-to-four family residences and multi-family residences located in its market area. While the Bank originates many types of residential and commercial real estate loans, the majority of its one-to-four family real estate loans have been purchased from other financial institutions.

The Company's business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis, and prior to November 19, 2010, the Company refers to K-Fed Bancorp and the Bank on a consolidated basis.

Basis of Presentation: The financial statements of Kaiser Federal Financial Group, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and predominant practices followed by the financial services industry, and are unaudited. In the opinion of the Company's management, all adjustments consisting of normal recurring accruals necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made.

The results of operations for the three and nine months ended March 31, 2011 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the fiscal year ending June 30, 2011. Certain information and note disclosures normally included in the Company's annual financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

On November 19, 2010, the Company completed the conversion from a mutual holding company structure to a fully public stock holding company form of organization and related public offering. The Company sold a total of 6,375,000 shares of common stock in the offering at a purchase price of $10.00 per share. The offering raised capital of $59.1 million, which is net of costs of $4.7 million. Concurrent with the completion of the offering shares of K-Fed Bancorp common stock owned by public stockholders were exchanged for 0.7194 shares of the Company's common stock. All share and per share information in this report for periods prior to the conversion has been revised to reflect the 0.7194:1 conversion ratio on shares outstanding, including shares of the former Mutual Holding Company that were not publically traded.

Principles of Consolidation: The consolidated financial statements presented in this quarterly report include the accounts of Kaiser Federal Financial Group, Inc. and its wholly-owned subsidiary, Kaiser Federal Bank. All material intercompany balances and transactions have been eliminated in consolidation. Financial information presented in this report is derived in part from the consolidated financial statements of K-Fed Bancorp and subsidiary prior to November 19, 2010.

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, real estate owned and the valuation of financial instruments.

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Reclassifications: Some items in prior period financial statements were reclassified to conform to the current presentation.

New Accounting Standards:

In June 2009, the Financial Accounting Standards Board ("FASB") issued new authoritative guidance under ASC Topic 860, "Transfers and Servicing," to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. ASC Topic 860 eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. ASC Topic 860 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative guidance under ASC Topic 860 is effective at the start of the fiscal year beginning after November 15, 2009. The adoption of this guidance did not have a material impact upon the Company.

In June 2009, the FASB issued new authoritative guidance under Statement of Financial Accounting Standard ("SFAS") No. 167, "Amendments to FASB Interpretation No. 46R." In December 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-17 which provides updates to ASC Topic 810, "Consolidations" This guidance changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new guidance under ASC Topic 810 is effective at the start of the fiscal year beginning after November 15, 2009. The adoption of this guidance did not have a material impact upon the Company.

In July 2010, the FASB amended existing guidance related to financing receivables and the allowance for credit losses, which requires further disaggregated disclosures that improve financial statement users' understanding of 1) the nature of an entity's credit risk associated with its financing receivables and 2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this standard did not have a material effect on the Company's results of operations or financial position, but required expansion of the Company's disclosures.

In April 2011, the FASB amended existing guidance to assist creditors in determining whether a modification of the terms of a receivable meets the definition of a troubled debt restructuring ("TDR"). The guidance does not change previous standards that a restructuring of debt constitutes a TDR "if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider," but provides clarification on determining whether a debtor is in financial difficulty and if a concession was granted. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and should be applied retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations or financial position.

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Note 2 – Earnings Per Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Employee Stock Ownership Plan ("ESOP") shares are considered outstanding for this calculation unless unearned. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation and had an immaterial impact on the calculation for the three and nine months ended March 31, 2011 and 2010. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options.

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Basic	(Dollars in thousands, except per share data)			
Net income	$2,261	$1,109	$6,295	1,313
Weighted average common shares outstanding	9,072,381	9,422,864	9,260,539	9,419,816
Basic earnings per share	$0.25	$0.12	$0.68	0.14
Diluted				
Net income	$2,261	$1,109	$6,295	1,313
Weighted average common shares outstanding	9,072,381	9,422,864	9,260,539	9,419,816
Dilutive effect of stock options	—	—	161	—
Average shares and dilutive potential common shares	9,072,381	9,422,864	9,260,700	9,419,816
Diluted earnings per share	$0.25	$0.12	$0.68	0.14

For the three and nine months ended March 31, 2011 outstanding stock options to purchase 304,515 shares, respectively were anti-dilutive and not considered in computing diluted earnings per common share. For the three and nine months ended March 31, 2010 outstanding stock options to purchase 348,500 shares were anti-dilutive and not considered in computing diluted earnings per common share.

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Note 3 – Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or 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).

There were no financial or nonfinancial instruments transferred in or out of Level 1, 2, or 3 input categories during the three or nine months ended March 31, 2011 and 2010.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain real estate properties classified as real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

As of March 31, 2011 and June 30, 2010, there were no liabilities measured at fair value.

Assets measured at fair value on a recurring basis are summarized in the following table:

		Fair Value Measurements Using		
Assets at March 31, 2011:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Available-for-sale securities				
Mortgage-backed securities (residential)	$ 219	$ —	$ 219	$ —
	$ 1,011	$ —	$ 1,011	$ —

Collateralized mortgage obligations (residential)								
Assets at June 30, 2010:								
Available-for-sale securities								
Mortgage-backed securities (residential)	$	341	$	—	$	341	$	—
Collateralized mortgage obligations (residential)	$	1,949	$	—	$	1,949	$	—

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The following financial assets were measured at fair value on a non-recurring basis:

		Fair Value Measurements Using		
Assets at March 31, 2011:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Impaired loans	$ 21,062	$ —	$ —	$ 21,062
Assets at June 30, 2010:				
Impaired loans	$ 20,829	$ —	$ —	$ 20,829

The following nonfinancial assets were measured at fair value on a non-recurring basis:

		Fair Value Measurements Using		
Assets at March 31, 2011:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Real estate owned	$ 762	$ —	$ —	$ 762
Assets at June 30, 2010:				
Real estate owned	$ 429	$ —	$ —	$ 429

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $26.1 million at March 31, 2011 and June 30, 2010. The valuation allowance for these loans was $5.1 million at March 31, 2011 as compared to $5.3 million at June 30, 2010. An additional provision for loan losses of $2.3 million was made for the nine months ended March 31, 2011 relating to impaired loans.

Real estate owned is measured at fair value less estimated costs to sell at transfer. If the fair value of the asset declines, a write-down is recorded through expense. During the three and nine months ended March 31, 2011 the Company incurred a charge of $10,000 and $164,000, respectively to reduce real estate owned to fair value. During the three and nine months ended March 31, 2010, the Company did not incur any charges to reduce real estate owned to fair value.

Fair Value of Financial Instruments

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

Investments

Estimated fair values for investments are obtained from quoted market prices where available. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

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Securities available-for-sale that are previously reported are excluded from the fair value disclosure below.

Loans

The estimated fair value for all loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

Impaired loans that are previously reported are excluded from the fair value disclosure below.

Deposits

The estimated fair value of deposit accounts (savings, non interest bearing demand and money market accounts) is the carrying amount. The fair value of fixed-maturity time certificates of deposit is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

FHLB Advances

The fair values of the FHLB advances are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Other On-Balance Sheet Financial Instruments

Other on-balance sheet financial instruments include cash and cash equivalents, interest earning time-deposits in other financial institutions, accrued interest receivable, FHLB stock and accrued expenses and other liabilities. The carrying value of each of these financial instruments is a reasonable estimation of fair value. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Off-Balance Sheet Financial Instruments

The fair values for the Company's off-balance sheet loan commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the Company's customers. The estimated fair value of these commitments is not significant.

