Kearny Financial Corp.
Form 10-Q
May 10, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

OR

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

For the transition period from ________ to ________

Commission File Number 000-51093

KEARNY FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant 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 Exchange Act). Yes No X

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: May 1, 2007.

$0.10 par value common stock - 71,602,437 shares outstanding

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Thousands, Except Share Data, Unaudited)

	March 31, 2007	J (As
Assets		
Cash and amounts due from depository institutions	$ 17,231	$
Interest-bearing deposits in other banks	260,254	
Cash and Cash Equivalents	277,485	
Securities available for sale (amortized cost $91,281 and $227,598)	90,882	
Loans receivable, including net deferred loan costs of $1,529 and $1,087	823,554	
Less allowance for loan losses	(5,856)	
Net Loans Receivable	817,698	
Mortgage-backed securities available for sale (amortized cost $668,630 and $689,962)	663,487	
Premises and equipment	35,650	
Federal Home Loan Bank of New York ("FHLB") stock	5,161	
Interest receivable	7,817	
Goodwill	82,263	
Bank owned life insurance	15,020	
Other assets	12,276	
Total Assets	$ 2,007,739	$
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 57,521	$
Interest-bearing	1,409,185	
Total Deposits	1,466,706	
Advances from FHLB	55,646	
Advance payments by borrowers for taxes	5,198	
Other liabilities	6,602	
Total Liabilities	1,534,152	
Stockholders' Equity		
Preferred stock $0.10 par value, 25,000,000 shares authorized; none issued and outstanding	-	
Common stock $0.10 par value, 75,000,000 shares authorized; 72,737,500 shares issued; 71,602,437 and 72,737,500 shares, respectively, outstanding	7,274	
Paid-in capital	196,699	
Retained earnings	305,675	

Unearned Employee Stock Ownership Plan shares; 1,442,627 shares and 1,551,732 shares	(14,426)	
Treasury stock, at cost; 1,135,063 shares and 0 shares	(18,034)	
Accumulated other comprehensive (loss)	(3,601)	
Total Stockholders' Equity	473,587	
Total Liabilities and Stockholders' Equity	$ 2,007,739	$

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
Interest Income:				
Loans	$ 11,658	$ 9,108	$ 33,044	$ 25,773
Mortgage-backed securities	8,095	8,253	24,193	25,239
Securities:				
Taxable	351	1,328	1,141	6,183
Tax-exempt	825	1,901	4,086	5,737
Other interest-earning assets	3,229	1,866	9,065	3,490
Total Interest Income	24,158	22,456	71,529	66,422
Interest Expense:				
Deposits	12,150	8,759	34,991	25,696
Borrowings	754	1,005	2,412	2,733
Total Interest Expense	12,904	9,764	37,403	28,429
Net Interest Income	11,254	12,692	34,126	37,993
Provision for Loan Losses	101	106	378	245
Net Interest Income after Provision for Loan Losses	11,153	12,586	33,748	37,748
Non-Interest Income:				
Fees and service charges	188	225	692	791
(Loss) Gain on sale of securities	(97)	937	55	1,023

Miscellaneous	392	367	1,076	925
Total Non-Interest Income	483	1,529	1,823	2,739
Non-interest expenses:				
Salaries and employee benefits	7,070	6,964	20,623	18,310
Net occupancy expense of premises	895	836	2,594	2,521
Equipment	1,098	1,174	3,274	3,306
Advertising	362	353	1,164	1,063
Federal insurance premium	144	140	428	410
Amortization of intangible assets	159	159	477	477
Directors' compensation	544	631	1,762	1,443
Miscellaneous	1,030	1,162	3,277	3,405
Total Non-Interest Expenses	11,302	11,419	33,599	30,935
Income before Income Taxes	334	2,696	1,972	9,552
Income Taxes	92	250	257	1,816
Net Income	$ 242	$ 2,446	$ 1,715	$ 7,736

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Continued)

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
Net Income per Common Share:				
Basic	$ 0.00	$ 0.03	$ 0.02	$ 0.11
Diluted	0.00	0.03	0.02	0.11
Weighted Average Number of Common Shares Outstanding:				
Basic	69,012	70,918	69,343	71,006
Diluted	69,293	71,034	69,664	71,051
Dividends Declared Per Common Share	$ 0.05	$ 0.05	$ 0.15	$ 0.19

