Kearny Financial Corp.
Form 10-K
September 13, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual report pursuant to section 13 OR 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2006

- or -

[ ] Transition Report pursuant to section 13 OR 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________________ to ____________________

Commission Number: 0-51093

Kearny Financial Corp.
(Exact name of Registrant as specified in its Charter)

United States	22-3803741
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
120 Passaic Avenue, Fairfield, New Jersey	07004
(Address of principal executive offices)	Zip Code

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $0.10 per share
(Title of Class)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has

been subject to such filing requirements for the past 90 days.
[X] YES [ ] NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [ ] Accelerated filer [X]
Non-accelerated filer [ ]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2005, (the last day of the Registrant's most recently completed second fiscal quarter) was $236.9 million.

As of September 8, 2006 there were issued and outstanding 72,667,600 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2006 Annual Meeting of Stockholders. (Part III)

PART I

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

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions, that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economy in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting policies and practices, as may be adopted by regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board; technological changes; competition among financial services providers; and the success of the Company at managing the risks involved in the foregoing and

managing its business.

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

Item 1. Business

General

The Company is a federally-chartered corporation that was organized on March 30, 2001 for the purpose of being a holding company for Kearny Federal Savings Bank (the "Bank"), a federally-chartered stock savings bank. On February 23, 2005, the Company completed a minority stock offering in which it sold 21,821,250 shares, or 30% of its outstanding common stock. The remaining 70% of the outstanding common stock, or 50,916,250 shares, are owned by Kearny MHC (the "MHC"). The MHC is a federally-chartered mutual holding company, and so long as the MHC is in existence, it will at all times own a majority of the outstanding common stock of the Company. The MHC and the Company are regulated by the Office of Thrift Supervision.

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

The Bank was originally founded in 1884 as a New Jersey mutual building and loan association. It obtained federal insurance of accounts in 1939 and received a federal charter in 1941. The Bank's deposits are federally insured by the Deposit Insurance Fund as administered by the Federal Deposit Insurance Corporation, and the Bank is regulated by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.

Our primary business is attracting retail deposits from the general public and using those deposits, together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for our investing and lending activities. We invest in mortgage-backed securities, U.S. government obligations, obligations of state and political subdivisions and other securities. Our loan portfolio consists of one-to-four family residential mortgage loans, multi-family and commercial mortgage loans, construction loans, commercial business loans, home equity loans and lines of credit, and other consumer loans. At June 30, 2006, mortgage-backed securities and investment securities comprised 45.7% of our total assets while loans receivable, net, comprised 35.0% of our total assets. At June 30, 2005 mortgage-backed securities and investment securities were 59.9% and loans were 26.5% of our total assets, and at June 30, 2004 these percentages were 64.5% and 26.1%, respectively. It is our intention to continue to increase the balance of our loan portfolio relative to the size of our securities portfolio.

Market Area. We operate from administrative headquarters in Fairfield, New Jersey, and as of June 30, 2006 had 26 branch offices located in Bergen, Hudson, Passaic, Morris, Middlesex, Essex, Union and Ocean Counties, New Jersey. We also consider Monmouth County, New Jersey to be part of our market area. Our lending is concentrated in these nine New Jersey counties, and our predominant sources of deposits are the communities in which our offices are located as well

as the neighboring communities.

Our primary market area is largely urban and suburban with a broad economic base as is typical within the New York metropolitan area. Service jobs represent the largest employment sector followed by wholesale/retail trade.

Our business of attracting deposits and making loans is primarily conducted within our market area. A downturn in the local economy could reduce the amount of funds available for deposit and the ability of borrowers to repay their loans. As a result, our profitability could decrease.

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

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions, and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans, and we face competition for funds from investment products such as mutual funds, short-term money funds and corporate and government securities. There are large competitors operating throughout our total market area, including Bank of America, Commerce Bank, Wachovia Bank and PNC Bank, and we also face strong competition from other community-based financial institutions.

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Lending Activities

General. We have traditionally focused on the origination of one-to-four family loans, which comprise a significant majority of our total loan portfolio. Our next largest category of lending is commercial real estate which includes multi-family dwellings, mixed-use properties and other commercial properties. We also offer consumer loans (primarily composed of home equity loans and lines of credit), construction loans (to builders and developers as well as individual homeowners) and commercial business loans, generally secured by real estate.

	At June 30,						
	2006		2005		2004		
	Amount	Percent	Amount	Percent	Amount	Percent	Amo
Type of Loans:							(In t
Real estate mortgage -							
One-to-four family.........	$465,822	65.80%	$382,766	68.04%	$358,241	70.22%	$366
Real estate mortgage - multi-family and commercial.................	107,111	15.13	96,685	17.18	83,426	16.35	71
Commercial business...........	3,208	0.45	2,930	0.52	5,161	1.01	2
Consumer:							

Home equity loans..........	93,639	13.23	54,199	9.63	37,381	7.33	37
Equity lines of credit.....	12,988	1.83	14,850	2.64	15,677	3.07	19
Passbook or certificate....	2,884	0.41	2,831	0.50	2,746	0.54	2
Other......................	247	0.03	264	0.05	336	0.07	1
Construction.................	22,078	3.12	8,094	1.44	7,212	1.41	11
Total loans.............	707,977	100.00%	562,619	100.00%	510,180	100.00%	512
Less:							
Allowance for loan losses..	5,451		5,416		5,144		5
Deferred loan (costs) and fees, net...........	(1,087)		(815)		(758)		(1
	4,364		4,601		4,386		3
Total loans, net.........	$703,613		$558,018		$505,794		$509

Loan Maturity Schedule. The following table sets forth the maturity of our loan portfolio at June 30, 2006. Demand loans, loans having no stated maturity, and overdrafts are shown as due in one year or less. Loans are stated in the following tables at contractual maturity and actual maturities could differ due to prepayments.

	At June 30, 2006					
	Real estate mortgage - one-to-four family	Real estate mortgage - multi-family and commercial	Commercial business	Home equity loans	Home equity lines of credit	Passbook certifica
	(In thousands)					
Amounts Due:						
Within 1 Year	$ 155	$ 135	$ 3,175	$ 53	$ 58	$ 2,460
After 1 year:						
1 to 3 years	3,269	638	33	4,068	242	414
3 to 5 years	12,015	2,491	-	7,248	47	-
5 to 10 years	77,974	12,118	-	29,553	2,626	-
10 to 15 years	129,230	35,252	-	37,326	9,057	10
Over 15 years	243,179	56,477	-	15,391	958	-
Total due after one year ...	465,667	106,976	33	93,586	12,930	424
Total amount due	$465,822	$107,111	$ 3,208	$ 93,639	$ 12,988	$ 2,884

The following table shows the dollar amount of loans as of June 30, 2006 that are due after June 30, 2007 according to rate type and loan category.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In thousands)	
Real estate mortgage - one-to-four family	$387,701	$ 77,966	$465,667
Real estate mortgage - multi-family and commercial	79,987	26,989	106,976
Commercial business	33	-	33
Consumer:			
Home equity loans	93,586	-	93,586
Home equity lines of credit	2,254	10,676	12,930
Passbook or certificate	-	424	424
Other	118	3	121
Construction	-	6,863	6,863
Total	$563,679	$122,921	$686,600

One-to-Four Family Mortgage Loans. Our primary lending activity consists of the origination of one-to-four family first mortgage loans, nearly all of which are secured by property located within New Jersey.

We will originate a one-to-four family mortgage loan on an owner occupied property with a principal amount of up to 95% of the lesser of the appraised value or the purchase price of the property, with private mortgage insurance required if the loan to value ratio exceeds 80%. Our loan to value limit on a non-owner occupied property is 75%. Loans in excess of $750,000 are handled on a case-by-case basis and are subject to lower loan to value limits, generally no more than 50%.

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

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

We offer a first time home buyer program for persons who have not

previously owned real estate and are purchasing a one-to-four family property in Bergen, Passaic, Morris, Essex, Hudson, Middlesex, Monmouth, Ocean and Union Counties, New Jersey for use as a primary residence. This program is also available outside these areas only to persons who are existing deposit or loan customers of Kearny Federal Savings Bank and/or members of their immediate families. The financial incentives offered under this program are a one-quarter of one percent rate reduction on all first mortgage loan types and the refund of the application fee at closing.

The fixed rate mortgage loans that we originate generally meet the secondary mortgage market standards of the Federal Home Loan Mortgage Corporation. However, as our focus is on growing the size of

the loan portfolio, we generally do not sell loans in the secondary market and do not currently anticipate that we will commence doing so in any large capacity. There were no residential mortgage loan sales during the last three fiscal years.

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

Multi-family and Commercial Real Estate Mortgage Loans. We also originate mortgage loans on multi-family and commercial real estate properties, including loans on apartment buildings, retail/service properties, and other income-producing properties, such as mixed-use properties combining residential and commercial space.

We generally require no less than a 30% down payment or equity position for mortgage loans on multi-family and commercial real estate properties, and we require personal guarantees on all such loans. Currently, these loans are made with a maturity of up to 20 years. We also offer a five-year balloon loan with a twenty- year amortization schedule. All of our multi-family and commercial real estate mortgage loans are on properties within New Jersey.

Multi-family and commercial real estate mortgage loans generally are considered to entail significantly greater risk than that which is involved with one-to-four family real estate lending. The repayment of these loans typically is dependent on the successful operations and income stream of the borrower and the real estate securing the loan as collateral. These risks can be significantly affected by economic conditions. In addition, multi-family and commercial real estate mortgage loans generally carry larger balances to single borrowers or related groups of borrowers than one-to-four family loans. Multi-family and commercial real estate lending typically requires substantially greater evaluation and oversight efforts compared to residential real estate lending.

Commercial Business Loans. We also originate commercial term loans and lines of credit to a variety of professionals, sole proprietorships and small businesses in our market area. These loans are normally secured by real estate, and we require personal guarantees on all commercial loans. Marketable

securities may also be accepted as collateral on lines of credit, but with a loan to value limit of 50%. The loan to value limit on secured commercial lines of credit and term loans is otherwise generally limited to 70%. We also make unsecured commercial loans in the form of overdraft checking authorization up to $25,000 and unsecured lines of credit up to $25,000.

Our commercial term loans generally have terms of up to fifteen years and are mostly fixed rate loans. Our commercial lines of credit have terms of up to two years and are mostly adjustable rate loans. We also offer a one-year interest only commercial line of credit with balloon payment.

Unlike single-family residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. Commercial business loans, therefore, have greater credit risk than residential mortgage loans. In addition, commercial loans generally

carry larger balances to single borrowers or related groups of borrowers than one-to-four family loans. Commercial lending requires substantially greater evaluation and oversight efforts compared to residential or non-residential real estate lending.

Home Equity Loans and Lines of Credit. Our home equity loans are fixed rate loans for terms of generally up to twenty years. We also offer fixed and adjustable rate home equity lines of credit with terms of up to fifteen years. Collateral value is determined through an Automated Valuation Module (AVM), specifically, the Freddie Mac's Home Valuation Explorer (HVE), or property value analysis report (FHLMC Form 704) provided by a state certified or licensed independent appraiser. In some cases, we determine collateral value by a full appraisal performed by a state certified or licensed independent appraiser. Home equity loans and lines of credit do not require title insurance but do require homeowner, liability and fire insurance and, if applicable, flood insurance.

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

Other Consumer Loans. In addition to home equity loans and lines of credit, our consumer loan portfolio includes savings and certificates of deposit secured (passbook) loans and unsecured personal overdraft loans. We will generally lend up to 90% of the account balance on a savings secured loan.

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

Our underwriting standards for consumer loans include a determination

of the applicant's credit history and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment and any additional verifiable secondary income.

Construction Lending. Our construction lending includes loans to individuals for construction of one- to-four family residences or for major renovations or improvements to an existing dwelling. Our construction lending also includes loans to builders and developers for multi-unit buildings or multi-house projects. All of our construction lending is in New Jersey.

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

We have no formal limits as to the number of projects a builder has under construction or development, and make a case-by-case determination on loans to builders and developers who have multiple projects under development. The Board of Directors reviews the Bank's business relationship with a builder or developer prior to accepting a loan application for processing. We generally do not make construction loans to builders on a speculative basis, without a contract in place. Financing is only provided for up to two houses at

a time in a multi-house project, requiring a contract on one of the two houses before financing for the next house may be obtained.

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

Loans to One Borrower. Under federal law, savings institutions have, subject to certain exemptions, lending limits to one borrower in an amount equal to the greater of $500,000 or 15% of the institution's unimpaired capital and surplus. Accordingly, as of June 30, 2006, our loans to one borrower limit was approximately $55.3 million.

At June 30, 2006, our largest single borrower had an aggregate loan balance of approximately $9.5 million, representing two mortgage loans secured by commercial real estate. Our second largest single borrower had an aggregate loan balance of approximately $9.3 million, representing two loans secured by commercial real estate, one commercial line of credit secured by real estate and one residential mortgage loan. Our third largest borrower had an aggregate loan balance of approximately $9.2 million, representing one loan, a participation in a construction loan secured by commercial real estate. At June 30, 2006, all of these lending relationships were current and performing in accordance with the terms of their loan agreements.

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

	For the Year Ended June 30,		
	2006	2005	200
		(In thousands)	
Loan originations and purchases:			
Loan originations:			
Real estate mortgage - one-to-four family............	$118,371	$ 86,026	$ 6
Real estate mortgage - multi-family and commercial...	23,444	24,622	2
Commercial business.................................	708	1,422	
Construction..	22,638	7,378	
Consumer:			
Home equity loans and lines of credit...............	66,456	39,598	3
Passbook or certificate.............................	1,578	1,618	
Other...	412	324	
Total loan originations...............................	233,607	160,988	14
Loan purchases:			
Real estate mortgage - one-to-four family............	24,434	1,515	1
Real estate mortgage - multi-family and commercial...	-	-	
Total loan purchases..................................	24,434	1,515	1
Loan principal repayments.............................	(113,786)	(111,740)	(15
Increase (decrease) due to other items..................	1,340	1,461	(
Net increase (decrease) in loan portfolio...............	$145,595	$ 52,224	$ (

Our customary sources of loan applications include repeat customers, referrals from realtors and other professionals and "walk-in" customers. Our residential loan originations are largely advertising driven.

We primarily originate our own loans and retain them in our portfolio. As part of our loan growth strategy, we generally do not sell loans in the secondary market and do not currently anticipate that we will commence doing so in any large capacity. There were no whole loan sales during the three years ended June 30, 2006. Gross loan originations totaled $233.6 million for the year ended June 30, 2006 and exceeded principal repayments by approximately $119.8 million.

In October 2005, the Bank entered into a loan purchase and servicing agreement with Countrywide Home Loans Inc. located in Westlake Village, California. The agreement with Countrywide calls for the purchase of loan pools that contain mortgages on properties in our lending area. All loan pools presented to the Bank must meet the Bank's underwriting requirements as outlined in the purchase and servicing agreement. Countrywide services these mortgages. During the year ended June 30, 2006, a total of $6.6 million of adjustable rate

loans and $12.6 million of fixed rate loans were purchased from Countrywide.

Purchase agreements have also been executed with a limited number of smaller, local mortgage companies in an effort to maintain the Bank's loan production pipeline. These agreements call for the purchase, on a flow basis, of adjustable rate and/or 10 or 15 year fixed rate mortgage loans with servicing released to the Bank. During the year ended June 30, 2006 a total of $2.4 million adjustable loans and $2.7 million of fixed rate loans were purchased from these companies.

In addition to purchasing one-to-four family loans, we also occasionally purchase participations in loans originated by other banks and also through the Thrift Institutions Community Investment Corporation of New Jersey ("TICIC"). Our TICIC participations include multi-family and commercial real estate properties.

The aggregate balance of TICIC participations at June 30, 2006 was $8.9 million and the average balance on a single participation was approximately $256,000. At June 30, 2006, we had a total of six non-TICIC participations with an aggregate balance of $22.7 million, consisting of loans on commercial real estate properties, including a medical center, a self-storage facility, a shopping plaza, commercial buildings with a combination of retail and office space and a construction loan to build townhouses.