The estimated fair values of the Company's financial instruments are summarized as follows:

	March 31, 2011		June 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 140,167	$ 140,167	$ 39,560	$ 39,560
Interest earning time deposits in other financial institutions	14,146	14,146	19,267	19,267
Securities held-to-maturity	2,432	2,505	3,751	3,866
Federal Home Loan Bank Stock	10,797	NA	12,179	NA
Loans receivable, net	680,878	685,691	737,156	756,778
Accrued interest receivable	2,843	2,843	3,234	3,234
Financial liabilities:				
Deposits	656,854	662,169	630,694	637,684

Borrowings	85,000	86,831	137,000	141,773

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Note 4 – Investments

The amortized cost and fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
		(Dollars in thousands)		
March 31, 2011				
Mortgage-backed securities (residential):				
Freddie Mac	$ 219	$ 6	$ —	$ 213
Collateralized mortgage obligations (residential):				
Freddie Mac	1,011	38	—	973
Total	$ 1,230	$ 44	$ —	$ 1,186
June 30, 2010				
Mortgage-backed securities (residential):				
Freddie Mac	$ 341	$ 9	$ —	$ 332
Collateralized mortgage obligations (residential):				
Freddie Mac	1,949	48	(3)	1,904
Total	$ 2,290	$ 57	$ (3)	$ 2,236

The amortized cost, unrecognized gains and losses, and fair value of securities held-to-maturity were as follows:

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
		(Dollars in thousands)		
March 31, 2011				
Mortgage-backed securities (residential):				
Fannie Mae	$ 148	$ 2	$ —	$ 150
Freddie Mac	114	4	—	118
Ginnie Mae	54	2	—	56
Collateralized mortgage obligations (residential):				
Fannie Mae	1,019	27	—	1,046
Freddie Mac	1,097	39	(1)	1,135
Total	$ 2,432	$ 74	$ (1)	$ 2,505
June 30, 2010				
Mortgage-backed securities (residential):				

Fannie Mae	$ 162	$ 2	$ —	$ 164
Freddie Mac	131	5	—	136
Ginnie Mae	60	2	—	62
Collateralized mortgage obligations (residential):				
Fannie Mae	1,352	34	—	1,386
Freddie Mac	2,046	79	(7)	2,118
Total	$ 3,751	$ 122	$ (7)	$ 3,866

There were no sales of securities during the three or nine months ended March 31, 2011 or March 31, 2010.

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Note 5 – Loans

The composition of loans consists of the following (in thousands):

	March 31, 2011	June 30, 2010
Real Estate:		
One-to-four family residential, fixed rate	$ 235,418	$ 276,995
One-to-four family residential, variable rate	53,132	58,636
Multi-family residential, variable rate	282,194	278,397
Commercial real estate, variable rate	109,978	113,458
	680,722	727,486
Consumer:		
Automobile	19,763	29,492
Other consumer loans, primarily unsecured	12,686	13,768
	32,449	43,260
Total loans	713,171	770,746
Deferred net loan origination costs	632	607
Net discounts on purchased loans	(39)	(59)
Allowance for loan losses	(11,824)	(13,309)
	$ 701,940	$ 757,985

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The following is the activity in the allowance for loan losses (in thousands):

	Allowance for loan losses for the Three months ended March 31, 2011					
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Other	Total
Balance, beginning of period	$5,945	$4,056	$2,151	$118	$32	$12,302
Provision for loan losses	1,338	(1,204)	(83)	(46)	(5)	—
Recoveries	—	—	—	27	6	33
Loans charged off	(481)	—	—	(24)	(6)	(511)
Balance, end of period	$6,802	$2,852	$2,068	$75	$27	$11,824

	Allowance for loan losses for the Three months ended March 31, 2010					
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Other	Total
Balance, beginning of period	$6,850	$2,791	$877	$118	$104	$10,740
Provision for loan losses	975	924	314	75	(16)	2,272
Recoveries	—	—	—	10	6	16
Loans charged off	(162)	—	—	(35)	(11)	(208)
Balance, end of period	$7,663	$3,715	$1,191	$168	$83	$12,820

	Allowance for loan losses for the Nine months ended March 31, 2011					
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Other	Total
Balance, beginning of period	$7,821	$3,643	$1,599	$185	$61	$13,309
Provision for loan losses	600	(19)	469	(134)	34	950
Recoveries	90	—	—	90	23	203
Loans charged off	(1,709)	(772)	—	(66)	(91)	(2,638)
Balance, end of period	$6,802	$2,852	$2,068	$75	$27	$11,824

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	Allowance for loan losses for the Nine months ended March 31, 2010					
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Other	Total
Balance, beginning of period	$3,326	$515	$286	$342	$117	$4,586
Provision for loan losses	4,712	3,200	905	(48)	18	8,787
Recoveries	—	—	—	47	15	62
Loans charged off	(375)	—	—	(173)	(67)	(615)
Balance, end of period	$7,663	$3,715	$1,191	$168	$83	$12,820

At March 31, 2011, non-accrual loans totaled $28.9 million, compared to $31.5 million at June 30, 2010. At March 31, 2011 and June 30, 2010, there were no loans past due more than 90 days and still accruing interest. Included in non-accrual loans are troubled debt restructurings of $12.2 million and $13.0 million at March 31, 2011 and June 30, 2010, respectively. There were no further commitments to customers whose loans were troubled debt restructurings at March 31, 2011 and June 30, 2010.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2011 (in thousands):

	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Other	Total
Allowance for loan losses:						
Ending allowance balance attributed to loans:						
Individually evaluated for impairment	$3,682	$ 983	$418	$—	$—	$5,083
Collectively evaluated for impairment	3,120	1,869	1,650	75	27	6,741
Total ending allowance balance	$6,802	$ 2,852	$2,068	$75	27	$11,824

	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Other	Total
Loans:						
Individually evaluated for impairment	$20,923	$ 3,090	$4,925	$—	$—	$28,938
Collectively evaluated for impairment	267,627	279,104	105,053	19,763	12,686	684,233
Total ending loan balance	$288,550	$ 282,194	$109,978	$19,763	$12,686	$713,171

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A loan is impaired when it is probable, based on current information and events, the Bank will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. When it is determined that a loss is probable, a specific valuation allowance is established and included in the allowance for loan losses. The amount of impairment is determined by the difference between the recorded investment in the loan and estimated net realizable value of the underlying collateral on collateral dependent loans.

Individually impaired loans were as follows (in thousands):

	March 31, 2011	June 30, 2010
Loans with no allocated allowance	$ 2,793	$ 8,289
Loans with allocated allowance	26,145	26,120
	$ 28,938	$ 34,409
Total allowance for loan losses allocated	$ 5,083	$ 5,291

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2011 (in thousands):

	Unpaid Principal Balance	Allowance for Loan Losses Allocated
With no related allowance recorded:		
One-to-four family	$ 2,793	$ —
Multi-family residential	—	—
Commercial real estate	—	—
With an allowance recorded:		
One-to-four family	18,130	3,682
Multi-family residential	3,090	983
Commercial real estate	4,925	418
Total	$ 28,938	$ 5,083

The difference between the recorded investment and unpaid principal balance of loans relates to accrued interest, net deferred origination costs and net discounts on purchased loans each of which is immaterial to each loan class.