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended March 31, 2006
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock				Unearned
	Shares	Amount	Paid-In Capital	Retained Earnings	ESOP Shares
Balance - June 30, 2005	72,738	$7,274	$207,838	$301,857	$(16,972)
Comprehensive income:					
Net income	-	-	-	7,736	-
Realized gain on securities available for sale, net of income tax of $358	-	-	-	-	-
Unrealized loss on securities available for sale, net of deferred income tax benefit of $8,617	-	-	-	-	-
Total Comprehensive income					
Refund of common stock offering expense	-	-	3	-	-
ESOP shares committed to be released (108 shares)	-	-	271	-	1,091
Stock option transactions	-	-	713	-	-
Treasury stock purchases	(178)	-	-	-	-
Treasury stock reissued to restricted stock plan	178	-	(2,268)	-	-
Restricted stock plan shares purchased (135 shares)	-	-	(1,815)	-	-
Restricted stock plan shares earned (97 shares)	-	-	1,186	-	-

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended March 31, 2006
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares
Cash dividends declared ($0.19/share)	-	-	-	(3,795)	-
Balance - December 31, 2005	72,738	$7,274	$205,928	$305,798	$(15,881

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended March 31, 2007
(In Thousands, Except Per Share Data, Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Tr S
Balance - June 30, 2006 (As restated)	72,737	$7,274	$192,534	$306,728	$(15,517)	$
Comprehensive income:						
Net income	-	-	-	1,715	-	
Realized gain on securities available for sale, net of income tax of $19	-	-	-	-	-	
Unrealized gain on securities available for sale, net of deferred income tax cost of $6,633	-	-	-	-	-	
Total Comprehensive income						
ESOP shares committed to be released (108 shares)	-	-	576	-	1,091	
Stock option transactions	-	-	1,494	-	-	
Treasury stock purchases	(1,144)	-	-	-	-	
Treasury stock reissued	9	-	(27)	-	-	
Restricted stock plan shares purchased (54 shares)	-	-	(789)	-	-	
Restricted stock plan shares earned (201 shares)	-	-	2,477	-	-	
Tax benefit related to vesting of restricted stock	-	-	434	-	-	

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended March 31, 2007
(In Thousands, Except Per Share Data, Unaudited)
Accumulated

	Common Stock		Paid-In	Retained	Unearned ESOP	Tr
	Shares	Amount	Capital	Earnings	Shares	S
Cash dividends declared ($0.15/share)	-	-	-	(2,768)	-	
Balance - March 31, 2007	71,602	$7,274	$196,699	$305,675	$(14,426)	$(

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands, Unaudited)

	Nine Months March 3	
	2007	
Cash Flows from Operating Activities:		
Net income	$ 1,715	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,462	
Net amortization of premiums, discounts and loan fees and costs	678	
Deferred income taxes	1,031	
Amortization of intangible assets	477	
Provision for loan losses	378	
Realized gains on sale of securities available for sale	(55)	
Increase in cash surrender value of bank owned life insurance	(392)	
ESOP, stock option plan and restricted stock plan expenses	5,638	
Realized loss on sale of real estate owned	-	
Realized gain on disposition of premises and equipment	(3)	
Decrease in interest receivable	1,019	
Increase in other assets	(2,714)	
(Decrease) increase in interest payable	(3)	
Increase (decrease) in other liabilities	60	

Net Cash Provided by Operating Activities	9,291
Cash Flows from Investing Activities:	
Purchases of securities available for sale	(286)
Proceeds from sale of securities available for sale	131,383
Purchases of securities held to maturity	-
Proceeds from calls and maturities of securities available for sale	3,894
Proceeds from calls and maturities of securities held to maturity	-
Proceeds from repayments of securities available for sale	1,395
Proceeds from repayments of securities held to maturity	-
Purchase of loans	(71,377)
Net increase in loans receivable	(43,287)
Proceeds from sale of real estate owned	-
Purchases of mortgage-backed securities available for sale	(81,703)
Purchases of mortgage-backed securities held to maturity	-
Principal repayments on mortgage-backed securities available for sale	102,545
Principal repayments on mortgage-backed securities held to maturity	-
Additions to premises and equipment	(1,189)
Proceeds from cash settlement on premises and equipment	21
Purchase of FHLB stock	-
Redemption of FHLB stock	245
Purchase of bank owned life insurance	-
Net Cash Provided by Investing Activities	$ 41,641

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Thousands, Unaudited)