Loan Approval Procedures and Authority. Senior management recommends and the Board of Directors approves our lending policies and loan approval limits. Our Senior Vice President and Chief Lending Officer may approve loans up to $500,000. Loan department personnel of Kearny Federal Savings Bank serving in the following positions may approve loans as follows: mortgage loan managers, mortgage loans up to $250,000; consumer loan managers, consumer loans up to $100,000; and consumer loan underwriters, consumer loans up to $50,000. In addition to these principal amount limits, there are established limits for different levels of approval authority as to minimum credit scores and maximum loan to value ratios and debt ratios. Our President and Chief Executive Officer, Senior Vice President and Chief Financial Officer and Senior Vice President and Treasurer each have authorization to countersign loans for amounts that exceed $500,000 up to a limit of $750,000. Our Senior Vice President and Chief Lending Officer must approve loans between $500,000 and $750,000 and one member of senior management as outlined above. Non-conforming mortgage loans and loans over $750,000 require the approval of the Board of Directors.

Asset Quality

Loan Delinquencies and Collection Procedures. The borrower is notified by both mail and telephone when a loan is thirty days past due. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. When a loan is ninety days delinquent, it is our general practice to refer it to an attorney for repossession or foreclosure. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs, and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the

debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at the lower of the unpaid principal balance of the related loan or its fair market value less estimated selling costs. The initial writedown of the property is charged to the allowance for loan losses. Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines occur. At June 30, 2006, we held real estate owned totaling $109,000, consisting of one parcel of vacant land, currently under a contract of sale.

Loans are reviewed on a regular basis and are placed on non-accrual status when they are more than ninety days delinquent, with the exception of a passbook loan, the outstanding balance of which is collected from the related passbook account along with accrued interest and a penalty when the loan is 120 days delinquent. Loans may be placed on a non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2006, we had approximately $942,000 of loans that were held on a non-accrual basis.

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Non-Performing Assets. The following table provides information regarding the Bank's non-performing loans and other non-performing assets. As of each of the dates indicated, we did not have any troubled debt restructurings. At June 30, 2006, the allowance for loan losses totaled $5.5 million, non-performing loans totaled $942,000, and the ratio of allowance for loan losses to non-performing loans was 578.7%.

	At June 30		
	2006	2005	2004
	(Dollars in thousan		
Loans accounted for on a non-accrual basis:			
Real estate mortgage - one-to-four family...	$ 329	$ 846	$ 771
Real estate mortgage - multi-family and commercial.............................	592	1,004	1,414
Commercial business........................	-	31	39
Consumer:			
Home equity loans.......................	21	20	65
Home equity lines of credit.............	-	17	-
Other...................................	-	4	-
Construction...............................	-	-	-
Total.................................	942	1,922	2,289
Accruing loans which are contractually past due 90 days or more:			
Real estate mortgage - one-to-four family...	-	-	-
Real estate mortgage - multi-family and commercial.............................	-	-	-
Commercial business........................	-	-	-
Consumer:			

Home equity loans and lines of credit....	-	-	-
Passbook or certificate.................	-	-	39
Other..................................	-	-	-
Construction...............................	-	-	-
Total..................................	-	-	39
Total non-performing loans...................	$ 942	$ 1,922	$ 2,328
Real estate owned............................	$ 109	$ 209	$ 209
Other non-performing assets..................	$ -	$ -	$ -
Total non-performing assets...............	$ 1,051	$ 2,131	$ 2,537
Total non-performing loans to total loans.....	0.13%	0.34%	0.46%
Total non-performing loans to total assets....	0.05%	0.09%	0.12%
Total non-performing assets to total assets...	0.05%	0.10%	0.13%

During the year ended June 30, 2006, gross interest income of $81,000 would have been recorded on loans accounted for on a non-accrual basis if those loans had been current, and $9,000 of interest on such loans was included in income for the year ended June 30, 2006.

Classified Assets. Management, in compliance with Office of Thrift Supervision guidelines, has instituted an internal loan review program, whereby non-performing loans are classified as substandard, doubtful or loss. It is our policy to review the loan portfolio, in accordance with regulatory classification procedures, on at least a quarterly basis. When a loan is classified as substandard or doubtful, management is required to evaluate the loan for impairment. When management classifies a portion of a loan as loss, a reserve equal to 100% of the loss amount is required to be established or the loan is to be charged-off.

An asset is considered "substandard" if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and

improbable, on the basis of currently existing facts, conditions, and values. Assets, or portions thereof, classified as "loss" are considered uncollectible and of so little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to a sufficient degree of risk to warrant classification in one of the aforementioned categories but which have credit deficiencies or potential weaknesses are required to be designated "special mention" by management.

Management's classification of assets is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination

process. An independent loan review firm performs a review of our residential and commercial loan portfolios, and we downgrade our classifications to match those of this reviewing firm if there is disagreement between our assessment and the independent assessment. The following table discloses our classification of assets and designation of certain loans as special mention as of June 30, 2006. At June 30, 2006, all of the classified assets and special mention designated assets were loans.

	June 30,		
	2006	2005	2004
	(In thousands)		
Special Mention.....	$ 236	$ 3,161	$ 734
Substandard.........	1,448	2,343	6,264
Doubtful............	2,001	1,936	1,149
Loss................	-	6	-
Total............	$ 3,685	$ 7,446	$ 8,147

At June 30, 2006, none of the loans classified as "special mention", approximately $350,000 classified as "substandard" and approximately $592,000 classified as "doubtful" are included under non-performing assets, as shown in the table on Page 12.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects our estimation of the losses in our loan portfolio to the extent they are both probable and reasonable to estimate. The allowance is maintained through provisions for loan losses that are charged to income in the period they are established. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans previously charged-off are added back to the allowance.

Management, in determining the allowance for loan losses, considers the losses inherent in the loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio by type of loan.

A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Payments received on impaired loans are applied first to interest receivable and then to principal.

We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and financial condition of the borrower. Large groups of smaller balance homogeneous loans, such as residential real estate and home equity and consumer loans are

evaluated in the aggregate using historical loss factors and current economic

conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, are evaluated individually for impairment.

Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

The estimation of the allowance for loan losses is inherently subjective as it requires estimates and assumptions that are susceptible to significant revisions as more information becomes available or as future events change. Future additions to the allowance for loan losses may be necessary if economic and other conditions in the future differ substantially from the current operating environment. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our loan and foreclosed real estate portfolios and the related allowance for loan losses and valuation allowance for foreclosed real estate. The Office of Thrift Supervision may require the allowance for loan losses or the valuation allowance for foreclosed real estate to be increased based on its review of information available at the time of the examination, which would negatively affect our earnings.

The following table sets forth information with respect to the allowance for loan losses at the dates indicated.

	For the Year Ende		
	2006	2005	2004
Allowance balance (at beginning of period)............	$ 5,416	$ 5,144	$ 5,180
Provision for loan losses............................	72	68	-
Charge-offs:			
Real estate mortgage - one-to-four family...........	-	-	12
Commercial business................................	30	5	24
Other..	12	4	-
Total charge-offs..............................	42	9	36
Recoveries:			
Real estate mortgage - one-to-four family..........	-	213	-
Commercial business................................	5	-	-
Total recoveries...............................	5	213	-
Net (charge-offs) recoveries.........................	(37)	204	(36
Allowance balance (at end of period).................	$ 5,451	$ 5,416	$ 5,144
Total loans outstanding..............................	$ 707,977	$ 562,619	$ 510,180
Average loans outstanding............................	$ 628,245	$ 517,746	$ 499,510
Allowance for loan losses as a percent of total loans outstanding.........................	0.77%	0.96%	1.01
Net loans charged off as a percent			

of average loans outstanding......................	0.01%	0.00%	0.01
Allowance for loan losses to non-performing loans......	578.66%	281.79%	220.96

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

	At June 30,						
	2006		2005		2004		2
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount
	(Dollars in thousands)						
At end of period allocated to:							
Real estate mortgage - one-to-four family....	$1,582	65.80%	$1,514	68.04%	$1,422	70.22%	$1,980
Real estate mortgage - multi-family and commercial............	3,133	15.13	3,368	17.18	3,358	16.35	2,198
Commercial business.......	34	0.45	50	0.52	57	1.01	59
Consumer:							
Home equity loans.......	286	13.23	182	9.63	131	7.33	214
Home equity lines of credit...........	39	1.83	47	2.64	52	3.07	218
Passbook or certificate.	-	0.41	-	0.50	-	0.54	-
Other..................	27	0.03	120	0.05	4	0.07	10
Construction.............	350	3.12	135	1.44	120	1.41	501
Total allowance......	$5,451	100.00%	$5,416	100.00%	$5,144	100.00%	$5,180

Securities Portfolio

General. Our deposits have traditionally exceeded our loan originations, and we have invested these deposits primarily in mortgage-backed securities and investment securities. Our mortgage-backed securities and investment securities comprised 45.7% of our total assets at June 30, 2006. We intend to increase the balance of our loan portfolio relative to the size of our securities portfolio, however, such a change will take time and in the near

future, our assets will continue to be primarily in securities.

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

All of our securities carry market risk insofar as increases in market rates of interest may cause a decrease in their market value. Investments in securities are made based on certain considerations, which include the interest rate, tax considerations, volatility, yield, settlement date and maturity of the security, our liquidity position, and anticipated cash needs and sources. The effect that the proposed security would have on our credit and interest rate risk and risk-based capital is also considered.

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

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that securities be categorized as "held to maturity," "trading securities" or "available for sale," based on management's intent as to the ultimate disposition of each security. Statement No. 115 allows debt securities to be classified as "held to maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold these securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as "held to maturity."

We do not currently use or maintain a trading account. Securities not classified as "held to maturity" are classified as "available for sale." These securities are reported at fair value, and unrealized gains and losses on the securities are excluded from earnings and reported, net of deferred taxes, as a separate component of equity.

At June 30, 2006, our mortgage-backed securities portfolio included securities issued by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association,

and our investment securities portfolio included U.S. government obligations and obligations of states and political subdivisions.

In the fiscal year ended June 30, 2005, we sold 120,000 shares of Freddie Mac common stock, representing 48% of our investment in Freddie Mac common stock at that time, which resulted in a pre-tax gain of $7.6 million. During the year ended June 30, 2006, we sold the rest of our Freddie Mac investment, 131,088 shares, and sold $249.1 million of government agency notes with an average yield of 3.22%. This sale included our entire portfolio of government agency notes. The loss on the sale of the government agency notes partially offset the gain on the remainder of our Freddie Mac shares and mutual fund shares issued by Dryden Government Income Fund, Inc. The net pre-tax gain on the fiscal 2006 securities sales was approximately $1.0 million. We have now sold all of our Freddie Mac stock and at June 30, 2006, we had no government agency notes remaining in our securities portfolio.

At June 30, 2006, we also held the following securities: mutual fund shares issued by AMF Adjustable Mortgage Rate Fund with an aggregate carrying value of $7.4 million; and trust preferred securities with an aggregate carrying value of $10.9 million. Currently, our policy does not permit new investments in corporate equity securities beyond what we currently hold, and we do not invest in mortgage-related securities of private corporate issuers, only those issued by U.S. government agencies or government-sponsored entities.

At June 30, 2006, our securities portfolio contained mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation with an aggregate book value in excess of 10% of our equity. The aggregate book value at June 30, 2006 of mortgage-backed securities in our portfolio issued by the Federal National Mortgage Association also exceeded 10% of our equity. The aggregate book value and aggregate market value for mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation that we held at June 30, 2006 totaled $264.7 million and $256.0 million, respectively. The aggregate book value and aggregate market value for mortgage-backed securities issued by the Federal National Mortgage Association that we held at June 30, 2006 totaled $382.9 million and $371.6 million, respectively. At June 30, 2006, management classified all mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association as held to maturity. Other than mortgage-backed securities issued by the U.S. government or its agencies, at June 30, 2006 we did not hold securities of any other issuer having an aggregate book value in excess of 10% of our equity.

We do not currently participate in hedging programs, interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments. Further, we do not purchase securities, which are not rated investment grade.

Actual maturities of the securities held by us may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. At June 30, 2006, the aggregate book value and aggregate market value of callable securities in our portfolio totaled $138.4 million and $136.2 million, respectively.

Mortgage-backed Securities. We only invest in mortgage-backed securities issued by U.S. government agencies or government-sponsored entities, such as Government National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. Mortgage-backed securities are pass-through securities typically issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans

with interest rates that are within a specific range and have varying maturities. The life of a mortgage-backed security thus approximates the life of the underlying mortgages. Mortgage originators use intermediaries (generally government agencies and government-sponsored enterprises, but also a variety of private corporate issuers) to pool and repackage the participation interests in the form of securities, with investors such as us receiving the principal and interest payments on the mortgages. The characteristics of the underlying pool of mortgages, i.e., fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. Mortgage-backed securities are generally referred to as mortgage participation certificates or pass-through certificates.

We do not currently invest in mortgage-backed securities of private issuers or collateralized mortgage obligations. Mortgage-backed securities issued or sponsored by U.S. government agencies and government-sponsored entities are guaranteed as to the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the mortgage loans underlying such securities because of their payment guarantees or credit enhancements, which offer nominal credit risk to the security holder.

The following table sets forth the carrying value of our securities portfolio at the dates indicated.

	At June 30,			
	2006	2005	2004	
			(In thousands)	
Securities Available for Sale:				
Mutual funds	$ 7,424	$ 14,140	$ 13,899	$
Common stock	-	8,551	15,894	
Trust preferred securities due after ten years	10,922	10,900	11,771	
Total securities available for sale	18,346	33,591	41,564	
Investment Securities Held to Maturity:				
U.S. government obligations	8,736	265,469	274,401	
Obligations of states and political subdivisions	200,312	204,629	161,469	
Total investment securities held to maturity	209,048	470,098	435,870	
Mortgage-Backed Securities Held to Maturity:				
Government National Mortgage Association	42,323	63,399	94,499	
Federal Home Loan Mortgage Corporation	264,747	305,059	314,221	
Federal National Mortgage Association	382,892	389,663	362,633	
Collateralized mortgage obligations issued by U.S. government agencies	-	-	-	
Other	-	-	-	
Total mortgage-backed securities held to maturity	689,962	758,121	771,353	

Total....................................	$ 917,356	$ 1,261,810	$ 1,248,787	$

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The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of our securities portfolio at June 30, 2006. This table shows contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities may differ.

	At June 30, 2006							
	One Year or Less		One to Five Years		Five to Ten Years		More tha Ten Year	
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Av Y
	(Dollars in thousands)							
Mutual funds..................	$ 7,424	4.60%	$ -	-%	$ -	-%	$ -	
Common stock..................	-	-	-	-	-	-	-	
Trust preferred securities due after ten years.........	-	-	-	-	-	-	10,922	
U.S. government obligations....	-	-	-	-	963	8.30	7,773	
Obligations of states and political subdivisions......	4,339	3.64	17,194	3.22	120,775	3.80	58,004	
Government National Mortgage Association........	87	7.54	461	8.97	482	11.08	41,293	
Federal Home Loan Mortgage Corporation........	5	8.71	1,876	4.25	1,115	3.79	261,751	
Federal National Mortgage Association................	-	-	6,076	5.55	10,687	5.58	366,129	
Total.......................	$11,855	4.27%	$25,607	3.95%	$134,022	4.00%	$745,872	

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Sources of Funds

General. Deposits are our major source of funds for lending and other investment purposes. In addition, we derive funds from loan and mortgage-backed securities principal repayments, and proceeds from the maturity and call of investment securities. Loan and securities payments are a relatively stable source of funds, while deposit inflows are significantly influenced by general interest rates and money market conditions. Borrowings (principally from the Federal Home Loan Bank) are also used to supplement the amount of funds for lending and investment.

Deposits. Our current deposit products include checking and savings accounts, certificates of deposit accounts ranging in terms from thirty days to five years, and individual retirement accounts. Deposit account terms vary,

primarily as to the required minimum balance amount, the amount of time that the funds must remain on deposit and the applicable interest rate.

Deposits are obtained primarily from within New Jersey. Traditional methods of advertising are used to attract new customers and deposits, including radio, print media, direct mail and inserts included with customer statements. We do not utilize the services of deposit brokers. Premiums or incentives for opening accounts are sometimes offered. We periodically select particular certificate of deposit maturities for promotion, with terms of five, nine and 13 months being the most popular. We may also offer a twenty-five basis point premium on certificate accounts with a term of at least one year to certificate of deposit account holders that have $200,000 or more on deposit with Kearny Federal Savings Bank. We also offer the opportunity one time during the term of the certificate to "bump up" the rate paid on all 17-month and 29-month certificates of deposit from the rate set on such certificate to the current rate being offering by Kearny Federal Savings Bank on certificates of that particular maturity.