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Monthly average of individually impaired loans during the period (in thousands)	$ 28,070	$ 26,536	$ 29,434	$ 18,808

Payments received on impaired loans are recorded as a reduction of principal or as interest income depending on management's assessment of the ultimate collectability of the loan principal. Generally, interest income on an impaired loan is recorded on a cash basis when the outstanding principal is brought current. For the three and nine months ended March 31, 2011, income recorded on impaired loans totaled $249,000 and $736,000, respectively. For the three and nine months ended March 31, 2010, income recorded on impaired loans totaled $114,000 and $256,000, respectively. Interest income recorded on impaired loans for all periods presented was recorded on a cash basis.

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The following table presents the recorded investment in nonaccrual loans by class of loans as of March 31, 2011 (in thousands):

Non-accrual loans:	Non-accrual
Real estate loans:	
One-to-four family	$ 20,922
Multi-family residential	3,090
Commercial	4,926
Other loans:	
Automobile	7
Other	2
Total non-accrual loans	$ 28,947

The following table presents the aging of the recorded investment in past due loans as of March 31, 2011 by class of loans:

	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Total Current Loans	Total Loans
			(Dollars in thousands)			
Real estate loans:						
One-to-four family	$3,373	$616	$7,349	$11,338	$277,212	$288,550
Multi-family	—	—	1,757	1,757	280,437	282,194
Commercial	—	637	—	637	109,341	109,978
Other loans:						
Automobile	60	—	7	67	19,696	19,763
Other	4	—	2	6	12,680	12,686
Total loans	$3,437	$1,253	$9,115	$13,805	$699,366	$713,171

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation and current economic trends among other factors. This analysis is performed monthly. The Company uses the following definitions for risk ratings:

Special Mention. Loans are classified as special mention when it is determined a loan relationship should be monitored more closely. Loans that are 60 days to 89 days past due are generally classified as special mention. In addition, loans are classified as special mention for a variety of reasons including changes in recent borrower financial conditions, changes in borrower operations, changes in value of available collateral, concerns regarding changes in economic conditions in a borrower’s industry, and other matters. A loan classified as special mention in many instances may be performing in accordance with the loan terms.

Substandard. Loans that are 90 days or more past due are generally classified as substandard. A loan is also considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected.

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Doubtful. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable.

Loans not meeting the criteria as part of the above described process are considered to be Pass rated loans. Pass rated loans are generally well protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Pass rated assets are not more than 59 days past due but are generally performing in accordance with the loan terms. As of March 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful
Real estate loans:				
One-to-four family	$ 251,518	$ 8,100	$ 28,932	$ —
Multi-family	275,100	5,649	1,445	—
Commercial	99,482	6,155	4,341	—
Other loans:				
Automobile	19,238	174	327	24
Other	12,677	—	9	—
Total loans	$ 658,015	$ 20,078	$ 35,054	$ 24

The Company evaluates one-to-four family residential loans by historical loss experience stratified by the county where the property is located. The following table presents the one-to-four family real estate loans by county as of March 31, 2011 (dollars in thousands).

	Unpaid Principal Balance
One-to-four family loans	
Los Angeles County	$ 107,084
Orange County	50,210
Riverside County	12,524
San Bernardino County	13,623
San Diego County	25,625
Other	79,484
	$ 288,550

The Company's multi-family and commercial real estate loans are less seasoned, and therefore, the Company has not incurred material charge-offs. The historical loss migration for these loans types were expanded to include the credit loss migration from published sources, including both the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements and information relating to the Company and the Bank that are based on the beliefs of management as well as assumptions made by and information currently available to management. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often includes words like "believe," "expect," "anticipate," "estimate," and "intend" future or conditional verbs such as "will," "should," "could," or "may" and similar expressions or the negative thereof. Certai factors that could cause actual results to differ materially from expected results include, changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business of Kaiser Federal Financial Group, Inc. and Kaiser Federal Bank, and changes in the securities markets. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. We caution readers not to place undue reliance on forward-looking statements. The Company disclaims any obligation to revise or update any forward-looking statements contained in this Form 10-Q to reflect future events or developments.

Market Area

Our success depends primarily on the general economic conditions in the California counties of Los Angeles, Orange, San Bernardino, Riverside and Santa Clara, as nearly all of our loans are to customers in this market area. Economic conditions remain weak both nationally and in our market area of California. We continue to experience a downward trend on home prices and California remains one of the highest in the nation for foreclosure activity. California, in particular has experienced significant declines in real estate values and elevated unemployment rates. Unemployment rates in California were 12.0% in March 2011 as compared to 12.3% in June 2010.

Comparison of Financial Condition at March 31, 2011 and June 30, 2010.

Assets. Total assets increased $35.2 million, or 4.1% to $902.0 million at March 31, 2011 from $866.8 million at June 30, 2010. The increase primarily reflected growth in cash and cash equivalents, partially offset by a decrease in loans receivable. Total cash and cash equivalents increased $100.6 million, or 254.3% to $140.2 million at March 31, 2011 from $39.6 million at June 30, 2010. The increase in cash and cash equivalents was a result of an increase in deposits as well as the $59.1 million in net proceeds raised from the second-step stock offering.

Our investment securities portfolio decreased $2.4 million, or 39.4% to $3.7 million at March 31, 2011 from $6.0 million at June 30, 2010. The decrease was attributable to maturities and normal repayments of principal on our mortgage-backed securities and collateralized mortgage obligations.

Our net loan portfolio decreased by $56.0 million, or 7.4% to $701.9 million at March 31, 2011 from $758.0 million at June 30, 2010 due primarily to a decrease in one-to-four family real estate loans. One-to-four family real estate loans decreased $47.0 million, or 14.0% to $288.6 million at March 31, 2011 from $335.6 million at June 30, 2010 due to loan repayments, charge-offs and transfers of property to real estate owned. The decline was also due to the overall decline in consumer demand for mortgages as volume has dropped industry-wide. Multi-family loans increased $3.8 million, or 1.4% to $282.2 million at March 31, 2011 from $278.4 million at June 30, 2010. Commercial real estate loans decreased $3.5 million, or 3.1% to $110.0 million at March 31, 2011 from $113.5 million at June 30, 2010. Other loans which were comprised primarily of automobile loans decreased $10.8 million, or 25.0% to $32.4 million at March 31, 2011 from $43.3 million at June 30, 2010. Real estate loans comprised 95.5% of the total loan portfolio at March 31, 2011, compared with 94.4% at June 30, 2010.

Deposits. Total deposits increased $26.2 million, or 4.1% to $656.9 million at March 31, 2011 from $630.7 million at June 30, 2010. The growth was comprised of increases of $16.7 million in checking and savings balances, $7.3 million in money market balances and $2.2 million in certificates of deposit balances. The increase in deposits was typical this time of year due to tax refunds as well as higher than normal payroll deposits received by a significant number of our customers at the end of the quarter.

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Borrowings. Advances from the FHLB of San Francisco decreased $52.0 million, or 38.0% to $85.0 million at March 31, 2011 from $137.0 million at June 30, 2010. The decrease was a result of the pay down of scheduled maturities of FHLB Advances during the period. The repayment was funded with available liquidity and proceeds from the second-step stock offering.

Stockholders' Equity. Stockholders' equity increased $60.7 million to $155.4 million at March 31, 2011 from $94.7 million at June 30, 2010. The increase in stockholders' equity was primarily due to the conversion and related stock offering, which occurred on November 19, 2010. Proceeds from the offering, net of $4.7 million in expense, totaled $59.1 million, with $3.8 million of the proceeds being used to fund the ESOP.