	Nine Months En March 31,
	2007
Cash Flows from Financing Activities:	
Net increase (decrease) in deposits	$ 22,933
Repayment of FHLB advances	(5,459)
(Decrease) increase in advance payments by borrowers for taxes	(34)
Refund of common stock offering expense	-
Dividends paid to minority stockholders of Kearny Financial Corp.	(2,750)
Increase in treasury stock due to purchase of Kearny Financial Corp. common stock	(18,169)
Treasury stock reissued	108
Purchase of common stock of Kearny Financial Corp. for restricted stock plan	(789)
Tax benefit related to vesting of restricted stock	434
Net Cash (Used in) Financing Activities	$ (3,726)

Net Increase in Cash and Cash Equivalents	$ 47,206	$
Cash and Cash Equivalents - Beginning	230,279	
Cash and Cash Equivalents - Ending	$ 277,485	$
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	$ 1,313	$
Interest	$ 37,406	$
Supplemental Disclosure of Non-Cash Transactions:		
Cash dividend declared	$ 960	$
Reclassification of securities and mortgage-backed securities from held to maturity to available for sale at estimated fair value (As of quarter ended March 31, 2006)	$ -	$ 1,

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

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

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of normal adjustments) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and nine month periods ended March 31, 2007, are not necessarily indicative of the results that may be expected for the entire fiscal

year or any other period.

The data in the consolidated statements of financial condition for June 30, 2006 was derived from the Company's annual report on Form 10-K. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, changes in stockholders' equity and cash flows should be read in conjunction with the 2006 consolidated financial statement, including the notes thereto included in the Company's annual report on Form 10-K.

3. NET INCOME PER COMMON SHARE

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

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

	Three Months Ended March 31, 2007			Nine Mont March 31	
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	(De
	(In Thousands, Except Per Share Data)			(In Thousands, Exc	
Net income	$242			$1,715	
Basic earnings per share, income available to common stockholders	$242	69,012	$0.00	$1,715	
Effect of dilutive securities:					
Stock options	-	115		-	
Restricted stock awards	-	166		-	
	$242	69,293	$0.00	$1,715	

Three Months Ended Nine Mont

	March 31, 2006			March 31
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	(De
	(In Thousands, Except Per Share Data)			(In Thousands, Exc
Net income	$2,446			$7,736
Basic earnings per share, income available to common stockholders	$2,446	70,918	$0.03	$7,736
Effect of dilutive securities:				
Stock options	-	-		-
Restricted stock awards	-	116		-
	$2,446	71,034	$0.03	$7,736

4. DIVIDEND WAIVER

During the quarter ended March 31, 2007, the federally chartered mutual holding company of the Company ("Kearny MHC"), waived its right, in accordance with the non-objection previously granted by the Office of Thrift Supervision ("OTS"), to receive cash dividends of approximately $2.5 million declared during the quarter, on the shares of Company common stock it owns. Furthermore, in December 2006, the OTS advised Kearny MHC that it would not object to dividend waivers for the quarters ending June 30, 2007 and September 30, 2007, provided the OTS does not subsequently determine that the proposed waivers are detrimental to the safe and sound operation of the Bank.

5. STOCK COMPENSATION PLANS

At the annual meeting held on October 24, 2005, stockholders of the Company approved the Kearny Financial Corp. 2005 Stock Compensation and Incentive Plan. The Plan authorizes the award of up to 3,564,137 shares as stock options and 1,425,655 shares as restricted stock awards. On October 24, 2005,

non-employee directors received in aggregate 1,069,240 options and 427,696 shares of restricted stock. On December 5, 2005, certain officers of the Company and the Bank received in aggregate 2,305,000 options and 910,000 shares of restricted stock. The Company adopted SFAS No. 123(R) upon approval of the Plan, and began to expense the fair value of all options over their vesting periods and began to expense the fair value of all share-based compensation granted over the requisite service periods.

SFAS No. 123(R) also requires the Company to realize as a financing cash flow rather than an operating cash flow, as previously required, the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense (which was $434,000 for the nine months ended March 31,

2007). In accordance with Staff Accounting Bulletin ("SAB") No. 107, the Company classified share-based compensation for employees within salaries and employee benefits to correspond with the same line item as the cash compensation paid to employees. The Company classified share-based compensation for non-employee directors within directors' compensation to correspond with the same line item as the cash compensation paid to non-employee directors.