The determination of interest rates is based upon a number of factors, including: (1) our need for funds based on loan demand, current maturities of deposits and other cash flow needs; (2) a current survey of a selected group of competitors' rates for similar products; (3) our current cost of funds, yield on assets and asset/liability position; and (4) the alternate cost of funds on a wholesale basis, in particular the cost of advances from the Federal Home Loan Bank. Interest rates are reviewed by senior management on a weekly basis and rates are set generally with the intent to be in the top five to ten percent of the competition.

A large percentage of our deposits are in certificates of deposit, which represented 61.2% of total deposits at June 30, 2006. Our liquidity could be reduced if a significant amount of certificates of deposit maturing within a short period of time were not renewed. Historically, a significant portion of the certificates of deposit remain with us after they mature and we believe that this will continue. At June 30, 2006, $206.0 million, or 23.3%, of our certificates of deposit were "jumbo" certificates of $100,000 or more. Deposit inflows are significantly influenced by general interest rates and money market conditions. The inflow of jumbo certificates of deposit and the retention of such deposits upon maturity are particularly sensitive to general interest rates and money market conditions, making jumbo certificates of deposit traditionally a more volatile source of funding than core deposits. In order to retain jumbo certificates of deposit, we may have to pay a premium rate, resulting in an increase in our cost of funds. In a rising rate environment, we may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with us, they may need to be replaced with borrowings, which could increase our cost of funds and negatively impact our interest rate spread and our financial condition.

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

	For the Year Ended June 30,	
	2006	2005
	Weighted	Weighted

	Amount	Percent of Total Deposits	Average Nominal Rate	Amount	Percent of Total Deposits	Average Nominal Rate
				(Dollars in thousands)		
Non-interest-bearing demand.....	$ 56,517	3.82%	0.00%	$ 55,112	3.52%	0.00%
Interest-bearing demand.........	103,397	7.00	0.90	105,503	6.73	0.71
Savings and club................	429,019	29.03	1.18	533,131	34.01	1.02
Certificates of deposit.........	888,810	60.15	3.27	873,907	55.74	2.33
Total deposits..............	$1,477,743	100.00%	2.37%	$1,567,653	100.00%	1.69%

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

	At June 30,		
	2006	2005	2004
	(In thousands)		
Interest Rate			
0.00-1.99%...............	$ 24,638	$ 189,266	$ 582,665
2.00-2.99%...............	46,588	343,916	173,505
3.00-3.99%...............	496,755	349,320	100,138
4.00-4.99%...............	162,070	32,750	25,956
5.00-5.99%...............	153,047	7,223	11,957
6.00-6.99%...............	-	641	2,716
7.00-7.99%...............	-	-	82
Total..................	$ 883,098	$ 923,116	$ 897,019

The following table sets forth the amount and maturities of certificates of deposit at June 30, 2006.

	Amount Due				
Interest Rate	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years
			(In thousands)		
0.00-1.99%..........	$ 24,637	$ 1	$ -	$ -	$ -
2.00-2.99%..........	46,314	270	4	-	-
3.00-3.99%..........	403,661	72,588	18,781	1,724	-
4.00-4.99%..........	101,368	35,941	1,696	16,151	6,826
5.00-5.99%..........	82,238	70,809	-	-	-
6.00-6.99%..........	-	-	-	-	-
7.00-7.99%..........	-	-	-	-	-

Total.............	$ 658,218	$ 179,609	$ 20,481	$ 17,875	$ 6,826

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

	At June 30, 2006
	(In thousands)
Maturity Period	
Within three months..............................	$ 44,553
Three through six months..........................	31,125
Six through twelve months.........................	73,269
Over twelve months................................	57,008
	$ 205,955

Borrowings. To supplement our deposits as a source of funds for lending or investment, we borrow funds in the form of advances from the Federal Home Loan Bank. We make use of Federal Home Loan Bank advances as part of our interest rate risk management, primarily to extend the duration of funding to match the longer-term fixed rate loans held in the loan portfolio as part of our growth strategy.

Advances from the Federal Home Loan Bank are typically secured by the Federal Home Loan Bank stock we own and a portion of our residential mortgage loans and may be secured by other assets, mainly securities, which are obligations of or guaranteed by the U.S. government. Additional information regarding our Federal Home Loan Bank advances is included under Note 12 to consolidated financial statements.

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Short-term Federal Home Loan Bank advances generally have original maturities of less than one year. The details of these short-term advances are presented below for the dates and periods indicated.

	At or For the Year Ended June 30,		
	2006	2005	2004
	(Dollars in thousands)		
Federal Home Loan Bank Advances:			
Average balance outstanding.................	$ 3,958	$17,805	$ 1,151
Maximum amount outstanding at any month-end during the period..............	28,000	20,000	30,000
Balance outstanding at end of period.........	-	-	30,000
Weighted average interest rate during the period..............................	4.48%	2.24%	1.43%
Weighted average interest rate at end of period...............................	-%	-%	1.43%

At June 30, 2006, long-term Federal Home Loan Bank advances totaled

$61.1 million. Advances consist of fixed-rate advances that will mature within one to seven years. The advances are collateralized by Federal Home Loan Bank stock and certain first mortgage loans and mortgage-backed securities. These advances had a weighted average interest rate of 5.46% at June 30, 2006. Unused overnight lines of credit at the Federal Home Loan Bank at June 30, 2006 were $200.0 million.

As of June 30, 2006, long-term advances mature as follows:

Twelve Months Ending June 30,	(In thousands)
2007	$ 5,618
2008	37,487
2009	8,000
2010	-
2011	10,000
Thereafter	-
Total	$ 61,105

Subsidiary Activity

Kearny Financial Corp. has two wholly owned subsidiaries: Kearny Federal Savings Bank and Kearny Financial Securities, Inc. Kearny Financial Securities, Inc., was organized in April 2005 under Delaware law as a Delaware investment company primarily to hold investment and mortgage-backed securities. Kearny Financial Securities, Inc. is currently inactive.

Kearny Federal Savings Bank has two wholly owned subsidiaries: KFS Financial Services, Inc. and Kearny Federal Investment Corp. KFS Financial Services, Inc. was incorporated as a New Jersey corporation in 1994 under the name of South Bergen Financial Services, Inc., was acquired in Kearny's merger with South Bergen Savings Bank in 1999 and was renamed KFS Financial Services, Inc. in 2000. It is a service corporation subsidiary organized for the purpose of selling insurance products, including annuities, to bank customers and the general public through a third party networking arrangement. KFS Financial Services, Inc. is not a licensed insurance agency, and it may only offer insurance products through an agreement with a licensed insurance agency. KFS Financial Services, Inc. has entered into an agreement with Savings Bank Life Insurance of Massachusetts, a licensed insurance agency, through which it offers insurance products.

Kearny Federal Investment Corp. was organized in June 2004 under New Jersey law as a New Jersey investment company primarily to hold investment securities. At June 30, 2006, it held assets totaling $563.2 million.

Personnel

As of June 30, 2006, we had 268 full-time employees and 19 part-time employees. The employees are not represented by a collective bargaining unit. We believe our relationship with our employees is good.

Regulation

The Bank and the Company operate in a highly regulated industry. This regulation establishes a comprehensive framework of activities in which a savings and loan holding company and federal savings bank may engage and is

intended primarily for the protection of the deposit insurance fund and depositors. Set forth below is a brief description of certain laws that relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

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

Regulation of the Bank

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

The Bank must file reports with the Office of Thrift Supervision concerning its activities and financial condition, and must obtain regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other financial institutions. The Office of Thrift Supervision regularly examines the Bank and prepares reports to the Bank's Board of Directors on deficiencies, if any, found in its operations. The Office of Thrift Supervision has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements. In addition, the Federal Deposit Insurance Corporation has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular federally chartered

savings bank and, if action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take such action under certain circumstances.

Insurance of Deposit Accounts. Deposit accounts in Kearny Federal Savings Bank are insured by the Deposit Insurance Fund of the Federal Deposit

Insurance Corporation, generally up to a maximum of $100,000 for standard accounts and $250,000 for individual retirement accounts. The Federal Deposit Insurance Corporation maintains a risk-based deposit insurance assessment system by which institutions are assigned to one of three categories based on their capitalization and one of three subcategories based on examination ratings and other supervisory information. An institution's assessment rate depends upon the categories to which it is assigned. Assessment rates for Savings Association Insurance Fund member institutions are determined semi-annually by the Federal Deposit Insurance Corporation and currently range from zero basis points of assessable deposits for the healthiest institutions to 27 basis points of assessable deposits for the riskiest. The assessment rate for Kearny Federal Savings Bank is currently 0%.

In addition to assessments for deposit insurance, all Federal Deposit Insurance Corporation-insured institutions are required to pay assessments to the Federal Deposit Insurance Corporation to fund payments on bonds issued in the late 1980s by a federal agency to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017.

The Federal Deposit Insurance Corporation may terminate an institution's deposit insurance upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation or the Office of Thrift Supervision.

Federal Deposit Insurance Reform. As a result of the Federal Deposit Insurance Reform Act of 2005, the Bank Insurance Fund and the Savings Association Insurance Fund have been merged into a new combined fund, called the Deposit Insurance Fund. The Federal Deposit Insurance Reform Act also (i) increases deposit insurance coverage for retirement accounts to $250,000, (ii) indexes the current $100,000 insurance coverage limit for standard accounts and the new $250,000 limit for retirement accounts to reflect inflation (with adjustments for inflation every five years, commencing January 1, 2011), (iii) requires the Federal Deposit Insurance Corporation to assess annual deposit insurance premiums on all banks and savings institutions, (iv) gives a one-time insurance assessment credit totaling $4.7 billion to banks and savings institutions in existence on December 31, 1996 that can be used to offset premiums otherwise due, (v) imposes a cap on the level of the Deposit Insurance Fund and provide for dividends or rebates when the fund grows beyond a specified threshold, (vi) adopts a historical basis concept for distributing the aforementioned one-time credit and dividends (with each institution's historical basis to be determined by a formula that looks back to the institution's assessment base in 1996 and adds premiums paid since that time) and (vii) authorizes revisions to the current risk-based system for assessing premiums, including replacing the current fixed reserve ratio requirement of 1.25% with a range of between 1.15% and 1.5% of insured deposits.

The merger of the two deposit insurance funds required by the Federal Deposit Insurance Reform Act was effective as of March 31, 2006. The Federal Deposit Insurance Corporation is required to adopt final rules for the rest of the provisions no later than 270 days after enactment. Such regulations will result in the imposition of deposit insurance assessments on all members of the Deposit Insurance Fund, including Kearny Federal Savings Bank, and such assessments could have an adverse effect on operating expenses and results of operations. Management cannot predict, however, the rate of any such insurance assessments or the effect of the assessments on operations.

Regulatory Capital Requirements. Office of Thrift Supervision capital regulations require savings institutions to meet three minimum capital standards: (1) tangible capital equal to 1.5% of total adjusted assets,

(2) "Tier 1" or "core" capital equal to at least 4% (3% if the institution has received the highest possible rating on its most recent examination) of total adjusted assets, and (3) risk-based capital equal to 8% of total risk-weighted assets. For information on the Bank's compliance with these regulatory capital standards, see Note 14 to consolidated financial statements. In assessing an institution's capital adequacy, the Office of Thrift Supervision takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where necessary.

In addition, the Office of Thrift Supervision may require that a savings institution that has a risk-based capital ratio of less than 8%, a ratio of Tier 1 capital to risk-weighted assets of less than 4% or a ratio of Tier 1 capital to total adjusted assets of less than 4% (3% if the institution has received the highest rating on its most recent examination) take certain action to increase its capital ratios. If the savings institution's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the Office of Thrift Supervision may restrict its activities.

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

The risk-based capital standard for savings institutions requires the maintenance of total capital of 8% of risk-weighted assets. Total capital equals the sum of core and supplementary capital. The components of supplementary capital include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt, intermediate-term preferred stock, the portion of the allowance for loan losses not designated for specific loan losses and up to 45% of unrealized gains on equity securities. The portion of the allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, supplementary capital is limited to 100% of core capital. For purposes of determining total capital, a savings institution's assets are reduced by the amount of capital instruments held by other depository institutions pursuant to reciprocal arrangements and by the amount of the institution's equity investments (other than those deducted from core and tangible capital) and its high loan-to-value ratio land loans and non-residential construction loans.

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

to 100% for delinquent loans, property acquired through foreclosure, commercial loans, and certain other assets.

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires that the Office of Thrift Supervision and other federal banking agencies revise their risk-based capital standards, with appropriate transition rules, to ensure that they take into account interest rate risk, or IRR, concentration of risk and the risks of non-traditional activities. The Office of Thrift Supervision adopted regulations, effective January 1, 1994, that set forth the methodology for calculating an IRR component to be incorporated into the Office of Thrift Supervision risk-based capital regulations. On May 10, 2002, the Office of Thrift Supervision adopted an amendment to its capital regulations which eliminated the IRR component of the risk-based capital requirement. Pursuant to the amendment, the Office of Thrift Supervision will continue to monitor the IRR of

individual institutions through the Office of Thrift Supervision requirements for IRR management, the ability of the Office of Thrift Supervision to impose individual minimum capital requirements on institutions that exhibit a high degree of IRR, and the requirements of Thrift Bulletin 13a, which provides guidance on the management of IRR and the responsibility of boards of directors in that area.

The Office of Thrift Supervision continues to monitor the IRR of individual institutions through analysis of the change in net portfolio value, or NPV. NPV is defined as the net present value of the expected future cash flows of an entity's assets and liabilities and, therefore, hypothetically represents the value of an institution's net worth. The Office of Thrift Supervision has also used this NPV analysis as part of its evaluation of certain applications or notices submitted by thrift institutions. The Office of Thrift Supervision, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent the institution is not in compliance with certain written guidelines established by the Office of Thrift Supervision regarding NPV analysis.

Dividend and Other Capital Distribution Limitations. The Office of Thrift Supervision imposes various restrictions or requirements on the ability of savings institutions to make capital distributions, including cash dividends.

A savings institution that is a subsidiary of a savings and loan holding company, such as the Bank, must file an application or a notice with the Office of Thrift Supervision at least thirty days before making a capital distribution, such as paying a dividend to the Company. A savings institution must file an application for prior approval of a capital distribution if: (i) it is not eligible for expedited treatment under the applications processing rules of the Office of Thrift Supervision; (ii) the total amount of all capital distributions, including the proposed capital distribution, for the applicable calendar year would exceed an amount equal to the savings institution's net income for that year to date plus the institution's retained net income for the preceding two years; (iii) it would not adequately be capitalized after the capital distribution; or (iv) the distribution would violate an agreement with the Office of Thrift Supervision or applicable regulations.

The Office of Thrift Supervision may disapprove a notice or deny an application for a capital distribution if: (i) the savings institution would be undercapitalized following the capital distribution; (ii) the proposed capital distribution raises safety and soundness concerns; or (iii) the capital

distribution would violate a prohibition contained in any statute, regulation or agreement.

Qualified Thrift Lender Test. Federal savings institutions must meet a qualified thrift lender test or they become subject to the business activity restrictions and branching rules applicable to national banks. To qualify as a qualified thrift lender, a savings institution must either (i) be deemed a "domestic building and loan association" under the Internal Revenue Code by maintaining at least 60% of its total assets in specified types of assets, including cash, certain government securities, loans secured by and other assets related to residential real property, educational loans and investments in premises of the institution or (ii) satisfy the statutory qualified thrift lender test set forth in the Home Owners' Loan Act by maintaining at least 65% of its portfolio assets in qualified thrift investments (defined to include residential mortgages and related equity investments, certain mortgage-related securities, small business loans, student loans and credit card loans). For purposes of the statutory qualified thrift lender test, portfolio assets are defined as total assets minus goodwill and other intangible assets, the value of property used by the institution in conducting its business, and specified liquid assets up to 20% of total assets. A savings institution must maintain its status as a qualified thrift lender on a monthly basis in at least nine out of every twelve months.