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Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth certain information for the quarter ended March 31, 2011 and 2010, respectively.

	For the three months ended March 31,					
	2011 (1)			2010 (1)		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
INTEREST-EARNING ASSETS						
Loans receivable(2)	$716,481	$10,568	5.90 %	$756,472	$11,049	5.84 %
Securities(3)	4,774	43	3.60 %	7,269	83	4.57 %
Federal funds sold	99,928	55	0.22 %	50,690	25	0.20 %
Federal Home Loan Bank stock	11,131	8	0.29 %	12,649	8	0.25 %
Interest-earning deposits in other financial institutions	11,766	21	0.71 %	22,679	86	1.52 %
Total interest-earning assets	844,080	10,695	5.07 %	849,759	11,251	5.30 %
Noninterest earning assets	40,087			40,252		
Total assets	$884,167			$890,011		
INTEREST-BEARING LIABILITIES						
Money market	$125,414	$201	0.64 %	$120,573	$254	0.84 %
Savings deposits	127,446	107	0.34 %	129,973	139	0.43 %
Certificates of deposit	320,950	1,884	2.35 %	323,470	2,283	2.82 %
Borrowings	85,000	967	4.55 %	154,500	1,665	4.31 %
Total interest-bearing liabilities	658,810	3,159	1.92 %	728,516	4,341	2.38 %
Noninterest bearing liabilities	70,964			68,888		
Total liabilities	729,774			797,404		
Equity	154,393			92,607		
Total liabilities and equity	$884,167			$890,011		
Net interest/spread		$7,536	3.15 %		$6,910	2.92 %
Margin(4)			3.57 %			3.25 %
Ratio of interest-earning assets to interest bearing liabilities	128.12 %			116.64 %		

(1) Yields earned and rates paid have been annualized.
(2) Calculated net of deferred fees, loss reserves and includes non-accrual loans.
(3) Calculated based on amortized cost.
(4) Net interest income divided by interest-earning assets.

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	For the nine months ended March 31,					
	2011 (1)			2010 (1)		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
INTEREST-EARNING ASSETS						
Loans receivable(2)	$ 734,673	$ 32,675	5.93 %	$ 755,941	$ 33,101	5.84 %
Securities(3)	5,176	163	4.20 %	8,160	278	4.54 %
Federal funds sold	73,954	127	0.23 %	47,614	82	0.23 %
Federal Home Loan Bank stock	11,526	34	0.39 %	12,649	35	0.37 %
Interest-earning deposits in other financial institutions	11,410	86	1.00 %	27,717	292	1.40 %
Total interest-earning assets	836,739	33,085	5.27 %	852,081	33,788	5.29 %
Noninterest earning assets	39,856			40,825		
Total assets	$ 876,595			$ 892,906		
INTEREST-BEARING LIABILITIES						
Money market	$ 124,123	$ 638	0.69 %	$ 116,148	$ 848	0.97 %
Savings deposits	129,051	355	0.37 %	130,418	488	0.50 %
Certificates of deposit	323,772	6,064	2.50 %	307,369	6,893	2.99 %
Borrowings	107,800	3,807	4.71 %	182,001	5,697	4.17 %
Total interest-bearing liabilities	684,746	10,864	2.12 %	735,936	13,926	2.52 %
Noninterest bearing liabilities	67,011			63,764		
Total liabilities	751,757			799,700		
Equity	124,838			93,206		
Total liabilities and equity	$ 876,595			$ 892,906		
Net interest/spread		$ 22,221	3.15 %		$ 19,862	2.77 %
Margin(4)			3.54 %			3.11 %
Ratio of interest-earning assets to interest bearing liabilities	122.20 %			115.78 %		

(1) Yields earned and rates paid have been annualized.
(2) Calculated net of deferred fees, loss reserves and includes non-accrual loans.
(3) Calculated based on amortized cost.
(4) Net interest income divided by interest-earning assets.

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Comparison of Results of Operations for the Three Months Ended March 31, 2011 and March 31, 2010.

General. Net income for the three months ended March 31, 2011 was $2.3 million, an increase of $1.2 million as compared to $1.1 million for the three months ended March 31, 2010. Earnings per basic and diluted common share were $0.25 for the three months ended March 31, 2011, compared to earnings per basic and diluted common share of $0.12 (as adjusted for the second-step conversion) for the three months ended March 31, 2010. The increase in net income resulted from an increase in net interest income and a reduction in the provision for loan losses partially offset by an increase in noninterest expense.

Interest Income. Interest income decreased $556,000, or 4.9% to $10.7 million for the three months ended March 31, 2011 from $11.3 million for the three months ended March 31, 2010. The decline in interest income was primarily a result of a decline in the average balance of interest-earning assets which decreased by $5.7 million from $849.8 million for the three months ended March 31, 2010 to $844.1 million for the three months ended March 31, 2011, and a 23 basis point decrease in the average yield on interest-earning assets from 5.30% for the three months ended March 31, 2010 to 5.07% for the three months ended March 31, 2011. The decline in the average yield on interest-earning assets was a result of a reduction in higher yielding loans receivable as a result of decreased originations being replaced by lower yielding short term liquid cash as a result of net proceeds received from the second-step stock offering.

Interest and fees on loans decreased $481,000, or 4.4%, to $10.6 million for the three months ended March 31, 2011 from $11.0 million for the three months ended March 31, 2010. The decrease was primarily attributable to a $40.0 million decrease in the average loan receivable balance from $756.5 million for the three months ended March 31, 2010 to $716.5 for the three months ended March 31, 2011 due to payoffs and decreased origination of real estate loans.

Interest Expense. Interest expense decreased $1.2 million, or 27.2% to $3.2 million for the three months ended March 31, 2011 from $4.3 million for the three months ended March 31, 2010. The decrease was primarily attributable to a 46 basis point decline in the average cost of interest bearing liabilities from 2.38% for the three months ended March 31, 2010 to 1.92% for the three months ended March 31, 2011 as a result of low interest rates during the period. The decrease in interest expense was also the result of a decline in the average balance of borrowings of $69.5 million, or 45.0%, to $85.0 million for the three months ended March 31, 2011 from $154.5 million for the three months ended March 31, 2010. The decline was the result of scheduled FHLB advance repayments and was funded with available liquidity and proceeds from the second-step stock offering.

Provision for Loan Losses. There was no provision for loan losses for the three months ended March 31, 2011 compared to $2.3 million for the three months ended March 31, 2010. The decline in the overall provision was a result of the continued improvement in our delinquent loans and non-performing assets and a reduction in the Bank’s gross loans receivable. Delinquent loans 60 days or more to total loans improved from 2.28% at June 30, 2010 to 1.45% at March 31, 2011. Non-performing assets to total assets improved from 3.79% at June 30, 2010 to 3.39% at March 31, 2011. In addition, our net loans decreased by $56.0 million during the same period. The provision reflects management’s continuing assessment of the credit quality of the Company’s loan portfolio, which is affected by various trends, including current economic conditions.

Noninterest Income. Our noninterest income increased $43,000, or 3.9% to $1.2 million for the three months ended March 31, 2011 from $1.1 million for the three months ended March 31, 2010. The increase in noninterest income was primarily a result of a gain on an equity method investment in an affordable housing fund and an increase in ATM fees and service charges. Partially offsetting these increases was a decrease in service charges and fees as a result of recent regulatory changes which reduced overdraft charges.

Noninterest Expense. Our noninterest expense increased $753,000, or 17.7% to $5.0 million for the three months ended March 31, 2011 from $4.3 million for the three months ended March 31, 2010. The increase in noninterest expense was primarily due to increases in salaries and benefits, professional services and REO and foreclosure expenses.

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Salaries and benefits expense represented 48.5% and 46.9% of total noninterest expense for the three months ended March 31, 2011 and 2010, respectively. Salaries and benefits expense increased $433,000, or 21.7% to $2.4 million for the three months ended March 31, 2011 from $2.0 million for the three months ended March 31, 2010. The increase in salaries and benefits expense was primarily a result of annual salary increases and an increase in full-time equivalent employees. The increase in full-time equivalent employees was a result of employees hired primarily in the areas of Information Technology and Lending. We have hired several employees in the Information Technology area as we begin to plan for enhanced E-Commerce systems and delivery channels. In addition, we have hired additional experienced loan workout staff and additional staff in the real estate loan servicing area to assist with efforts related to loans serviced by others. See "-Asset Quality."

Professional services expense increased $225,000, or 79.5% to $508,000 for the three months ended March 31, 2011 from $283,000 for the three months ended March 31, 2010. The increase in professional services expense was primarily a result of increases in lending legal fees, recruitment fees and outside consulting related to profitability modeling and compensation consulting.

REO and foreclosure expenses increased $151,000 to $32,000 for the three months ended March 31, 2011 from a gain of $119,000 for the three months ended March 31, 2010. For the three months ended March 31, 2010 there was a net gain on the sale of REO sold during the period. The increase in expense was due to the increased volume of foreclosures and REO during the period which resulted in added foreclosure expense and additional REO operating cost.

Income Tax Expense. Income tax expense increased $1.0 million, or 262.9% to $1.4 million for the three months ended March 31, 2011 compared to $394,000 for the three months ended March 31, 2010. This increase was primarily the result of higher pretax income for the three months ended March 31, 2011 compared to the three months ended March 31, 2010. The effective tax rate was 38.7% and 26.2% for the three months ended March 31, 2011 and 2010, respectively. The lower effective tax rate in the prior year was a result of the greater impact of tax credits on lower taxable income. The effective tax rate for the three months ended March 31, 2011 was at a more normalized level due to the higher taxable income.

Comparison of Results of Operations for the Nine Months Ended March 31, 2011 and March 31, 2010.

General. Net income for the nine months ended March 31, 2011 was $6.3 million, an increase of $5.0 million as compared to net income of $1.3 million for the nine months ended March 31, 2010. Earnings per basic and diluted common share were $0.68 for the nine months ended March 31, 2011 compared to $0.14 (as adjusted for the second-step conversion) for the nine months ended March 31, 2010. The increase in net income primarily resulted from an increase in net interest income and a reduction in the provision for loan losses partially offset by an increase in noninterest expense.

Interest Income. Interest income decreased by $703,000, or 2.1%, to $33.1 million for the nine months ended March 31, 2011 from $33.8 million for the nine months ended March 31, 2010. The decline in interest income was primarily a result of a decline in the average balance of interest-earning assets which decreased by $15.3 million from $852.1 million for the nine months ended March 31, 2010 to $836.7 million for the nine months ended March 31, 2011, and a reduction in the average yield on interest-earning assets from 5.29% for the nine months ended March 31, 2010 to 5.27% for the nine months ended March 31, 2011.

Interest and fees on loans decreased $426,000, or 1.3%, to $32.7 million for the nine months ended March 31, 2011 from $33.1 million for the nine months ended March 31, 2010. The decrease was primarily attributable to a $21.2 million decrease in the average loan receivable balance from $755.9 million for the nine months ended March 31, 2010 to $734.7 for the nine months ended March 31, 2011 due to payoffs and decreased origination of real estate

loans during the period.

Interest income on securities decreased by $115,000 or 41.4%, to $163,000 for the nine months ended March 31, 2011 from $278,000 for the nine months ended March 31, 2010. The decrease was primarily attributable to a $3.0 million decrease in the average balance of investment securities from $8.2 million for the nine months ended March 31, 2010 to $5.2 million for the nine months ended March 31, 2011 as a result of maturities and normal repayments of principal on our mortgage-backed securities and collateralized mortgage obligations. In addition, the average yield on securities declined from 4.54% for the nine months ended March 31, 2010 to 4.20% for the nine months ended March 31, 2011 due to low interest rates.

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Other interest income decreased by $161,000, or 43.0% to $213,000 for the nine months ended March 31, 2011 from $374,000 for the nine months ended March 31, 2010. The decrease was a result of a decline in the average balance of interest-earning deposits in other financial institutions as well as a decline in the average yield earned on these assets.

Interest Expense. Interest expense decreased $3.1 million, or 22.0% to $10.9 million for the nine months ended March 31, 2011 from $13.9 million for the nine months ended March 31, 2010. The decrease was primarily attributable to a 40 basis point decline in the average cost of interest bearing liabilities from 2.52% for the nine months ended March 31, 2010 to 2.12% for the nine months ended March 31, 2011 as a result of low interest rates during the period. The decrease in interest expense was also the result of a decline in the average balance of borrowings which decreased $74.2 million, or 40.8%, to $107.8 million for the nine months ended March 31, 2011 from $182.0 million for the nine months ended March 31, 2010. The decline was the result of scheduled FHLB advance repayments and was funded with available liquidity and proceeds from the second-step stock offering.

Provision for Loan Losses. Our provision for loan losses decreased to $950,000 for the nine months ended March 31, 2011 compared to $8.8 million for the nine months ended March 31, 2010. The decline in the overall provision was a result of the continued improvement in our delinquent loans and non-performing assets and a reduction in the Bank's gross loans receivable. The provision reflects management's continuing assessment of the credit quality of the Company's loan portfolio, which is affected by various trends, including current economic conditions. See "-Comparison of Results of Operations for the Three Months Ended March 31, 2011 and March 31, 2010 -Provision for Loan Losses."

Noninterest Income. Our noninterest income decreased $137,000, or 3.9% to $3.4 million for the nine months ended March 31, 2011 from $3.5 million for the nine months ended March 31, 2010. The decrease in noninterest income was primarily a result of a decrease in service charges and fees as a result of recent regulatory changes which reduced overdraft charges partially offset by an increase in ATM fees and charges and the loss on the equity method investment.

Noninterest Expense. Our noninterest expense increased $1.7 million, or 13.1% to $14.5 million for the nine months ended March 31, 2011 compared to $12.8 million for the nine months ended March 31, 2010. The increase was primarily due to an increase in salaries and benefits, professional services and an increase in REO and foreclosure expense.

Salaries and benefits expense represented 47.8% and 48.7% of total noninterest expense for the nine months ended March 31, 2011 and 2010, respectively. Total salaries and benefits expense increased $691,000, or 11.0%, to $6.9 million for the nine months ended March 31, 2011 from $6.3 million for the nine months ended March 31, 2010. The increase was primarily due to annual salary increases and an increase in the number of full-time equivalent employees. The increase in full-time equivalent employees was a result of employees hired primarily in the areas of Information Technology and Lending. We have hired several employees in the Information Technology area as we begin to plan for enhanced E-Commerce systems and delivery channels. In addition, we have hired additional experienced loan workout staff and additional staff in the real estate loan servicing area to assist with efforts related to loans serviced by others. See "-Asset Quality."