A savings bank that fails the qualified thrift lender test and does not convert to a bank charter generally will be prohibited from: (1) engaging in any new activity not permissible for a national bank, (2) paying dividends not permissible under national bank regulations, and (3) establishing any new branch office in a location not permissible for a national bank in the institution's home state. In addition, if the institution does

not requalify under the qualified thrift lender test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the Federal Home Loan Bank as promptly as possible.

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

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

obligations of the Federal Home Loan Bank System. It makes loans to members pursuant to policies and procedures established by the board of directors of the Federal Home Loan Bank.

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

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

Federal Reserve System. The Federal Reserve System requires all depository institutions to maintain non-interest-bearing reserves at specified levels against their checking accounts and non-personal certificate accounts.

Savings institutions have authority to borrow from the Federal Reserve System "discount window," but Federal Reserve System policy generally requires savings institutions to exhaust all other sources before borrowing from the Federal Reserve System.

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

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

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

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

- o Establishment of a program specifying procedures for obtaining

identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time.

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

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

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

Regulation of the Company

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

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 implemented various legislative reforms addressing, among other matters, corporate governance, auditing and accounting. As directed by Section 302(a) of Sarbanes-Oxley Act and the implementing rules of the Securities and Exchange Commission, the Company's Chief Executive Officer and Chief Financial Officer each are required to certify that the quarterly and annual reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company's internal controls; they have made certain disclosures to the Company's auditors and the audit committee of the Board of Directors about internal controls; and they have included information in the quarterly and annual reports about their evaluation and whether there have been significant changes in the internal controls or in other factors that could significantly affect internal controls. The Company is subject to other additional reporting and audit requirements as a result of the Sarbanes-Oxley Act.

Activities Restrictions. As a savings and loan holding company and as a subsidiary holding company of a mutual holding company, the Company is subject to statutory and regulatory restrictions on its business activities. The non-banking activities of the Company and its non-savings institution subsidiaries are restricted to certain activities specified by Office of Thrift Supervision regulation, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities

permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the Gramm-Leach-Bliley Act. Before engaging in any non-banking activity or acquiring a company engaged in any such activities, the Company must file with the Office of Thrift Supervision either a prior notice or (in the case of non-banking activities permissible for bank holding companies) an application regarding its planned activity or acquisition.

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

Waivers of Dividends by Kearny MHC (the "MHC"). Office of Thrift Supervision regulations require the MHC to notify the Office of Thrift Supervision of any proposed waiver of its receipt of dividends from the Company. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if: (i) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members and (ii) the waiver would not be detrimental to the safe and sound operations of the subsidiary savings association.

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

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company or savings association. An acquisition of "control"

can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution or as otherwise defined by the Office of Thrift Supervision. Under the Change in Bank Control Act, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Item 1A. Risk Factors

An increase in interest rates may have an adverse effect on our earnings.

Our earnings largely depend on our net interest income, measured as the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and
- the interest expense we pay on our interest-bearing liabilities, such as deposits and amounts we borrow.

Generally, the rates we earn on our assets remain fixed for a contractual period. We, like many community banks have liabilities that generally have shorter contractual maturities than our interest-earning assets or no contractual maturities, such as savings and money market deposits. This imbalance can create significant earnings volatility, because market interest rates change over time. In addition, short-term and long-term interest rates do not necessarily change at the same time or at the same rate.

In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. We are vulnerable to volatility in our earnings resulting from an increase in interest rates because the majority of our interest-earning assets are relatively long-term, fixed rate assets. In an increasing rate environment, we can expect our cost of funds to increase more rapidly than the yields earned on our loan portfolio and securities portfolio because our primary source of funds is deposits with generally shorter maturities than the maturities on our loans and investment securities. The result may be a narrowing of our net interest spread and a decrease in our earnings.

In a period of falling interest rates, prepayments of loans and mortgage-backed securities generally increase as borrowers refinance their debt in order to reduce their borrowing cost. This causes prepayment risk, because in a falling interest rate environment we cannot reinvest prepayments at rates comparable to the rates earned on the prepaid loans or securities. A falling interest rate environment results in a decrease in rates we pay on deposits and borrowings, but the decrease in the cost of our funds may not be as great as the decrease in the yields on our mortgage-backed securities and loan portfolio. The result may be a narrowing of our net interest spread and decrease in our earnings.

We face further exposure to interest rate risk due to the large portion of our total deposits that are certificates of deposit, particularly "jumbo" certificates of $100,000 or more. Interest rates and money market conditions significantly influence deposit inflows, but the presence of jumbo certificates of deposit and retention of such deposits upon maturity, make them a more volatile source of funding than core deposits. In order to retain jumbo certificates, we may pay a premium rate, resulting in an increase in our cost of funds. If we are unwilling or unable to pay a premium rate, to the extent that

such funds do not remain on deposit, borrowings may replace them, which could increase our cost of funds, narrow our net interest spread and decrease our earnings.

Strong competition within our market area may limit our growth and profitability.

Competition is intense within the banking and financial services industry in New Jersey. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources, higher lending limits and offer services that we do not or cannot provide. This competition makes it more difficult for us to originate new loans and retain and attract new deposits. Price competition for loans may result in originating fewer loans, or earning less on our loans, and price competition for deposits may result in a reduction of our deposit base or paying more on our deposits.

Our business is geographically concentrated in New Jersey and a downturn in economic conditions within the state could adversely affect our profitability.

A substantial majority of our loans are to individuals and businesses in New Jersey. A decline in the economy of the state could have an adverse impact on our earnings. We have a significant amount of real estate mortgages, such that a decrease in local real estate values may adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which may adversely influence our profitability.

Due to our minority stock offering, our return on equity compares unfavorably to other companies. This could negatively influence the price of our stock.

The net proceeds from our initial public offering in February 2005 substantially increased our equity capital. We expect to take time to invest this capital prudently. As a result, our return on equity, which is the ratio of earnings divided by average equity capital is lower than that of many similar companies. To the extent that the stock market values a company based in part on its return on equity, our low return on equity relative to our peer group could negatively affect the trading price of our common stock.

The costs of our stock compensation plans are a significant expense and funding of the plans may dilute shareholders' ownership interest in Kearny Financial Corp.

Effective upon completion of the Company's initial public offering, the Bank established an Employee Stock Ownership Plan ("ESOP"). We currently recognize compensation expense for the ESOP, as shares are committed for release to the participants' accounts each month based on the monthly average market price of the shares. We currently recognize additional annual employee compensation and benefit expenses and directors' compensation expense stemming from stock options granted and restricted stock awarded to directors and officers under the 2005 Stock Compensation and Incentive Plan. We expense the fair value of all options over their vesting periods and the fair value of restricted shares over the requisite service periods, in both cases five years. These additional expenses adversely affect our profitability and stockholders' equity.

The Company utilized open market purchases of common stock to fund restricted stock awards; however, funding of stock options granted will come either through open market purchases or from the issuance of authorized but un-issued shares. Existing shareholders will experience a dilution in ownership interest in the event the Company uses newly issued shares rather than open market purchases to fund stock options.

Shareholders own a minority of Kearny Financial Corp.'s common stock and are not able to exercise voting control over most matters put to a vote of stockholders.

Kearny MHC owns a majority of Kearny Financial Corp.'s common stock. The Board of Directors of Kearny MHC is also the Board of Directors of Kearny Financial Corp. and is able to exercise voting control

over most matters put to a vote of shareholders. For example, Kearny MHC may exercise its voting control to prevent a sale or merger transaction in which stockholders could receive a premium for their shares, to elect directors or to approve employee benefit plans.

Provisions in our charter and by-laws limit the rights of stockholders, may deter potential takeovers and may reduce the trading price of our stock.

Provisions in our charter and by-laws make it difficult and expensive to pursue a change in control or takeover attempt that our Board of Directors opposes. As a result, you may not have an opportunity to participate in such a transaction, and the trading price of our stock may not rise to the level of other institutions that are more vulnerable to hostile takeovers. Such provisions include:

- the election of directors to staggered three-year terms;
- provisions restricting the calling of special meetings of stockholders;
- the absence of cumulative voting by stockholders in elections of directors; and
- advance notice requirements for stockholder nominations and new business.

The Office of Thrift Supervision's policy on remutualization transactions could prohibit acquisition of Kearny Financial Corp., which may adversely affect our stock price.

Office of Thrift Supervision ("OTS") regulations permit the acquisition of a mutual holding company by a mutual institution in a remutualization transaction. Current OTS policy, however, views remutualization transactions as raising significant issues concerning disparate treatment of minority stockholders and mutual members of the target entity and raising issues concerning the effect on the mutual members of the acquiring entity. The OTS may give these issues special scrutiny and reject applications providing for the remutualization of a mutual holding company unless the applicant can clearly demonstrate that there is no cause for OTS's concerns in the particular case. Should the OTS prohibit or otherwise restrict these transactions in the future, our stock price may be adversely affected.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At June 30, 2006, our net investment in property and equipment totaled $35.9 million.

Item 3. Legal Proceedings

The Bank, from time to time, is a party to routine litigation which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans, and other issues incident to our business. There were no lawsuits pending or known to be contemplated against the Company or the Bank at June 30, 2006 that would be expected to have a material effect on operations or income.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Upon completion of the Company's first-step minority stock offering in February 2005, the Company's common stock commenced trading on the Nasdaq National Market under the symbol "KRNY." The table below shows the reported high and low closing prices of the common stock during the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not represent actual transactions.

	High	Low	Dividends
2005			
Quarter ended March 31(1).........	$11.95	$11.08	-
Quarter ended June 30.............	11.95	10.10	-
2006			
Quarter ended September 30........	$12.74	$11.50	$0.04
Quarter ended December 31.........	12.79	10.97	$0.05
Quarter ended March 31............	13.89	12.20	$0.05
Quarter ended June 30.............	14.98	13.58	$0.05

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(1) Closing of the minority stock offering February 23, 2005. Trading commenced February 24, 2005.

Declarations of dividends by the Board of Directors depend on a number of factors, including investment opportunities, growth objectives, financial condition, profitability, tax considerations, minimum capital requirements, regulatory limitations, stock market characteristics and general economic conditions. The timing, frequency and amount of dividends is determined by the Board.

The Company's ability to pay dividends may also depend on the receipt of dividends from the Bank, which is subject to a variety of limitations under the regulations of the Office of Thrift Supervision on the payment of dividends.

As of September 8, 2006, there were approximately 9,019 holders of record of the Company's common stock, including persons who hold stock in "street" name through various brokerage firms.

Set forth below is information regarding the Company's stock repurchases during the fourth quarter of the fiscal year ended June 30, 2006. The Company's purchases of its common stock to fund restricted stock awards are not considered repurchases for purposes of the following table as such shares remain outstanding and are held by the 2005 Stock Compensation and Incentive Plan.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	M (or Appr of Share Yet Be Pl
Quarter ended June 30, 2006	- 0 -	$0	- 0 -	
Total	- 0 -	$0	- 0 -	

Item 6. Selected Financial Data

The following financial information and other data in this section is derived from the Company's audited consolidated financial statements and should be read together therewith. The Company acquired Pulaski Bancorp, Inc. in October 2002 and West Essex Bancorp, Inc. in July 2003.

	At June 30,		
	2006	2005	2004

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			(In thousands)	
Balance Sheet Data:				
Assets..................................	$2,007,525	$2,107,005	$1,936,518	$1
Loans receivable, net...................	703,613	558,018	505,794	
Mortgage-backed securities held to maturity.....................	689,962	758,121	771,353	
Securities available for sale...........	18,346	33,591	41,564	
Investment securities held to maturity..	209,048	470,098	435,870	
Cash and cash equivalents...............	230,279	139,865	39,488	
Goodwill................................	82,263	82,263	82,263	
Deposits................................	1,443,738	1,528,777	1,537,510	1
Federal Home Loan Bank advances.........	61,105	61,687	94,234	
Total stockholders' equity..............	490,886	505,482	293,505	

	For the Year Ended June 30,			
	2006	2005	2004	----
	(In thousands, except per share am			
Summary of Operations:				
Interest income.......................	$ 89,323	$ 82,441	$ 78,654	$ 9
Interest expense......................	38,645	30,422	32,100	4
Net interest income...................	50,678	52,019	46,554	5
Provision for loan losses.............	72	68	-	
Net interest income after provision for loan losses....................	50,606	51,951	46,554	5
Non-interest income, excluding gain on sale of available for sale securities	2,302	1,798	1,560	
Non-interest income from gain on sale of available for sale securities...	1,023	7,705	-	
Merger related expenses...............	-	-	592	1
Non-interest expense, excluding merger related expenses............	42,046	34,862	28,880	2
Income before income taxes............	11,885	26,592	18,642	
Provisions for income taxes...........	2,277	7,694	5,745	
Net income............................	$ 9,608	$ 18,898	$ 12,897	$
Net income per share - basic..........	$ 0.14	$ 0.33	$ 0.25	$
Net income per share - diluted........	$ 0.14	$ 0.33	$ 0.25	$
Weighted average number of common shares outstanding - basic........	70,904	57,963	50,916	5
Weighted average number of common shares outstanding - diluted......	71,100	57,963	50,916	5
Per Share Data:				
Cash dividends per share (1)........	$ 0.19	$ -	$ -	$
Dividend payout ratio (2)...........	49.30%	0.00%	0.00%	

	At or For the Year Ended June 30,			
	2006	2005	2004	2003
Performance Ratios:				
Return on average assets (net income divided by average total assets)	0.47%	0.94%	0.67%	0.21%
Return on average equity (net income divided by average equity)	1.91	5.40	4.52	1.38
Net interest rate spread	2.10	2.51	2.37	2.36
Net interest margin on average interest-earnings assets	2.67	2.79	2.59	2.75
Average interest-earning assets to average interest-bearing liabilities	127.80	116.93	112.46	116.54
Efficiency ratio (Non-interest expense divided by the sum of net interest income and non-interest income)	77.96	56.67	61.25	82.68
Efficiency ratio (net of gain on sale of available for sale securities)	79.36	64.78	61.25	82.68
Non-interest expense to average assets	2.04	1.73	1.52	2.26
Asset Quality Ratios:(3)				
Non-performing loans to total loans	0.13	0.34	0.46	0.57
Non-performing assets to total assets	0.05	0.10	0.13	0.16
Net charge-offs to average loans outstanding	0.01	0.00	0.01	0.00
Allowance for loan losses to total loans	0.77	0.96	1.01	1.01
Allowance for loan losses to non-performing loans	578.66	281.79	220.96	177.64
Capital Ratios:				
Average equity to average assets (average equity divided by average total assets)	24.43	17.36	14.73	14.97
Equity to assets at period end	24.45	23.99	15.16	14.81
Tangible equity to tangible assets at period end	21.19	20.66	11.29	13.31
Number of Offices:				
Offices (including offices acquired in mergers)	26	25	25	25

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(1) Cash dividends paid per share represents the aggregate of dividends paid by Kearny Financial Corp., West Essex Bancorp, Inc., and Pulaski Bancorp, Inc. to the minority stockholders of West Essex Bancorp, Inc. and Pulaski Bancorp, Inc. divided by the outstanding shares of Kearny Financial Corp. common stock.

(2) Represents cash dividends declared per share divided by net income per common share.

(3) Asset quality ratios are period end ratios.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

This discussion and analysis reflects Kearny Financial Corp.'s consolidated financial statements and other relevant statistical data. We include it to enhance your understanding of our financial condition and results of operations. You should read the information in this section in conjunction with Kearny Financial Corp.'s consolidated financial statements and notes thereto contained in this Annual Report on Form 10-K, and the other statistical data provided herein.

Overview

Financial Condition and Results of Operations. Kearny Financial Corp.'s results of operations depend primarily on its net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. It is a function of the average balances of loans and investments versus deposits and borrowed funds outstanding in any one period and the yields earned on those loans and investments and the cost of those deposits and borrowed funds.

Our interest-earning assets consist primarily of mortgage-backed securities and investment securities, including available for sale and held to maturity, which comprised 45.7% of total assets at June 30, 2006 while loans receivable, net, comprised 35.0% of total assets. This was a change from 59.9% and 26.5%, respectively, at June 30, 2005. The most significant change in our interest-earning assets between June 30, 2005 and June 30, 2006 was a $145.6 million, or 26.1%, increase in loans receivable, net. During the year ended June 30, 2006, management stressed growth of the loan portfolio as a key goal. Investment securities held to maturity decreased $261.1 million and mortgage-backed securities held to maturity decreased $68.1 million. We continued to invest proceeds from our initial public offering in mortgage loans. Demand for mortgages contributed to the decrease in mortgage-backed securities, as we used principal and interest payments to fund loan originations, supplemented by the proceeds from a restructuring of the investment portfolio in February 2006. Cash flows from mortgage-backed securities repayments also funded deposit outflows. The decrease in investment securities resulted from the restructuring of the investment portfolio.