Professional services increased $443,000, or 65.0% to $1.1 million for the nine months ended March 31, 2011 from $682,000 for the nine months ended March 31, 2010. The increase in professional services expense was primarily a result of increases in lending legal fees, recruitment fees and outside consulting related to profitability modeling and compensation consulting.

REO and foreclosure expense increased $416,000 to $287,000 for the nine months ended March 31, 2011 from a gain of $129,000 for the nine months ended March 31, 2010. For the nine months ended March 31, 2010 there was a net

gain on the sale of REO sold during the period. The increase in expense was due to the increased volume of foreclosures and REO during the period which resulted in added foreclosure expense and additional REO operating cost.

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Income Tax Expense. Income tax expense increased to $3.8 million for the nine months ended March 31, 2011 compared to $427,000 for the nine months ended March 31, 2010. This increase was primarily the result of higher pretax income for the nine months ended March 31, 2011 compared to the nine months ended March 31, 2010. The effective tax rate was 37.8% and 24.5% for the nine months ended March 31, 2011 and 2010, respectively. The lower effective tax rate in the prior year was a result of the greater impact of tax credits on lower taxable income. The effective tax rate for the three months ended March 31, 2011 was at a more normalized level due to the higher taxable income.

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Asset Quality

We continue our disciplined lending practices including our strict adherence to a long standing regimented credit culture that emphasizes the consistent application of underwriting standards to all loans. In this regard, we fully underwrite all loans based on an applicant's employment history, credit history and an appraised value of the subject property. With respect to loans we purchased in the past, we underwrote each loan based upon our own underwriting standards prior to making the purchase.

The following underwriting guidelines, among other things, have been used by the Bank as underwriting tools to further limit the Bank's potential loss exposure:

- All variable rate one-to-four family residential loans are underwritten using the fully indexed rate.
- We only lend up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans.
- We only lend up to 75% of the appraised value or purchase price for multi-family residential loans.
- Additionally, our portfolio has remained strongly anchored in traditional mortgage products. We do not originate or purchase construction and development loans, teaser option-ARM loans, negatively amortizing loans or high loan-to-value loans.

All of our real estate loans are secured by properties located in California. The following tables set forth our real estate loans and non-accrual real estate loans by county:

Real Estate Loans by County as of March 31, 2011

County	One-to-four family	Multi-family residential	Commercial	Total	Percent
			(Dollars in thousands)		
Los Angeles	$ 107,084	$ 215,318	$ 62,912	$ 385,314	56.60 %
Orange	50,210	19,411	27,939	97,560	14.33
San Diego	25,625	16,669	2,665	44,959	6.60
Riverside	12,524	5,450	9,229	27,203	4.00
San Bernardino	13,623	16,324	4,128	34,075	5.01
Santa Clara	21,811	565	—	22,376	3.29
Alameda	11,532	57	461	12,050	1.77
Other	46,141	8,400	2,644	57,185	8.40
Total	$ 288,550	$ 282,194	$ 109,978	$ 680,722	100.00 %

Non-accrual Real Estate Loans by County as of March 31, 2011

County	One-to-four family	Multi-family residential	Commercial	Total	Percent of Non-accrual to Loans in Each Category
			(Dollars in thousands)		
Los Angeles	$ 7,717	$ —	$ 1,623	$ 9,340	2.42 %
Orange	2,431	—	—	2,431	2.49
San Diego	2,596	648	2,665	5,909	13.14
Riverside	1,382	229	—	1,611	5.92
San Bernardino	2,503	2,214	637	5,354	15.71
Santa Clara	1,151	—	—	1,151	5.14

Alameda		974		—		—		974	8.08	
Other		2,168		—		—		2,168	3.79	
Total	$	20,922	$	3,091	$	4,925	$	28,938	4.25	%

At March 31, 2011, $172.2 million, or 59.7% of our one-to-four family residential mortgage portfolio was serviced by others. As a result of a higher level of delinquent loans nationwide, third party servicers have been unable to service and in certain circumstances foreclose on properties in a timely manner. Currently, we track the servicing of these loans on our core mortgage servicing system. We have hired additional experienced mortgage loan workout staff and reallocated existing staff to monitor the collection activity of the servicers and perform direct customer outreach when a loan becomes 30 days past due. In many instances, our role has been to provide direction to the third party

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servicers regarding loan modification requests and to develop collection plans for individual loans, while maintaining contact with the borrower. Due to a number of factors, including the high rate of loan delinquencies, we believe our servicers have not vigorously pursued collection efforts on our behalf. We have been unsuccessful in negotiating the transfer of these servicing rights to us and are currently pursuing legal action. We have filed legal suit against Bank of America and CitiMortgage seeking to obtain the transfer of servicing rights on $169.7 million of loans serviced by them to us. In anticipation of this effort, we have hired additional staff in the real estate loan servicing area.

The following table presents information concerning the composition of the one-to-four family residential loan portfolio by servicer at March 31, 2011:

	Amount	Percent	Non-performing	Percent of Non-accrual to Loans in Each Category
	(Dollars in thousands)			
Purchased and serviced by others	$ 172,165	59.67 %	$ 14,140	8.21 %
Purchased and servicing transferred to us	24,677	8.55	3,242	13.14
Originated and serviced by us	91,708	31.78	3,540	3.86
Total	$ 288,550	100.00 %	$ 20,922	7.25 %

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Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loans Delinquent :					
	60-89 Days		90 Days or More		Total Delinquent Loans	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
	(Dollars in thousands)					
At March 31, 2011						
Real estate loans:						
One-to-four family	1	$ 616	21	$ 7,349	22	$ 7,965
Multi-family	—	—	1	1,757	1	1,757
Commercial	1	637	—	—	1	637
Other loans:						
Automobile	—	—	1	7	1	7
Home equity	—	—	—	—	—	—
Other	—	—	1	2	1	2
Total loans	2	$ 1,253	24	$ 9,115	26	$ 10,368
At June 30, 2010						
Real estate loans:						
One-to-four family	3	$ 1,297	33	$ 13,373	36	$ 14,670
Multi-family	—	—	2	2,786	2	2,786
Commercial	—	—	—	—	—	—
Other loans:						
Automobile	4	35	—	—	4	35
Home equity	—	—	1	63	1	63
Other	—	—	2	4	2	4
Total loans	7	$ 1,332	38	$ 16,226	45	$ 17,558
At June 30, 2009						
Real estate loans:						
One-to-four family	6	$ 2,212	14	$ 6,220	20	$ 8,432
Multi-family	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Other loans:						
Automobile	3	16	—	—	3	16
Home equity	—	—	—	—	—	—
Other	11	16	6	11	17	27
Total loans	20	$ 2,244	20	$ 6,231	40	$ 8,475

Delinquent loans 60 days or more past due decreased to $10.4 million or 1.45% of total loans at March 31, 2011 from $17.6 million or 2.28% of total loans at June 30, 2010. Delinquent one-to-four family residential loans decreased to $8.0 million at March 31, 2011 from $14.7 million at June 30, 2010. The decrease in delinquent one-to-four family residential loans was a result of loans sold by borrowers through negotiated short sales and loans foreclosed on by the Bank. Delinquent multi-family loans decreased to $1.8 million at March 31, 2011 from $2.8 million at June 30, 2010. The decrease in delinquent multi-family loans was a result of one loan foreclosed on by the Bank. At March 31, 2011, there was one commercial real estate loan totaling $637,000 that was delinquent.

Non-Performing Assets. Non-performing assets consist of non-accrual loans and foreclosed assets. All loans past due 90 days and over are classified as non-accrual. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days and over past due. On non-accrual loans, interest income is not recognized until actually collected. At the time the loan is placed on non-accrual status, interest

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previously accrued but not collected is reversed and charged against current income. Non-accrual loans also include certain troubled debt restructurings.

Real Estate Owned. Real estate owned and repossessed assets consist of real estate and other assets which have been acquired through foreclosure on loans. At the time of foreclosure, assets are recorded at fair value less estimated selling costs, with any write-down charged against the allowance for loan losses. The fair value of real estate owned is determined by a third party appraisal of the property.

The following table sets forth the amounts and categories on our non-performing assets at the dates indicated.

	At March 31, 2011	At June 30, 2010	At June 30, 2009
		(Dollars in thousands)	
Non-accrual loans:			
Real estate loans:			
One-to-four family	$ 12,764	$ 15,561	$ 6,766
Multi-family	1,757	2,786	—
Commercial	2,261	—	—
Other loans:			
Automobile	7	—	—
Home equity	—	63	—
Other	2	4	11
Troubled debt restructurings:			
One-to-four family	8,158	9,193	1,859
Multi-family	1,333	1,179	235
Commercial	2,665	2,665	—
Total non-accrual loans	28,947	31,451	8,871
Real estate owned and repossessed assets:			
Real estate:			
One-to-four family	1,094	1,373	496
Multi-family	529	—	—
Commercial	—	—	—
Other:			
Automobile	7	—	3
Home equity	—	—	—
Other	—	—	—
Total real estate owned and repossessed assets	1,630	1,373	499
Total non-performing assets	$ 30,577	$ 32,824	$ 9,370
Ratios:			
Non-accrual loans to total loans (1)	4.06 %	4.08 %	1.18 %
Non-performing assets to total assets	3.39 %	3.79 %	1.05 %

(1) Total loans are net of deferred fees and costs

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We continue to work with responsible borrowers to keep their properties and as a result we have restructured $12.2 million in mortgage loans of which $10.9 million were performing in accordance with their revised contractual terms at March 31, 2011. All restructured loans were reported as non-accrual at March 31, 2011. Troubled debt restructured loans are reported as non-accrual until we are reasonably assured of repayment and sustained performance according to the modified terms. At March 31, 2011 there were $8.0 million of multi-family and commercial real estate loans ("income property") on non-accrual for which specific valuation allowances of $1.4 million have been applied. Included in the $8.0 million of income property loans on non-accrual at March 31, 2011 were four multi-family loans totaling $3.1 million and three commercial real estate loans totaling $4.9 million.

At March 31, 2011, there were four multi-family residential loans on non-accrual. The first multi-family residential loan was made to one borrower with a principal balance of $1.8 million at March 31, 2011 located in Adelanto, California. The loan was over 90 days delinquent and had a court appointed receiver in place to manage the property and collect the rents during the judicial foreclosure process. The remaining three multi-family residential loans on non-accrual were in the amount of $1.3 million in the aggregate and were troubled debt restructurings at March 31, 2011. At March 31, 2011, there were three commercial real estate loans on non-accrual. The first commercial real estate loan had a principal balance of $637,000 secured by an office building in San Bernardino County, California, which was not current at March 31, 2011 and has experienced cash flow problems. The second commercial real estate loan had a principal balance of $1.6 million secured by an office building in Los Angeles County, California, which was current at March 31, 2011, but had previously experienced cash flow problems. The third commercial real estate loan had a principal balance of $2.7 million secured by a strip mall in San Diego, California, which was current at March 31, 2011, but had previously experienced cash flow problems. The level of non-accrual loans has impacted our determination of the allowance for loan losses at March 31, 2011. Non-accrual loans are assessed to determine impairment. Loans that are found to be impaired are individually evaluated and a specific valuation allowance is applied.

Classified Assets. We regularly review potential problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. The total amount of classified assets represented 6.12% of our total assets at March 31, 2011, as compared to 5.84% of our total assets at June 30, 2010. The aggregate amount of our classified and special mention assets at the dates indicated were as follows:

	March 31, 2011	June 30, 2010
	(Dollars in thousands)	
Classified and Special Mention Assets:		
Loss	$ 10	$ 9
Doubtful	24	43
Substandard	35,054	40,513
Special Mention	20,078	10,043
Total	$ 55,166	$ 50,608

Allowance for Loan Losses. We maintain an allowance for loan losses to absorb probable incurred losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. In accordance with generally accepted accounting principles the allowance is comprised of both specific and general valuation allowances.

The specific component relates to loans that are classified as impaired. We consider a loan impaired when it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement and determine impairment by computing a fair value either based on discounted cash flows using the loan's initial interest rate or the

fair value of the collateral, less estimated selling costs, if the loan is collateral dependent. The general component covers non-impaired loans and is based both on our historical loss experience as well as significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date.

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The general valuation allowance is calculated by applying loss factors to outstanding loans based on the internal risk evaluation of the loans or pools of loans. Changes in risk evaluations of both performing and non-performing loans affect the amount of the allowance. The appropriateness of the allowance is reviewed and established by management based upon its evaluation of then-existing economic and business conditions affecting key lending areas and other conditions, such as credit quality trends (including trends in non-performing loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions and peer data within portfolio segments, and recent loss experience in particular segments of the portfolio that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectability of the loan. Significant factors reviewed in determining the allowance for loan losses included loss ratio trends by loan product and concentrations in geographic regions as well as concentrations by third party servicers. Specific valuation allowances on real estate loans are charged-off at foreclosure; however, we include specific valuation allowances in our historical loss experience ratios. Holding period restrictions imposed by the State of California on lenders foreclosing on owner occupied real estate securing one-to-four family residential loans and difficulty pursuing collection efforts through third party servicers on our behalf has delayed our ability to foreclose.

Our income property loans are less seasoned, and therefore, to-date we have not incurred material charge-offs and our delinquency history on income property loans has been less than our one-to-four family real estate loans. In addition, the multi-family portfolio has been a significant growth area in our loan portfolio during fiscal 2010. For income property loans we review the debt service coverage ratios, collateral values, seasoning and peer group data. In 2010, we expanded our migration analysis to include the credit loss migration from published sources, including both the Office of Thrift Supervision (“OTS”) and Federal Deposit Insurance Corporation, in order to determine the allowance for loan losses on income property loans, given the characteristics of the peer group as compared to our portfolio. Due to the decline in the loss experience of our peer group over the past year, our analysis of debt service coverage ratios, collateral values and the leveling off of our income property loans year over year, the general valuation portion of our income property loan portfolio decreased to $3.5 million at March 31, 2011, compared to $3.9 million at June 30, 2010.

Senior management reviews these conditions quarterly in discussions with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management’s estimate of the effect of such conditions may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management’s evaluation of the loss related to this condition is reflected in the general allowance. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments.

Given that management evaluates the adequacy of the allowance for loan losses based on a review of individual loans, historical loan loss experience, the value and adequacy of collateral and economic conditions in our market area, this evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Large groups of smaller balance homogeneous loans that are collectively evaluated for impairment and are excluded from specific impairment evaluation; their allowance for loan losses is calculated in accordance with the allowance for loan losses policy described above.