Our interest-bearing liabilities consist primarily of retail deposits and borrowings from the Federal Home Loan Bank of New York. At June 30, 2006, our total deposits were $1.44 billion, compared to $1.53 billion at June 30, 2005, and our Federal Home Loan Bank of New York borrowings were $61.1 million compared to $61.7 million a year earlier. The primary factor for the decrease in deposits was a runoff of certificates of deposit and to some degree, core deposits, due to a competitive market for deposits. The challenge for management during the year ended June 30, 2006 was to balance the rate of attrition against a significant increase in the cost of funds. A flat Treasury yield curve throughout the year further exacerbated a difficult operating environment. The nominal decrease in Federal Home Loan Bank advances resulted from a repayment of principal on borrowings featuring a monthly amortization schedule.

Our net interest income decreased by 2.5%, to $50.7 million for the year ended June 30, 2006 from $52.0 million for the year ended June 30, 2005. The net interest rate spread decreased to 2.10% for the year ended June 30, 2006 from 2.51% for 2005 as the average cost of interest-bearing liabilities climbed 69 basis points to 2.60% while the average yield on interest-earning assets improved 28 basis points to 4.70%. Total interest income increased 8.4% due to a 2.2% increase in the average balance of interest-earning assets and 28 basis point increase in the average yield thereof, while total interest expense increased 27.0%, primarily due to a 69 basis point increase in the average cost of interest-bearing liabilities. Net interest income received a boost from the reinvestment of proceeds from the restructuring of the investment portfolio into cash equivalents earning market short-term interest rates.

Our results of operations also depend on our provision for loan losses, non-interest income and non-interest expense. Non-interest income includes service fees and charges, including income generated by the Bank's retail branch network and operations, and income from bank owned life insurance. Non-interest expense includes salaries and employee benefits, occupancy expenses and other general and administrative expenses. Non-interest expense increased $7.1 million, or 20.3%, to $42.0 million for the year ended June 30, 2006, compared to $34.9 million for the year ended June 30, 2005. The increase was due primarily to increases in salaries and employee benefits, directors' compensation expense, and to a lesser degree, occupancy expenses and miscellaneous expenses. The increase in salaries and benefits and directors' compensation expense resulted primarily from stock compensation plans commencing during the quarter ended December 31, 2005.

Net income for the year ended June 30, 2006 was $9.6 million, a decrease of $9.3 million, or 49.2%, from $18.9 million for the year ended June 30, 2005. The decrease in net income resulted primarily from lower net interest income and higher non-interest expense. There was an increase in non-interest income from service fees and charges and miscellaneous sources and a substantial decrease in the contribution from net gain on sale of securities. In the year ended June 30, 2006, the pre-tax gain on sale of securities contributed $1.0 million to income, compared to $7.7 million during the year ended June 30, 2005.

Total assets decreased $99.5 million, or 4.7%, to $2.01 billion at June 30, 2006 from $2.11 billion at June 30, 2005. Cash and cash equivalents increased $90.4 million year-over-year, due to the reinvestment of proceeds from the restructuring of the investment portfolio into cash equivalents. Cash and cash equivalents provided funding for both loan originations and deposit outflows. A $15.3 million, or 45.5%, reduction in securities available for sale, to $18.3 million at June 30, 2006 from $33.6 million at June 30, 2005, was the result of the sale of Freddie Mac common stock and a closed-end mutual fund. Investment securities held to maturity decreased $261.1 million, or 55.5%, to $209.0 million at June 30, 2006 from $470.1 million at June 30, 2005, due primarily to the restructuring of the portfolio. Mortgage-backed securities held to maturity decreased $68.1 million, or 9.0%, to $690.0 million from $758.1 million year-over-year, utilizing the cash flows from monthly principal and interest payments to fund loan originations and deposit outflows.

Stockholders' equity decreased $14.6 million, or 2.9%, to $490.9 million at June 30, 2006, from $505.5 million at June 30, 2005. The decrease primarily reflects the effect of unearned shares held by the 2005 Stock Compensation and Incentive Plan and unallocated shares held by the employee stock ownership plan totaling $13.9 million in aggregate. Cash dividends declared of $4.7 million and a decrease of $5.6 million in accumulated other comprehensive income resulting from the sale of available for sale securities

also contributed to the decrease in stockholders' equity, partially offset by net income for the year of $9.6 million.

Business Strategy. Our current business strategy is to seek to grow and improve our profitability by:

- o increasing the volume of our loan originations and the size of our loan portfolio relative to our securities portfolio;
- o increasing the origination of multi-family and commercial real estate loans, construction loans and commercial business loans;
- o building our core banking business through internal growth and de novo branching, as well as actively considering expansion opportunities such as the acquisition of branches and other financial institutions;
- o developing a sales culture by training and encouraging our branch personnel to promote our existing products and services to our customers; and

- o maintaining high asset quality.

Our deposits have traditionally exceeded our loan originations, and we have invested these deposits primarily in mortgage-backed securities and investment securities. Following our acquisition of South Bergen Savings Bank in 1999, we began focusing on growing the size of our loan portfolio. Prior to that time, we focused our efforts on obtaining deposits from the communities in which we operated our five branch offices in Bergen and Hudson counties and investing those funds in mortgage-backed and other securities. A primary focus of our current business strategy is to increase our volume of loan originations and the size of our loan portfolio. There can be no assurance, however, that we will be successful in this effort.

In an effort to develop our commercial business, we utilize several experienced business development officers who focus on commercial loan originations, and we expect to offer Internet banking and cash management services to our commercial customers during the quarter ended December 31, 2006. Our residential loan originations have traditionally been largely advertising driven, but we also utilize regional loan originators who specialize in residential mortgage loan originations and work throughout our retail branch network, meeting with prospective loan customers wherever it is most convenient for them.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported. We describe them in detail in Note 1 to consolidated financial statements beginning on Page F-8 of this document. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses, the assessment of prepayment risks associated with mortgage-backed securities, the evaluation of securities impairment and the impairment testing of goodwill.

Allowance for Loan Losses. The allowance for loan losses represents our best estimate of losses known and inherent in our loan portfolio that are both probable and reasonable to estimate. In determining the amount of the allowance for loan losses, we consider the losses inherent in our loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We use a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Our system takes into consideration, among other things, delinquency status, size of loans, and type of collateral and financial condition of the borrowers. We establish specific loan loss allowances for identified loans based on a review of such information and/or appraisals of the underlying collateral. We base general loan loss allowances upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

Although we establish specific and general loan loss allowances in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further provisions for loan losses may be necessary in order to increase the level of the allowance for loan losses. For example, our evaluation of the allowance includes consideration of current economic conditions, and a change in economic conditions could reduce the ability of our borrowers to make timely repayments of their loans. This could result in increased delinquencies and increased non-performing loans, and thus a need to make increased provisions to the allowance for loan losses, which would be a charge to income during the period the provision is made, resulting in a reduction to our earnings. A change in economic conditions could also adversely affect the value of the properties collateralizing our real estate loans, resulting in increased charge-offs against the allowance

and reduced recoveries, and thus a need to make increased provisions to the allowance for loan losses. Furthermore, a change in the composition of our loan portfolio or growth of our loan portfolio could result in the need for additional provisions.

Prepayment Risks Associated with Mortgage-backed Securities. At June 30, 2006 and June 30, 2005, net premiums of approximately $2.5 million and $3.6 million, respectively, were included in the carrying amounts of our mortgage-backed securities. We amortize the premium included in the carrying amount over the average life of the security using the level-yield method. The mortgage-backed securities we hold in our portfolio are subject to prepayment risk because changes in interest rates can affect the expected life of these mortgage-backed securities. We must estimate the level of prepayments in order to estimate the average life of mortgage-backed securities.

We evaluate the estimated average life of mortgage-backed securities on a monthly basis and adjust the amortization speed to reflect any change in the average life. Amortizing the premium faster results in a reduction of the yield on the securities, whereas slowing the amortization increases the yield. A reduction in the yield decreases our interest income on mortgage-backed securities, while an increase in the yield increases our interest income on mortgage-backed securities.

The assessment of the prepayment risks related to mortgage-backed securities is highly dependent upon the prediction of trends in market interest

rates. A reduction in interest rates generally results in increased prepayments of mortgage-backed securities, as borrowers refinance their debt in order to reduce their borrowing cost. Correspondingly, an increase in interest rates should result in decreased prepayments and fewer re-financings. Because changes in interest rates can affect the average life of mortgage-backed securities, this makes the estimation of the prepayment risk difficult. We address this difficulty by adjusting the amortization speed monthly to reflect the current average life.

Impairment Testing of Goodwill. We record goodwill, representing the excess of amounts paid over the fair value of net assets of the institutions acquired in purchase transactions, at its fair value at the date of acquisition. Through June 30, 2002, we amortized goodwill using the straight-line method over 15 years. Effective July 1, 2002, we adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill is tested and deemed impaired when the carrying value of goodwill exceeds its implied fair value. At June 30, 2006, we reported goodwill of $82.3 million. The value of the goodwill can change in the future. We expect the value of the goodwill to decrease if there was a significant decrease in the franchise value of Kearny Federal Savings Bank. If an impairment loss is determined in the future, we will reflect the loss as an expense for the period in which the impairment was determined, leading to a reduction of our net income for that period by the amount of the impairment loss.

Other-than-Temporary Impairment of Securities. We evaluate on a quarterly basis whether any securities are other-than-temporarily impaired. In making this determination, we consider the extent and duration of the impairment, the nature and financial health of the issuer, and our ability and intent to hold securities for a period sufficient to allow for any anticipated recovery in market value. Other considerations include a review of the credit quality of the issuer and the existence of a guarantee or insurance, if applicable to the security. If a security is determined to be other-than-temporarily impaired, we will record an impairment loss as a charge to income for the period in which the impairment loss was determined to exist, resulting in a reduction to our earnings for that period.

As of June 30, 2006, we concluded that any unrealized losses in the securities available for sale, mortgage-backed securities held to maturity and investment securities held to maturity portfolios were temporary in nature due to market interest rates and not the underlying credit quality of the issuers of the securities. Additionally, we have the intent and ability to hold these investments for the time necessary to

recover the amortized cost. Future events that would materially change this conclusion and require a charge to operations for an impairment loss include a change in the credit quality of the issuers.

Effective June 30, 2004, we adopted Emerging Issues Task Force ("EITF") Issuance No. 03-1, "The Meaning of Other than Temporary Impairment and Its Application to Certain Investments," which requires quantitative and qualitative disclosures for investment securities that are impaired at the balance sheet date, but for which other-than-temporary impairment has not been recognized. Adoption of EITF 03-01 has not changed our policies for determining whether any securities are other-than-temporarily impaired.

Comparison of Financial Condition at June 30, 2006 and June 30, 2005

Our total assets decreased by $99.5 million, or 4.7%, to $2.01 billion at June 30, 2006 from $2.11 billion at June 30, 2005, primarily due to decreases in securities available for sale, investment securities held to maturity and mortgage-backed securities held to maturity, partially offset by increases in cash and cash equivalents and loans receivable, net.

Cash and cash equivalents increased $90.4 million, or 64.6%, to $230.3 million at June 30, 2006, from $139.9 million at June 30, 2005. Proceeds from the Company's restructuring of its investment portfolio executed in February 2006 provided the growth in cash and cash equivalents. Management reinvested the proceeds from the restructuring in cash and cash equivalents at market short-term interest rates, with expectations of maintaining liquidity, to the extent funds are not used for loan originations, at an elevated level as long as the Treasury yield curve remains flat.

The carrying value of securities available for sale decreased $15.3 million, or 45.5%, to $18.3 million at June 30, 2006, from $33.6 million at June 30, 2005. As was the case during the year ended June 30, 2005, concern about the future of government-sponsored enterprises triggered the sale during the year ended June 30, 2006 of the Company's remaining shares of Freddie Mac common stock. In June 2005, we sold 130,000 shares, which produced a gain of $7.6 million, before taxes. In February 2006, we sold 131,088 shares, which resulted in a gain of $8.8 million, before taxes. We also sold all of our shares of a closed-end mutual fund in August 2005, which resulted in a gain of $86,000, before taxes. We acquired the Dryden Government Income Fund in the merger with South Bergen Savings Bank in March 1999.

Investment securities held to maturity decreased $261.1 million, or 55.5%, to $209.0 million at June 30, 2006, from $470.1 million at June 30, 2005. The decrease resulted almost exclusively from the sale of the Bank's entire portfolio of government agency notes, totaling $249.1 million, in February 2006. The transaction resulted in a loss of $7.8 million, before taxes. The weighted average yield of the portfolio was 3.22%. Management reinvested the proceeds in cash and cash equivalents at market short-term interest rates. The Bank's portfolio of tax-exempt municipal bonds decreased $4.3 million, or 2.1%, to $200.3 million at June 30, 2006, from $204.6 million at June 30, 2005. Cash flow from matured government agency notes and tax-exempt municipal bonds partially funded deposit outflows.

Mortgage-backed securities held to maturity decreased $68.1 million, or 9.0%, to $690 million at June 30, 2006, from $758.1 million at June 30, 2005. Management utilized the cash flows from monthly principal and interest payments and matured mortgage-backed securities to fund loan originations and deposit outflows. In an attempt to provide some protection against interest-rate risk, during the year ended June 30, 2006, management purchased $111.7 million of mortgage-backed securities with most of the pools containing adjustable rate mortgages. As of June 30, 2006, $331.4 million, or 48.0% of the mortgage-backed securities are variable rate compared to $337.2 million, or 44.5% at June 30, 2005.

Loans receivable, net, increased $145.6 million, or 26.1%, to $703.6 million at June 30, 2006, from $558.0 million at June 30, 2005. During the year ended June 30, 2006, management stressed growth of the

loan portfolio as a key goal. One-to-four family real estate mortgages increased $83.0 million, or 21.7%, to $465.8 million at June 30, 2006, from $382.8 million at June 30, 2005. Multi-family and commercial real estate mortgages increased $10.4 million, or 10.8%, to $107.1 million at June 30, 2006, from $96.7 million

at June 30, 2005. Our strategy particularly emphasizes growth in this segment of the loan portfolio. Commercial business lines of credit increased $278,000, or 9.6%, to $3.2 million at June 30, 2006, from $2.9 million at June 30, 2005. Consumer lending, primarily home equity loans and home equity lines of credit increased $37.6 million, or 52.1%, to $109.7 million at June 30, 2006, from $72.1 million at June 30, 2005. Construction loans increased $14.0 million, or 172.8%, to $22.1 million at June 30, 2006, from $8.1 million at June 30, 2005. To supplement our own loan originations, management entered into agreements to purchase mortgages from several mortgage companies. During the year ended June 30, 2006, we purchased $24.4 million from these sources.

Premises and equipment increased $964,000, or 2.8%, to $35.9 million at June 30, 2006, from $35.0 million at June 30, 2005. The increase resulted primarily from the cost associated with completing the construction of a de novo branch in Lacey Township, New Jersey, which opened in October 2005. The increase also includes the cost of renovations of retail branches located in Old Tappan and Northvale, New Jersey, which management expects to complete in September and October 2006, respectively.

Bank owned life insurance ("BOLI") increased $10.6 million, or 265.0%, to $14.6 million at June 30, 2006, from $4.0 million at June 30, 2005. During the year, the Company purchased BOLI policies totaling $10.2 million.