Because the allowance for loan losses is based on estimates of losses inherent in the loan portfolio, actual losses can vary significantly from the estimated amounts. Our methodology as described above permits adjustments to any loss factor used in the computation of the formula allowance in the event that, in management’s judgment, significant factors which affect the collectability of the portfolio as of the evaluation date are not reflected in the loss factors. By assessing the estimated losses inherent in the loan portfolio on a quarterly basis, we are able to adjust specific and

inherent loss estimates based upon any more recent information that has become available. In addition, management's determination as to the amount of our allowance for loan losses is subject to review by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation, which may require the establishment of additional general or specific allowances based upon their judgment of the information available to them at the time of their examination of Kaiser Federal Bank.

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The distribution of the allowance for losses on loans at the dates indicated is summarized as follows.

	March 31, 2011		June 30, 2010	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Real estate loans:				
One-to-four family	$ 6,802	40.46%	$ 7,821	43.55%
Multi-family	2,852	39.57	3,643	36.12
Commercial	2,068	15.42	1,599	14.72
Other loans:				
Automobile	75	2.77	185	3.83
Other	27	1.78	61	1.78
Total allowance for loan losses	$ 11,824	100.00%	$ 13,309	100.00%

Liquidity, Capital Resources and Commitments

Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, we have maintained liquid assets at levels above the minimum requirements previously imposed by Office of Thrift Supervision regulations and above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained.

Our liquidity, represented by cash and cash equivalents, interest earning accounts and mortgage-backed and related securities, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed and related securities, and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed related securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, we invest excess funds in short-term interest earning assets, which provide liquidity to meet lending requirements. We also generate cash through borrowings. We utilize FHLB advances and previously used State of California time deposits, to leverage our capital base and provide funds for our lending and investment activities as well as enhance our interest rate risk management.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits. On a longer-term basis, we maintain a strategy of investing in various lending products. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments and to maintain our portfolio of mortgage-backed and related securities. At March 31, 2011, total approved loan commitments amounted to $2.1 million, which included the unadvanced portion of loans of $2.1 million.

Certificates of deposit and advances from the FHLB of San Francisco scheduled to mature in one year or less at March 31, 2011, totaled $146.4 million and $45.0 million, respectively. Based on historical experience, management believes that a significant portion of maturing deposits will remain with Kaiser Federal Bank and we anticipate that

we will continue to have sufficient funds, through deposits and borrowings, to meet our current commitments.

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At March 31, 2011, we had available additional advances from the FHLB of San Francisco in the amount of $208.3 million. We also had an available line of credit with the Federal Reserve Bank of San Francisco of $47.5 million at March 31, 2011, which has not been drawn upon.

Capital

The table below sets forth Kaiser Federal Bank's capital position relative to its OTS capital requirements at March 31, 2011 and June 30, 2010. The definitions of the terms used in the table are those provided in the capital regulations issued by the OTS.

March 31, 2011	Actual Amount	Actual Ratio	Minimum Capital Requirements Amount	Minimum Capital Requirements Ratio	Minimum required to be Well Capitalized Under Prompt Corrective Actions Provisions Amount	Minimum required to be Well Capitalized Under Prompt Corrective Actions Provisions Ratio
			(Dollars in thousands)			
Total risk-based capital (to risk-weighted assets)	$120,445	20.51 %	$ 46,989	8.00%	$ 58,736	10.00%
Tier 1 risk-based capital (to risk-weighted assets)	113,713	19.36	23,494	4.00	35,242	6.00
Tier 1 (core) capital (to adjusted tangible assets)	113,713	12.67	35,893	4.00	44,867	5.00

June 30, 2010	Actual Amount	Actual Ratio	Minimum Capital Requirements Amount	Minimum Capital Requirements Ratio	Minimum required to be Well Capitalized Under Prompt Corrective Actions Provisions Amount	Minimum required to be Well Capitalized Under Prompt Corrective Actions Provisions Ratio
			(Dollars in thousands)			
Total risk-based capital (to risk-weighted assets)	$ 88,639	14.73 %	$ 48,141	8.00%	$ 60,176	10.00%
Tier 1 risk-based capital (to risk-weighted assets)	81,111	13.48	24,070	4.00	36,106	6.00
Tier 1 (core) capital (to adjusted tangible assets)	81,111	9.42	34,425	4.00	43,031	5.00

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to continue as a "well capitalized" institution in accordance with regulatory standards. At March 31, 2011, Kaiser Federal Bank was a "well-capitalized" institution under regulatory standards.

Impact of Inflation

The consolidated financial statements presented herein have been prepared in accordance with GAAP. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the

same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturity structure of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of noninterest expense. Such expense items as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Our fixed rate loans generally have longer maturities than our fixed rate deposits. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

In order to minimize the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we have adopted investment/asset and liability management policies to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. The board of directors' sets and recommends the asset and liability policies of Kaiser Federal Bank, which are implemented by the asset/liability management committee.

The purpose of the asset/liability management committee is to communicate, coordinate and control asset/liability management consistent with our business plan and board approved policies. The committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals.

The asset/liability management committee generally meets every other week to discuss, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to net present value of portfolio equity analysis and income simulations. The asset/liability management committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and economic value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and economic value of portfolio equity that are authorized by the board of directors of Kaiser Federal Bank. The asset/liability management committee recommends appropriate strategy changes based on this review. The chairman or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the board of directors at least monthly.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we have focused our strategies on: (1) maintaining an adequate level of adjustable rate loans; (2) originating a reasonable volume of short-term and intermediate-term loans; (3) managing our deposits to establish stable deposit relationships; and (4) using FHLB advances, and pricing on fixed-term non-core deposits to align maturities and repricing terms.

At times, depending on the level of general interest rates, the relationship between long-term and short-term interest rates, market conditions and competitive factors, the asset/liability management committee may determine to increase our interest rate risk position somewhat in order to maintain our net interest margin.

An independent third party provides Kaiser Federal Bank with the information presented in the following table, which is based on information provided by Kaiser Federal Bank. It presents the change in Kaiser Federal Bank's net portfolio value at March 31, 2011 that would occur upon an immediate change in interest rates without giving effect to any steps that management might take to counteract that change.

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March 31, 2010

Change in interest rates in basis points ("bp") (Rate shock in rates)		Estimated NPV (2)	Estimated Increase (Decrease) in NPV Amount	Percent	NPV as a percentage of Present Value of Assets (3) NPV ratio (4)	Increase (Decrease) (basis points)
			(Dollars in thousands)			
+300	bp	$ 105,568	$ (23,870)	(18)%	12.35 %	(171)bp
+200	bp	114,233	(15,205)	(12)	13.04	(102)
+100	bp	122,123	(7,315)	(6)	13.60	(46)
0	bp	129,438	—	—	14.06	—
-100	bp	131,649	2,211	2	14.04	(2)

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

The analysis uses certain assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the fair values of certain assets under differing interest rate scenarios, among other things.

As with any method of measuring interest rate risk, shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in the market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features, that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Act")) as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to

materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of this litigation or any material impact on our financial position, results of operations or cash flows.

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Item 1A. Risk Factors

There have been no material changes to the risk factors that were previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended June 30, 2010.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved and Removed

Item 5. Other Information

None.

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Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act

KAISER FEDERAL FINANCIAL GROUP, INC. AND SUBSIDIARY
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.

KAISER FEDERAL FINANCIAL GROUP, INC.

Dated: May 13, 2011

BY: /s/ K. M. Hoveland
K. M. Hoveland
President, Chief Executive Officer

BY: /s/ Dustin Luton
Dustin Luton
Chief Financial Officer