Total deposits decreased by $85.1 million, or 5.6%, to $1.44 billion at June 30, 2006, from $1.53 billion at June 30, 2005. Non-interest-bearing demand deposits increased $5.0 million, or 8.9%, to $61.1 million at June 30, 2006, from $56.1 million at June 30, 2005. Year-over-year, interest-bearing demand accounts increased $22.8 million, or 23.0%, to $122.1 million from $99.3 million. In the quarter ended March 31, 2006, the Bank introduced several products designed to retain and attract core deposits, including Star Banking and a tiered money market account, which contributed to the growth in interest-bearing demand deposits. Savings and club accounts decreased $72.8 million, or 16.2%, to $377.4 million at June 30, 2006, from $450.2 million at June 30, 2005. Fierce competition for core deposits within our marketplace contributed to the decrease in savings and club accounts as well as transfers to our own interest-bearing demand accounts. Certificates of deposit decreased $40.0 million, or 4.3%, to $883.1 million at June 30, 2006, from $923.1 million at June 30, 2005. Management marketed special certificate of deposit maturities, typically with terms of five, nine and 13 months and promotional interest rates, to retain and attract new deposits. The challenge for management during the year ended June 30, 2006 was to balance the rate of attrition for all deposit categories against a significant increase in the cost of funds.

Federal Home Bank of New York advances decreased $582,000, or 0.9%, to $61.1 million at June 30, 2006, from $61.7 million at June 30, 2005. The advances retired during the year were on a monthly repayment schedule. Twice during the year, for short periods, management utilized an overnight line of credit with the Federal Home Loan Bank of New York to meet liquidity needs.

Stockholders' equity decreased $14.6 million, or 2.9%, to $490.9 million at June 30, 2006, from $505.5 million at June 30, 2005. The decrease primarily reflects the effect of unearned shares held by the 2005 Stock Compensation and Incentive Plan and unallocated shares held by the employee stock ownership plan totaling $13.9 million in aggregate. Cash dividends declared of $4.7 million and a decrease of $5.6 million in accumulated other comprehensive income resulting from the sale of available for sale securities also contributed to the decrease in stockholders' equity, partially offset by net income for the year of $9.6 million. During the year ended June 30, 2006, $1.5 million in employee stock ownership plan ("ESOP") shares were released. Paid in capital decreased $18.9 million during the year due to the purchase of the Company's common stock in the open market to fund the restricted stock plan. This reduction of equity was partially

offset by the vesting of $2.0 million in restricted stock shares, a $1.2 million adjustment to equity for expensing stock options and $412,000 attributed to the excess of market over cost of ESOP shares released. Management recorded the purchase of stock to fund the restricted stock plan as a reduction of paid in capital in accordance with SFAS No. 123R. The decrease in accumulated other comprehensive income resulted from a reduction in the carrying value, net of taxes, of the Company's securities available for sale portfolio due to the sales of Freddie Mac common stock and a closed-end mutual fund, nominally offset by an increase in the carrying value, net of taxes, of the securities remaining in the portfolio.

Comparison of Operating Results for the Years Ended June 30, 2006 and June 30, 2005

General. Net income for the year ended June 30, 2006 was $9.6 million, a decrease of $9.3 million, or 49.2%, from $18.9 million for the year ended June 30, 2005. The decrease in net income resulted primarily from lower net interest income and higher non-interest expenses. There was an increase in non-interest income from service fees and charges and miscellaneous sources and a substantial decrease in the contribution from gain on sale of securities. An increase in interest income did not offset an increase in interest expense resulting in lower net interest income. The increase in non-interest expenses was due primarily to increases in salaries and employee benefits, directors' compensation expense, and to a lesser degree, occupancy expenses and miscellaneous expenses.

Net Interest Income. Net interest income decreased by $1.3 million, or 2.5%, to $50.7 million for the year ended June 30, 2006, from $52.0 million for the year ended June 30, 2005. Our net interest rate spread decreased 41 basis points to 2.10% for the year ended June 30, 2006, from 2.51% for 2005. Our net interest margin decreased 12 basis points to 2.67% for the year ended June 30, 2006, compared with 2.79% for the year ended June 30, 2005. Despite a 28 basis point improvement in the average yield on interest-earning assets, increasing from 4.42% for the year ended June 30, 2005 to 4.70% for the year ended June 30, 2006, the net interest rate spread decreased due to a 69 basis point increase in the average cost of interest-bearing liabilities to 2.60% compared to 1.91%, year-over-year. An increase in the average yield on interest-earning assets, a $36.5 million increase in average interest-earnings assets and $106.9 million decrease in average interest-bearing liabilities, was more than offset by the increase in the cost of average interest-bearing liabilities resulting in a decrease in the net interest margin, year-over-year. The ratio of average interest-earning assets to average interest-bearing liabilities increased to 127.8% for the year ended June 30, 2006, compared to 116.9% for the year ended June 30, 2005. Average interest-earning assets increased 2.0%, to $1.90 billion for the year ended June 30, 2006, from $1.86 billion for the year ended June 30, 2005. Average interest-bearing liabilities decreased 6.7%, to $1.49 billion for the year ended June 30, 2006, from $1.59 billion for the year ended June 30, 2005.

Interest Income. Total interest income increased $6.9 million, or 8.4%, to $89.3 million for the year ended June 30, 2006, from $82.4 million for the year ended June 30, 2005. The improvement in interest income resulted from both an increase in the yield on average interest-earning assets as well as an increase in the average balance of interest-earning assets. The average yield on average interest-earning assets increased 28 basis points to 4.70% from 4.42%, while average interest-earning assets increased $36.5 million, or 2.0%, to $1.90 billion from $1.86 billion.

Interest income on loans receivable increased $6.0 million, or 20.5%, to $35.3 million for the year ended June 30, 2006, from $29.3 million for the year ended June 30, 2005. The increase resulted from an increase in the average balance of loans receivable, net, partially offset by a reduction in the average yield on loans. The average balance of loans receivable, net, increased $110.5 million, or 21.3%, to $628.2 million for the year ended June 30, 2006, from $517.7 million for the year ended June 30, 2005. The average yield on loans decreased four basis points, to 5.62% for the year ended June 30, 2006, compared to 5.66% for 2005. The lower yield reflects generally lower interest rates on originations compared to principal repayments on seasoned higher yielding mortgages; however, the decline in average yields year-over-year began to slow. The average yield for the year ended June 30, 2005 was 5.66% compared to 5.79% for 2004.

Interest income on mortgage-backed securities held to maturity decreased $483,000, or 1.4%, to $33.5 million for the year ended June 30, 2006, compared to $34.0 million for the year ended June 30, 2005. The decrease in interest income on mortgage-backed securities resulted from a decrease in the average balance outstanding rather than average yield, which was unchanged at 4.59% for the years ended June 30, 2006 and 2005. The average balance of mortgage-backed securities decreased $11.4 million, or 1.5%, to $729.0 million for the year ended June 30, 2006, from $740.4 million for the year ended June 30, 2005. The decrease in the average balance resulted from the utilization of cash flows from monthly principal and interest payments to fund loan originations and deposit outflows rather than reinvestment in the portfolio. Following a decline in average yield between the prior two years, due to principal repayments received on seasoned higher yielding securities reinvested in a lower interest rate environment, the average yield stabilized during the year ended June 30, 2006. The average yield for the year ended June 30, 2005 was 4.59% compared to 4.76% for 2004. Most pools purchased during the year contained adjustable rate mortgages, thus sacrificing higher yields on fixed rate mortgages for interest rate risk protection in the future.

Interest income on investment securities available for sale and held to maturity, both taxable and tax-exempt, decreased $2.3 million, or 13.9%, to $14.2 million for the year ended June 30, 2006, from $16.5 million for the year ended June 30, 2005. The decrease resulted from a decrease of $95.6 million, or 19.5%, in the average balance of investment securities to $394.6 million for the year ended June 30, 2006, from $490.2 million for the year ended June 30, 2005, partially offset by an increase in the average yield year-over-year. The average yield for the year ended June 30, 2006 was 3.60%, compared to 3.37% for the year ended June 30 2005. The decrease in the average balance resulted almost exclusively from the sale of the Bank's entire portfolio of government agency notes, totaling $249.1 million, in February 2006. Management attributes the increase in the average yield in part to this sale since the weighted average yield on these notes was 3.22%. Interest income on tax-exempt investment securities increased $730,000, or 10.6%, to $7.6 million for the year ended June 30, 2006, from $6.9 million for the year ended June 30, 2005. The increase resulted from an increase in the average balance partially offset by a decrease in the average yield. The average balance increased by $21.5 million, or 11.9%, to $202.0 million for the year ended June 30, 2006, from $180.5 million for the year ended June 30, 2005, while the average yield decreased to 3.78% for the year ended June 30, 2006, from 3.82% in 2005. The actual balance at June 30, 2006 of $200.3 million, compared to $204.6 million at June 30, 2005 reflects management's decision to de-emphasize tax-exempt securities, due to lower pre-tax income and lower interest rates on new issues. Interest income on taxable investment securities decreased $3.0 million, or 31.3%, to $6.6 million

for the year ended June 30, 2006, from $9.6 million for the year ended June 30, 2005, resulting from a decrease in average balance partially offset by an increase in average yield. The average balance decreased $117.1 million, or 37.8%, to $192.6 million for the year ended June 30, 2006, from $309.7 million for the year ended June 30, 2005. The average yield increased to 3.40% for the year ended June 30, 2006, from 3.11% for 2005. The sale of the entire government agency notes portfolio substantially contributed to both the decrease in average balance and increase in average yield.

Interest income on other interest-earning assets increased $3.7 million, or 142.3%, to $6.3 million for the year ended June 30, 2006, from $2.6 million for the year ended June 30, 2005. The composition of interest income on other interest-earning assets during the year ended June 30, 2006 included interest received from deposits at other banks, specifically the Federal Home Loan Bank of New York and Bank of America, and dividends paid on Federal Home Loan Bank of New York capital stock. The increase in interest income resulted from an increase in average yield and average balance. The average yield increased to 4.28% for the year ended June 30, 2006, from 2.30% for 2005 while the average balance increased $33.0 million, or 28.7%, to $147.9 million for the year ended June 30, 2006, from $114.9 million for the year ended June 30, 2005. Management reinvested the proceeds from the investment portfolio restructuring in cash and cash equivalents to take advantage of market short-term interest rates.

Interest Expense. Total interest expense increased $8.2 million, or 27.0%, to $38.6 million for the year ended June 30, 2006, from $30.4 million for year ended June 30, 2005. The increase resulted from an

increase in the average cost of interest-bearing liabilities, partially offset by a decrease in the average balance of interest-bearing liabilities. The average cost increased 69 basis points to 2.60% in the year ended June 30, 2006, from 1.91% for 2005. The average balance of interest-bearing liabilities declined $106.9 million, or 6.7%, to $1.49 billion during the year ended June 30, 2006, as compared to $1.59 billion during the year ended June 30, 2005. Management increased rates to match the competition's rate offerings in the face of rising short-term interest rates in an effort to stem the outflow of deposits triggered by the competitive market for deposits.

Interest expense on deposits increased $8.6 million, or 32.5%, to $35.1 million for the year ended June 30, 2006, from $26.5 million for the year ended June 30, 2005. The average cost of interest-bearing deposits increased to 2.47% for the year ended June 30, 2006, from 1.75% in 2005. The average cost of certificates of deposit increased to 3.27% from 2.33%, while the average cost of savings and club accounts increased to 1.18% from 1.02% and the average cost of interest-bearing demand accounts increased to 0.90% from 0.71%. Management found it necessary to market special certificate of deposit maturities with promotional interest rates, typically with terms of five, nine and 13 months, to retain and attract new deposits. The average balance of interest-bearing deposits decreased $91.3 million, or 6.0%, to $1.42 billion for the year ended June 30, 2006, from $1.51 billion for the prior year. Average certificates of deposit increased to $888.8 million from $873.9 million, average savings and club accounts decreased to $429.0 million from $533.1 million and average interest-bearing demand deposits decreased to $103.4 million from $105.5 million. The Bank introduced several products designed to retain and attract core deposits, including Star Banking and a tiered money market account. The challenge for management during the year ended June 30, 2006 was to balance the rate of attrition for all deposit categories against a significant increase in the cost of funds.

Interest expense on Federal Home Loan Bank advances decreased $314,000, or 8.1%, to $3.6 million for the year ended June 30, 2006, from $3.9 million for the year ended June 30, 2005. The decrease in interest expense resulted from a decrease in the average balance of advances outstanding partially offset by an increase in the average cost of advances. The average balance of advances outstanding decreased $15.7 million, or 19.4%, to $65.3 million for the year ended June 30, 2006 compared to $81.0 million for the year ended June 30, 2005. The average cost of borrowings increased to 5.47% from 4.80%, year-over-year. The decrease in the average balance resulted from short-term advances obtained and subsequently paid off during the year ended June 30, 2005, to fund the purchase of securities. The same situation did not occur during the year ended June 30, 2006. The average cost of borrowed money increased during the year ended June 30, 2006, due to management's utilization of an overnight line of credit with the Federal Home Loan Bank of New York to meet liquidity needs. Overnight borrowings were particularly expensive due to the high cost of short-term interest rates relative to rates on longer-term advances.

Provision for Loan Losses. We charge provisions for loan losses to operations at a level required to reflect credit losses in the loan portfolio that are both probable and reasonable to estimate. Management, in determining the allowance for loan losses, considers the losses inherent in the loan portfolio and changes in the nature and volume of our loan activities, along with the general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We establish a specific loan loss allowance for an impaired loan based on delinquency status, size of loan, type of collateral and/or appraisal of the underlying collateral and financial condition of the borrower. Management bases general loan loss allowances upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

There was a $72,000 provision for loan losses recorded for the year ended June 30, 2006 compared to a $68,000 provision for loan losses recorded for the year ended June 30, 2005. During the year ended June 30, 2006, total loans increased to $708.0 million at June 30, 2006, from $562.6 million at June 30, 2005.

Non-performing loans were $942,000, or 0.13%, of total loans at June 30, 2006, as compared to $1.9 million, or 0.34%, of total loans at June 30, 2005. The allowance for loan losses as a percentage of total loans outstanding was 0.77% at June 30, 2006, compared to 0.96% at June 30, 2005, reflecting balances of $5.5 million and $5.4 million, respectively. The ratio of the allowance for loan losses to non-performing loans increased to 578.7% at June 30, 2006, from 281.8% at June 30, 2005. The increase in the ratio is a result of a $980,000 decrease in non-performing loans from approximately $1.9 million at June 30, 2005, to $942,000 at June 30, 2006.

Management assesses the allowance for loan losses monthly. While management uses available information to recognize losses on loans, additional loan loss provisions in the future may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to recognize additional provisions based on their judgment of information available to them at the time of their examination.

Non-interest Income. Non-interest income attributed to fees, service charges and miscellaneous income and excluding gains on the sale of securities increased $504,000, or 28.0%, to $2.3 million for the year ended June 30, 2006, from $1.8 million for the year ended June 30, 2005. Fees and service charges increased $68,000 year-over-year, primarily due to an increase in prepayment charges on loans and a nominal increase in fee income attributed to the Bank's retail branch network, partially offset by lower other loan fees. Miscellaneous income increased $436,000 primarily due to an increase in the cash surrender value of bank owned life insurance and other fees from operations. At June 30, 2006, we had a $14.6 million investment in bank owned life insurance, compared to $4.0 million at June 30, 2005.

Non-interest income attributed to net gain on the sale of securities was $1.0 million in the year ended June 30, 2006, resulting from the sale of 131,088 shares of Freddie Mac common stock, a closed-end mutual fund and the Bank's entire portfolio of government agency notes. The three transactions produced pre-tax gains of $8.8 million and $86,000 and a pre-tax loss of $7.8 million, respectively. Non-interest income attributed to gains on the sale of securities was $7.7 million in the year ended June 30, 2005, resulting from the sale of 120,000 shares of Freddie Mac common stock and a trust-preferred security. Concern about the future of government-sponsored enterprises triggered the sale of the Company's Freddie Mac common stock investment. The common stock, trust-preferred security and closed-end mutual fund were part of the Company's available for sale investment portfolio and the government agency notes were in the Bank's held-to-maturity portfolio.

Non-interest Expense. Non-interest expense increased $7.1 million, or 20.3%, to $42.0 million for the year ended June 30, 2006, from $34.9 million for the year ended June 30, 2005. The increase in non-interest expense resulted primarily from increases in salaries and employee benefits, directors' compensation expense, miscellaneous expense, equipment expense and to a lesser degree, advertising expense and net occupancy expense of premises.

Salaries and employee benefits increased $4.3 million, or 20.7%, to $25.1 million in the year ended June 30, 2006, from $20.8 million in the year ended June 30, 2005. The compensation expense component increased $372,000, or 2.8%, to $13.4 million for the year ended June 30, 2006, from $13.1 million for the year ended June 30, 2005. The increase resulted from normal salary increases and hiring of additional employees to staff our newest retail branch opened in Lacy Township, New Jersey during October 2005. Pension plan expense decreased $699,000 to $2.6 million for the year ended June 30, 2006, compared to 2005. Pension plan expense in the year ended June 30, 2005 included additional contributions to compensate for lower than expected investment returns on plan assets during prior periods. Benefits expense increased $905,000 to $3.8 million, year-over-year, resulting from higher health insurance premiums as well as additional employees enrolled in the benefit plans. Employee stock ownership plan ("ESOP") compensation expense increased $1.4 million to $1.9 million, compared to 2005. ESOP compensation expense began

accruing immediately following the initial public offering completed in February 2005, therefore, there was only four months' expense recorded during the year ended June 30, 2005. Stock compensation plan expense attributed to a stock benefit plan approved at the 2005 Annual Meeting was $2.3 million. There was no such expense recorded in 2005. Payroll tax expense increased $82,000 to $1.1 million compared to the previous year.

Net occupancy expense of premises increased $119,000, or 3.7%, to $3.3 million for the year ended June 30, 2006, from $3.2 million for the year ended

June 30, 2005. Decreases in rent expense, net, and lower property taxes partially offset increases in repairs and maintenance expense, depreciation expense and utilities expense. During the year ended June 30, 2006, the Bank leased space at two locations vacated by management staff and administrative operations upon their move to the Company's headquarters in late 2004. Another tenant will move into Bank property in November 2006 and additional vacant space is being prepared for lease. The rental income will partially offset the occupancy expense of such premises in the future.

Equipment expense increased $470,000, or 11.8%, to $4.4 million for the year ended June 30, 2006, from $4.0 million during the year ended June 30, 2005. The largest increase was attributed to the data processing expense, which increased $255,000 to $2.5 million, year-over-year. A significant part of the increase resulted from additional security enhancements to the Bank's data processing infrastructure.

Advertising expense increased $289,000, or 24.1%, to $1.5 million for the year ended June 30, 2006, from $1.2 million for the year ended June 30, 2005. The increase in advertising expense resulted from a publicity campaign connected to the grand opening of the Lacy Township branch, and media advertising launching our Star Banking product and promoting special certificate of deposit offerings. These were in addition to extensive campaigns to advertise residential and commercial loan products and retail and commercial deposit products.

Directors' compensation expense increased $1.2 million, or 135.4%, to $2.1 million for the year ended June 30, 2006, from $886,000 for the year ended June 30, 2005. Stock compensation plan expense attributed to a stock benefit plan approved at the 2005 Annual Meeting was $1.1 million. There was no such expense recorded in 2005. Directors' fees remained unchanged at $676,000 and advisory board fees decreased $89,000 to $123,000, year-over-year. Other fees including an incentive bonus plan were $225,000 for 2006.

Miscellaneous expense increased $744,000, or 20.1%, to $4.4 million for the year ended June 30, 2006, from $3.7 million for the year ended June 30, 2005. Audit and accounting services expense and costs associated with being a public company, including annual meeting expense produced the largest increases in the miscellaneous expense category. Audit and accounting services expense increased $184,000 to $535,000, compared to 2005. A significant part of that increase, approximately $124,000, resulted from professional services rendered to assist management in complying with Sarbanes-Oxley Section 404. The Company recorded expense of approximately $10,000 in 2005 to begin the compliance effort for Section 404. Annual meeting expense was $201,000 during the year ended June 30, 2006, which includes a provision for the estimated cost of the 2006 annual meeting. There was no such expense recorded in 2005.

Provision for Income Taxes. The provision for income taxes decreased $5.4 million, or 70.1%, to $2.3 million for the year ended June 30, 2006, from $7.7 million for the year ended June 30, 2005. The decrease in income tax expense resulted from a decrease in pre-tax income of $14.7 million, or 55.3%, to $11.9 million in the year ended June 30, 2006, from $26.6 million for the year ended June 30, 2005. The effective income tax rates were 19.2% for the year ended June 30, 2006, as compared to 28.9% for the year ended June 30, 2005. Due to the Bank's significant investment in tax-exempt municipal bonds, tax-exempt interest reduced the Company's federal income expense by approximately $2.4 million during the year ended June 30, 2006, compared to a reduction of approximately $2.2 million in the year ended June 30, 2005.

Comparison of Operating Results for the Years Ended June 30, 2005 and June 30, 2004

General. Net income for the year ended June 30, 2005 was $18.9 million, an increase of $6.0 million, or 46.5%, from $12.9 million for 2004. The increase in net income resulted from the gain on sale of available for sale securities recorded in 2005. Without the gain on sale, net income for the year ended June 30, 2005 remained virtually unchanged from a year earlier, since an increase in non-interest expense offset a comparable increase in net interest income.

Net Interest Income. Net interest income increased by $5.4 million, or 11.6%, to $52.0 million for the year ended June 30, 2005, from $46.6 million for the year ended June 30, 2004. The net interest rate spread increased to 2.51% for the year ended June 30, 2005, from 2.37% for 2004. The net interest margin increased 20 basis points to 2.79% for the year ended June 30, 2005, compared with 2.59% for the year ended June 30, 2004. The net interest rate spread improved due to a four basis point increase in the average yield on interest-earning assets complemented by a decrease of 10 basis points in the average cost of interest-bearing liabilities. The increase in net interest margin resulted from the improvement in the ratio of average interest-earning assets to average interest-bearing liabilities, 116.93% for the year ended June 30, 2005, compared to 112.46% for the year ended June 30, 2004. Average interest-earning assets increased $68.8 million, or 3.9%, to $1.86 billion for the year ended June 30, 2005, from $1.79 billion for the year ended June 30, 2004. Average interest-bearing liabilities remained virtually unchanged, decreasing by $2.3 million for the year ended June 30, 2005.

Interest Income. Total interest income increased $3.7 million, or 4.7%, to $82.4 million for the year ended June 30, 2005, from $78.7 million for the year ended June 30, 2004. The improvement in interest income resulted from both the increase in the yield on average interest-earning assets as well as the increase in average interest-earning assets. The average yield on average interest-earning assets increased four basis points to 4.42% from 4.38%, while average interest-earning assets increased $68.8 million, or 3.9%, to $1.86 billion from $1.79 billion.

Interest income on loans receivable increased $392,000, or 1.4%, to $29.3 million for the year ended June 30, 2005, from $28.9 million for the year ended June 30, 2004. The increase resulted from an increase in the average balance of loans receivable, net, partially offset by a reduction in the average yield on loans. The average balance of loans receivable, net, increased $18.2 million, or 3.6%, to $517.7 million for the year ended June 30, 2005, from $499.5 million for the year ended June 30, 2004. The average yield on loans decreased 13 basis points, to 5.66% for the year ended June 30, 2005, compared to 5.79% for 2004. The increased average balance reflects an effort to improve the ratio of loans to deposits. Net loans receivable increased $52.2 million, or 10.3%, to $558.0 million at June 30, 2005, from $505.8 million at June 30, 2004. The lower yield reflects generally lower interest rates on originations and downward rate adjustments on adjustable rate and floating rate loans.

Interest income on mortgage-backed securities held to maturity deceased $26,000 and was $34.0 million for the year ended June 30, 2005, virtually unchanged from 2004. Interest income on mortgage-backed securities did not change as an increase in the average balance outstanding was offset by a decrease in the average yield. The average balance of mortgage-backed securities increased $27.0 million, or 3.8%, to $740.4 million for the year ended June 30, 2005, from $713.4 million for the year ended June 30, 2004. At the same time, the average yield decreased 17 basis points to 4.59% for the year ended June 30, 2005, compared to 4.76% for 2004. The increase in average balance resulted from the substitution of mortgage-backed securities for loans earlier in the year, while management launched an advertising campaign designed to increase loan originations. Mortgage-backed securities actually decreased $13.3 million, or

1.7%, to $758.1 million at June 30, 2005, from $771.4 million at June 30, 2004. The decline in yield resulted from principal repayments received on older higher yielding securities subsequently reinvested in a lower interest rate environment. Additionally, most mortgage-backed securities purchased during the year were adjustable rate, sacrificing

higher yields on fixed rate mortgages in the short-term for some interest rate risk protection in the future.

Interest income on investment securities available for sale and held to maturity, both taxable and tax-exempt, increased $2.1 million, or 14.6%, to $16.5 million for the year ended June 30, 2005, from $14.4 million for the year ended June 30, 2004. The increase resulted from an increase of $64.9 million, or 15.3%, in the average balance of investment securities to $490.2 million for the year ended June 30, 2005, from $425.3 million for the year ended June 30, 2004. A two basis point reduction in the average yield, declining to 3.37% for the year ended June 30, 2005 from 3.39% for 2004, nominally offset the increase in the average balance. Interest income on tax-exempt investment securities increased $1.2 million, or 21.1%, to $6.9 million for the year ended June 30, 2005, from $5.7 million for the year ended June 30, 2004. The increase resulted from an increase in the average balance partially offset by a decrease in the average yield. The average balance increased by $38.9 million, or 27.5%, to $180.5 million for the year ended June 30, 2005, from $141.6 million for the year ended June 30, 2004, while the average yield decreased by 21 basis points, to 3.82% for the year ended June 30, 2005, from 4.03% in 2004. Interest income on taxable investment securities increased $908,000, or 10.4%, to $9.6 million for the year ended June 30, 2005, from $8.7 million for the year ended June 30, 2004, resulting from increases in both average balance and average yield. The average balance increased $26.0 million, or 9.2%, to $309.7 million for the year ended June 30, 2005, from $283.7 million for the year ended June 30, 2004. The average yield increased four basis points, to 3.11% for the year ended June 30, 2005, from 3.07% for 2004. There has been steady growth in both the tax-exempt and taxable portfolios over the previous three years. Management gradually shifted assets from those vulnerable to high prepayments such as mortgage-backed securities, or with low yields, including cash and cash equivalents and securities purchased under agreements to resell, into higher yielding investments, particularly tax-exempt securities, which were offering higher tax equivalent yields.

Interest income on other interest-earning assets increased $1.3 million, or 100.0%, to $2.6 million for the year ended June 30, 2005, from $1.3 million for the year ended June 30, 2004. There were no securities purchased under agreements to resell during the year ended June 30, 2005, therefore, the composition of interest income on other interest-earning assets for 2005 included only interest received from deposits at other banks, specifically the Federal Home Loan Bank of New York, and dividends paid on Federal Home Loan Bank of New York capital stock. The increase in interest income resulted from an increase in average yield, partially offset by a decrease in the average balance. The average yield increased 1.45%, to 2.30% for the year ended June 30, 2005, from 0.85% for 2004 while the average balance decreased $41.4 million, or 26.5%, to $114.9 million for the year ended June 30, 2005, from $156.3 million for the year ended June 30, 2004. The investment of funds received from the purchase of the Company's common stock, including over-subscriptions held during the subscription period, contributed to the increase in interest income on other interest-earning assets, particularly the ability to invest those funds during a period of rising short-term interest rates.

Interest Expense. Total interest expense decreased $1.7 million, or

5.3%, to $30.4 million for the year ended June 30, 2005, from $32.1 million for year ended June 30, 2004. The decrease resulted from a decrease in the average cost of interest-bearing liabilities, with virtually no change in the average balance of interest-bearing liabilities. The average cost decreased ten basis points to 1.91% in the year ended June 30, 2005, from 2.01% for 2004. The average balance of interest-bearing liabilities declined slightly to $1.59 billion during the year ended June 30, 2005, as compared to $1.60 billion during the year ended June 30, 2004. Average cost decreased due to historically low market interest rates prevailing during the period, though short-term rates started climbing as the Federal Reserve raised the federal funds rate by 25 basis point increments.

Interest expense on deposits decreased $1.6 million, or 5.7%, to $26.5 million for the year ended June 30, 2005, from $28.1 million for the year ended June 30, 2004. Interest expense included $491,000, paid on funds received during the subscription period of the initial public offering completed in February 2005. The decrease resulted from a decrease in the average cost of interest-bearing deposits and a slight decrease in the

average balance of interest-bearing deposits. The average cost of interest-bearing deposits decreased ten basis points to 1.75% for the year ended June 30, 2005, from 1.85% in 2004. The average cost of certificates of deposit increased to 2.33% from 2.25%, while the average cost of savings and club accounts decreased to 1.02% from 1.23% and the average cost of interest-bearing demand accounts decreased to 0.71% from 0.80%. Management found it necessary to begin raising certificate of deposit interest rates, reacting to rising short-term interest rates during the second half of the year in order to reverse earlier deposit outflows. The average balance of interest-bearing deposits decreased $8.9 million to $1.51 billion for the year ended June 30, 2005, from $1.52 billion for the prior year. The nominal decrease in the average balance partially resulted from the temporary increase in deposits attributed to funds received during the subscription period of the initial public offering completed in February 2005 substantially offsetting an overall deposit outflow. Average certificates of deposit declined to $873.9 million from $963.1 million, average savings and club accounts increased to $533.1 million from $448.5 million and average interest-bearing demand deposits decreased to $105.5 million from $109.8 million. The increase in average savings and club accounts reflects the aforementioned temporary increase in deposits associated with the initial public offering.

Interest expense on Federal Home Loan Bank advances decreased $128,000, or 3.2%, to $3.9 million for the year ended June 30, 2005, from $4.0 million for the year ended June 30, 2004. The decrease in interest expense resulted from a decrease in the average cost of advances partially offset by an increase in the average balance of advances. The average cost of advances fell 60 basis points to 4.80% for the year ended June 30, 2005, from 5.40% for 2004, while the average balance increased $6.7 million, or 9.0%, to $81.0 million for the year ended June 30, 2005, from $74.3 million for the year ended June 30, 2004. The increase in the average balance resulted from short-term advances obtained earlier in the year to fund the purchase of securities, subsequently paid off with proceeds from the initial stock offering completed in February 2005. The relatively low interest rates associated with those advances contributed to lowering the average cost of borrowed money.

Provision for Loan Losses. Provisions for loan losses are charged to operations at a level required to reflect credit losses in the loan portfolio that are both probable and reasonable to estimate. Management, in determining the allowance for loan losses, considers the losses inherent in the loan

portfolio and changes in the nature and volume of our loan activities, along with the general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. A specific loan loss allowance is established for an impaired loan based on delinquency status, size of loan, type of collateral and/or appraisal of the underlying collateral and financial condition of the borrower. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

There was a $68,000 provision for loan losses recorded for the year ended June 30, 2005, but no provision for loan losses in 2004. During the year ended June 30, 2005, total loans increased to $562.6 million at June 30, 2005, from $510.2 million at June 30, 2004. Non-performing loans were $1.9 million, or 0.34%, of total loans at June 30, 2005, as compared to $2.3 million, or 0.46%, of total loans at June 30, 2004. The allowance for loan losses as a percentage of gross loans outstanding was 0.96% at June 30, 2005, compared to 1.01% at June 30, 2004, reflecting balances of $5.4 million and $5.1 million, respectively. The ratio of the allowance for loan losses to non-performing loans increased to 281.79% at June 30, 2005, from 220.96% at June 30, 2004. The increase is a result of a $406,000 decrease in non-performing loans from $2.3 million at June 30, 2004, to $1.9 million at June 30, 2004.

Management assesses the allowance for loan losses monthly. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan

losses as of June 30, 2005 was maintained at a level that represented management's best estimate of losses in the loan portfolio to the extent they were both probable and reasonably estimable.

Non-interest Income. Non-interest income attributed to fees, service charges and miscellaneous income and excluding gains on the sale of securities increased $238,000, or 14.9%, to $1.8 million for the year ended June 30, 2005, from $1.6 million for the year ended June 30, 2004. The increase resulted primarily from an increase in fee income from the Bank's retail branch network, an increase in the cash value of bank owned life insurance and non-recurring loan fee income. At June 30, 2005, we had a $4.0 million investment in bank owned life insurance, compared to $3.8 million at June 30, 2004.

Non-interest income attributed to gains on the sale of securities was $7.7 million in the year ended June 30, 2005, resulting from the sale of 120,000 shares of Freddie Mac common stock and a trust- preferred security with a carrying value of $1.0 million. There were no sales of securities during 2004. Concern about the future of government-sponsored enterprises triggered the sale of approximately 48% of the Company's Freddie Mac common stock investment. Both the common stock and trust-preferred security were part of the Company's available for sale investment portfolio.

Non-interest Expense. Non-interest expense increased $5.4 million, or 18.3%, to $34.9 million for the year ended June 30, 2005, from $29.5 million for the year ended June 30, 2004. The increase in non-interest expenses resulted

from increases in salaries and employee benefits, net occupancy expense of premises and equipment, advertising and miscellaneous expenses. These increases were offset by the absence of merger related expenses in 2005 as compared to $592,000 of such expense during 2004.

Salaries and employee benefits increased $4.3 million, or 26.1%, to $20.8 million in the year ended June 30, 2005, from $16.5 million in the year ended June 30, 2004. The compensation component increased $1.4 million, or 12.5%, to $12.6 million for the year ended June 30, 2005, from $11.2 million for the year ended June 30, 2004. The increase resulted from normal salary increases plus additional employees, including several business development personnel and mortgage solicitors hired during the year. Pension plan expense and employee benefits expense increased $1.7 million and $574,000, respectively, for the year ended June 30, 2005 compared to 2004. The increase in pension plan expense resulted from lower than expected investment returns on plan assets and higher contributions due to the incremental effect of normal salary increases. During the period March through June 2005, we recorded $466,000 in employee stock ownership plan ("ESOP") compensation expense. The ESOP commenced immediately following the initial public offering completed in February 2005, therefore, there was no such expense recorded in 2004.

Net occupancy expense of premises and equipment expense increased $1.1 million, or 18.3%, to $7.1 million for the year ended June 30, 2005, from $6.0 million for the year ended June 30, 2004. Net occupancy expense of premises and equipment expense increased $640,000 and $478,000, respectively, for the year ended June 30, 2005 compared to 2004. The increase in net occupancy expense of premises reflects the impact of our new 53,000 square foot administrative headquarters building in Fairfield, New Jersey. Management staff and administrative operations began occupying the building in late September and continued to move in until December 2004. Approximately nine months of operating expenses and six months of depreciation expense is included in the year ended June 30, 2005. The increase in equipment expense resulted from higher depreciation expense and increased costs related to data processing, ATM support and Internet banking, all of which are outsourced.

Advertising expense increased $315,000, or 36.6%, to $1.2 million for the year ended June 30, 2005, from $861,000 for the year ended June 30, 2004. The increase in advertising expense resulted from greater media advertising in an attempt to increase loan originations, publicize the Bank's retail and commercial products and refine the Bank's branding. Also, rather than relying exclusively on the large circulation newspapers, management began focusing specifically on the counties in which we operate, through advertisements in smaller local newspapers.

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All other elements of non-interest expenses increased $281,000, or 5.4%, to $5.8 million for the year ended June 30, 2005, from $5.5 million, net of merger related expenses of $592,000 for the year ended June 30, 2004. Most of the increase in miscellaneous expenses is due to the increased costs associated with being a public company, such as periodic reporting, retention of a transfer agent and professional fees. Professional fees consisting of legal expense and audit and accounting services expense increased $43,000 and $161,000, respectively, for the year ended June 30, 2005, compared to 2004.

Provision for Income Taxes. The provision for income taxes increased $2.0 million, or 35.1%, to $7.7 million for the year ended June 30, 2005, from $5.7 million for the year ended June 30, 2004. The increase in income tax expense resulted from an increase in pre-tax income of $8.0 million, or 43.0%, to $26.6 million in the year ended June 30, 2005, from $18.6 million for the

year ended June 30, 2004. The effective income tax rates were 28.9% for the year ended June 30, 2005, as compared to 30.8% for the year ended June 30, 2004. Management attributes the lower effective income tax rate to tax management strategies, including investing in bank-qualified tax-exempt municipal bonds and transferring investment securities held to maturity and mortgage-backed securities held to maturity to a New Jersey investment subsidiary, Kearny Federal Investment Corp., a wholly-owned subsidiary of the Bank, which commenced operations in July 2004. Of particular significance, tax-exempt municipal bond interest reduced the Company's federal income expense by approximately $2.2 million.

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Average Balance Sheet. The following table sets forth certain information relating to Kearny Financial Corp. at and for the periods indicated. We derived the average yields and costs by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented with daily balances used to derive average balances with the exception of the year ended June 30, 2004. Management does not believe that the use of weekly or monthly balances for the year ended June 30, 2004 caused any material differences in the information presented.

	At June 30, 2006		For the Year Ended J				
			2006			2005	
	Actual Balance	Actual Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interes
			(Dollars in thousands)				
Interest-earning assets:							
Loans receivable, net(1)	$ 703,613	5.68%	$ 628,245	$35,338	5.62%	$ 517,746	$29,31
Mortgage-backed securities held to maturity	689,962	4.85	728,960	33,471	4.59	740,417	33,95
Investment securities:(2)							
Tax-exempt	200,312	3.78	202,042	7,634	3.78	180,513	6,90
Taxable	27,082	5.72	192,561	6,554	3.40	309,740	9,63
Securities purchased under agreements to resell	-	0.00	-	-	0.00	-	
Other interest-earning assets(3)	213,122	5.13	147,949	6,326	4.28	114,916	2,64
Total interest-earning assets	1,834,091	5.10	1,899,757	89,323	4.70	1,863,332	82,44
Non-interest-earning assets	173,434		161,423			151,055	
Total assets	$2,007,525		$2,061,180			$2,014,387	
Interest-bearing liabilities:							
Interest-bearing							

demand................	$ 122,129	1.56	$ 103,397	931	0.90	$ 105,503	75
Savings and club........	377,431	1.15	429,019	5,064	1.18	533,131	5,42
Certificates of deposit...............	883,098	3.83	888,809	29,074	3.27	873,907	20,35
Federal Home Loan Bank advances..............	61,105	5.46	65,333	3,576	5.47	80,990	3,89
Total interest-bearing liabilities..	1,443,763	3.01	1,486,558	38,645	2.60	1,593,531	30,42
Non-interest-bearing liabilities............	72,876		71,089			71,119	
Total liabilities.......	1,516,639		1,557,647			1,664,650	
Stockholders' equity.....	490,886		503,533			349,737	
Total liabilities and stockholders' equity..	$2,007,525		$2,061,180			$2,014,387	
Net interest income......				$50,678			$52,01
Interest rate spread(4)..		2.09%			2.10%		
Net yield on interest-earning assets(5)......					2.67%		
Ratio of average interest-earning assets to average interest- bearing liabilities............	1.27x		1.28x			1.17x	

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(1) Non-accruing loans have been included in loans receivable, and the effect of such inclusion was not material.

(2) Includes both available for sale and held to maturity securities.

(3) Includes interest-bearing deposits at other banks, federal funds purchased and Federal Home Loan Bank of New York capital stock.

(4) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis. The following table reflects the sensitivity of Kearny Financial Corp.'s interest income and interest expense to changes in volume and in prevailing interest rates during the periods indicated. Each category reflects the: (1) changes in volume (changes in volume multiplied by old rate); (2) changes in rate (changes in rate multiplied by old volume); and (3) net change. The net change attributable to the combined impact of volume and rate has been allocated proportionally to the absolute dollar amounts of change in each.

	Year Ended June 30,		
	2006 vs. 2005		
	Increase (Decrease) Due to		
	Volume	Rate	Net
			(In thou
Interest and dividend income:			
Loans receivable	$ 6,235	$ (208)	$ 6,027
Mortgage-backed securities held to maturity	(483)	-	(483)
Investment securities:			
Tax-exempt	804	(74)	730
Taxable	(3,911)	833	(3,078)
Securities purchased under agreements to resell	-	-	-
Other interest-earning assets	923	2,763	3,686
Total interest-earning assets	$ 3,568	$ 3,314	$ 6,882
Interest expense:			
Interest-bearing demand	$ (15)	$ 194	$ 179
Savings and club	(1,145)	787	(358)
Certificates of deposit	353	8,363	8,716
Advances from Federal Home Loan Bank	(813)	499	(314)
Total interest-bearing liabilities	$ (1,620)	$ 9,843	$ 8,223
Change in net interest income	$ 5,188	$ (6,529)	$ (1,341)

Liquidity and Commitments

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

The Bank is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe operation. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. We attempt

to maintain adequate but not excessive liquidity, and liquidity management is both a daily and long-term function of business management.

We review cash flow projections regularly and update them in order to maintain liquid assets at levels believed to meet the requirements of normal operations, including loan commitments and potential deposit outflows from maturing certificates of deposit and savings withdrawals. At June 30, 2006, the Bank had outstanding commitments to originate loans of $44.4 million, construction loans in process of $11.4 million and unused lines of credit of $25.5 million.

Certificates of deposit increased during the quarter ended June 30, 2005, due to a promotional short-term rate offered by the Bank. Deposits, primarily certificates of deposit, decreased in the quarters ended September 30, 2005 and December 31, 2005 as the Bank intentionally slowed increases in the rates it pays on deposits relative to the pace of rising market interest rates. Certificates of deposit continued to decrease, as well as core deposits, during the quarter ended March 31, 2006. Management's goal to slow the increase in the cost of funds was not sustainable. In the quarter ended March 31, 2006, the Bank introduced several deposit products designed to build core deposits and adjusted interest rates on certificates of deposit to stabilize their rate of attrition. During the quarter ended June 30, 2006, management introduced promotional rates for terms of five, nine and 13 months to retain and attract new certificates of deposit. Certificates of deposit scheduled to mature in one year or less at June 30, 2006, totaled $658.2 million.

While deposits are the Bank's primary source of funds, the Bank also generates cash through borrowings from the Federal Home Loan Bank of New York (the "FHLB"). At June 30, 2006, advances from the FHLB amounted to $61.1 million. The Bank has the capacity to borrow additional funds from the FHLB, through an overnight line of credit or by taking additional long-term or short-term advances. Because of continued strong loan demand and continued deposit outflows, the Bank began utilizing the FHLB overnight line of credit during the quarter ended March 31, 2006. Management used proceeds from the restructuring of the securities portfolio in February 2006 to repay the borrowed money. No further borrowing occurred during the year ended June 30, 2006, due to adequate liquidity.

As noted above, loan prepayments are greatly influenced by general interest rates. At June 30, 2006, 79.6% of our loan portfolio consisted of fixed rate loans with maturities of greater than one year. If a rising interest rate environment were to occur, we would expect that the rate of prepayments on fixed rate loans would decrease, thus decreasing the amount of funds coming from prepayments and reducing our liquidity.

The following table discloses our contractual obligations and commitments as of June 30, 2006.

	Total	Less Than 1 Year	1-3 Years	4-5 Ye
			(In thousands)	
Operating lease obligations................	$ 1,728	$ 271	$ 443	$ 3
Certificates of deposit....................	883,098	658,218	200,090	24,7
Federal Home Loan Bank advances............	61,105	5,618	45,487	10,0

Total	$945,931	$664,107	$246,020	$35,0

	Total Amounts Committed	Less Than 1 Year	1-3 Years	4-5 Ye
		(In thousands)		
Undisbursed funds from approved lines of credit(1)	$25,556	$ 534	$ -	$
Construction loans in process	11,368	8,395	2,973	
Other commitments to extend credit(1)	44,424	44,424	-	
Total	$81,348	$53,353	$2,973	$

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(1) Represents amounts committed to customers.

Our material capital expenditure plans relate to renovations and significant improvements to six branch offices, which includes the replacement of one office location with a new building. We expect to complete such renovations, improvements and construction by the end of calendar year 2007, and we anticipate approximately $3.6 million in funds will be required for the plans related to these six offices. Furthermore, in December of 2004, we acquired a 3.7 acre parcel of land in West Caldwell, New Jersey. We intend to construct a branch office at this location and subdivide and lease to third parties the portion of land not used for the branch building. Engineering studies continue at this location, while we attempt to develop a plan acceptable to the municipality.

The general business purpose of these expenditures is to maintain and improve Kearny Federal Savings Bank's facilities. We anticipate that cash flows from our normal operations will be a sufficient source of funds for these expenditure plans.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving Kearny Federal Savings Bank's facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase investment securities or mortgage-backed securities, and commitments to extend credit to meet the financing needs of our customers. At June 30, 2006, we had no significant off-balance sheet commitments to purchase securities. Our significant purchase commitments as of June 30, 2006 related to capital expenditure plans consisted of anticipated post-June 30, 2006 expenditures of approximately $281,000 connection with the completion of renovations of existing branches in Old Tappan and Northvale, New Jersey.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Our exposure to credit loss in the event of

nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making

commitments and conditional obligations as we do for on-balance-sheet instruments. At June 30, 2006, the total approved loan origination commitments outstanding amounted to $44.4 million and commitments to purchase participation interests in loans totaled $0. At the same date, unused lines of credit were $25.5 million and construction loans in process were $11.4 million. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For additional information regarding our outstanding lending commitments at June 30, 2006, see Note 16 to consolidated financial statements contained in this Annual Report on Form 10-K.

Capital

Consistent with its goals to operate a sound and profitable financial organization, Kearny Federal Savings Bank actively seeks to maintain a well capitalized institution in accordance with regulatory standards. As of June 30, 2006, Kearny Federal Savings Bank exceeded all capital requirements of the Office of Thrift Supervision. Kearny Federal Savings Bank's regulatory capital ratios at June 30, 2006 were as follows: core capital 19.41%; Tier I risk-based capital 48.19%; and total risk-based capital 48.90%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0% and 10.0%, respectively. For additional information regarding regulatory capital at June 30, 2006, see Note 14 to consolidated financial statements contained in this Annual Report on Form 10-K.

Impact of Inflation

The financial statements included in this document have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 maturities of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of non-interest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

Recent Accounting Pronouncements

Management believes that there were no significant recent accounting pronouncements requiring disclosure at June 30, 2006.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Management of Interest Rate Risk and Market Risk

Qualitative Analysis. Because the majority of our assets and liabilities are sensitive to changes in interest rates, a significant form of market risk for us is interest rate risk, or changes in interest rates. Notwithstanding the unpredictability of future interest rates, management expects that changes in interest rates may have a significant, adverse impact on our net interest income.

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and

- the interest expense we pay on our interest-bearing liabilities, such as deposits and amounts we borrow.

The rates we earn on our assets are generally fixed for a contractual period of time. We, like many savings institutions, have liabilities that generally have shorter contractual maturities than our assets, such as certificates of deposit, or have no stated maturity, such as savings and money market deposits. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets, which consist primarily of long-term, fixed-rate securities, may not increase as rapidly as the interest paid on our liabilities.

We are vulnerable to volatility in our earnings as a result of an increase in interest rates because the majority of our interest-earning assets consist of long-term, fixed rate assets. At June 30, 2006, 82.1% of our loans with contractual maturities of greater than one year had fixed rates of interest, and 74.4% of our total loans had contractual maturities of ten or more years. At June 30, 2006, we held $690.0 million of mortgage-backed securities, representing 34.4% of our assets. We invest generally in fixed-rate securities and 97.0% of our mortgage-backed securities at June 30, 2006 had contractual maturities of greater than ten years. In an increasing rate environment, our cost of funds is expected to increase more rapidly than the interest earned on our loan portfolio and securities portfolio because our primary source of funds is deposits with generally shorter maturities than the maturities on our loans and investment securities. Having interest-bearing liabilities that reprice more frequently than interest-earning assets will be detrimental during periods of rising interest rates and could cause our net interest rate spread to shrink because the increase in the rates we would earn on our securities and loan portfolios may be less than the increase in the rates we would pay on deposits and borrowings.

In a period of falling interest rates, prepayments of loans and mortgage-backed securities generally will increase as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk, because in a falling rate environment we are generally not able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. A falling rate environment would result in a decrease in

rates we pay on deposits and borrowings, but the decrease in the cost of our funds may not be as great as the decrease in the yields on our mortgage-backed securities and loan portfolios. This could cause a narrowing of our net interest rate spread and could cause a decrease in our earnings.

The Board of Directors has established an Interest Rate Risk Management Committee, comprised of Directors Regan, Aanensen, Mazza and Parow, which is responsible for monitoring interest rate risk. Our Chief Financial Officer also participates in this committee as a management liaison. The committee meets quarterly to address management of our assets and liabilities, including review of our short term liquidity position; loan a