Employee options and non-employee director options generally vest over a five-year service period. Management recognizes compensation expense for all option grants over the awards' respective requisite service periods. Management estimated the fair values relating to all of the fiscal 2006 option grants using the Black-Sholes option-pricing model. Since there is no historical information on the volatility of the Company's stock, management based expectations about future volatility on the average volatilities of similar entities for an appropriate period following their initial public offering. Thus, calculations to determine the stock volatility of mutual holding companies converted since 1995, and a subset of the first group, all mutual holding companies that converted after 2000, were used to derive the one and three-year Beta for purposes of identifying a reasonable volatility factor. Management estimated the expected life of the options assuming that they must be no less than the vesting period, five years, and no greater than their contractual life, ten years, in conjunction with an evaluation of the grantees' ages and lengths of service. The 10-year Treasury yield in effect at the time of the grant provides the risk-free rate for periods within the contractual life of the option. Management recognizes compensation expense for the fair values of these awards, which have graded vesting, on a straight-line basis over the requisite service period of the awards.

Management used the following assumptions to estimate the fair values of options granted:

	Three Months Ended March 31,		
	2007	2006	2
Weighted average risk-free interest rate	-	-	
Expected dividend yield	-	-	
Weighted average volatility factor of the expected market price of the Company's common stock	-	-	
Weighted average expected life of the options	-	-	

Restricted shares generally vest in full after five years. The product of the number of shares granted and the grant date market price of the Company's common stock determine the fair value of restricted shares. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period of five years.

During the three months ended March 31, 2007, the Company recorded stock option expense of $498,000 and restricted stock expense of $825,000. During the nine months ended March 31, 2007, the Company recorded stock option expense of $1.5 million and restricted stock expense of $2.5 million. The Company

estimates it will record in aggregate an additional $1.3 million of stock option

and restricted stock expenses during the remainder of fiscal 2007.

The following is a summary of the status of the Company's outstanding stock options as of March 31, 2007 and stock option activity and related information during the nine months ended March 31, 2007:

	Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at June 30, 2006	3,374	$12.34	
Granted	-	-	
Exercised	(9)	$12.71	
Forfeited	-	-	
Outstanding at March 31, 2007	3,365	$12.34	8.6 years
Exercisable at March 31, 2007	666	$12.34	8.6 years

The following is a summary of the status of the Company's unexercisable options as of March 31, 2007 and changes during the nine months ended March 31, 2007:

	Options (000's)
Unexercisable at June 30, 2006	3,374
Granted	-
Vested	(675)
Forfeited	-
Unexercisable at March 31, 2007	2,699

As of March 31, 2007, expected future compensation expense attributed to the 2.7 million unexercisable options outstanding is $7.3 million over 3.6 years.

Upon exercise of options, management expects to draw on treasury stock as the source of the shares.

The following is a summary of the status of the Company's outstanding restricted share awards as of March 31, 2007 and changes during the nine months ended March 31, 2007:

	Restricted Shares (000's)

Non-vested at June 30, 2006	1,338
Granted	-
Vested	(268)
Forfeited	-
Non-vested at March 31, 2007	1,070

As of March 31, 2007, expected future compensation expense attributed to the 1.1 million non-vested restricted shares outstanding at that date is $12.0 million over 3.6 years.

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6. STOCK REPURCHASE PLANS

On July 18, 2006, the Company announced that the Board of Directors authorized a stock repurchase plan to acquire up to 1,091,063 shares, or 5% of the Company's outstanding common stock held by persons other than Kearny MHC. This stock repurchase plan commenced after the Company completed its purchase of shares in the open market to fund awards under the Company's 2005 Stock Compensation and Incentive Plan. During the nine months ended March 31, 2007, a total of 1,091,063 shares were purchased under the plan at a cost of $17.4 million, or approximately $15.95 per share.

On January 18, 2007, the Company announced that the Board of Directors authorized an additional stock repurchase plan to acquire up to 1,036,634 shares, or 5% of the Company's outstanding stock held by persons other than Kearny MHC. Such purchases will be made from time to time in the open market or in privately negotiated stock purchases, based on stock availability, price and the Company's financial performance. It is anticipated that purchases will be made during the next twelve months, although no assurance can be given as to when they will be made or to the total number of shares that will be purchased. During the three months ended March 31, 2007, the Company purchased 52,500 shares at a cost of $771,000, or approximately $14.68 per share.

7. BENEFIT PLANS - COMPONENTS OF NET PERIODIC COST

Benefit Equalization Plan net periodic pension expense was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
	(In Thousands)		(In Thousands)	
Service cost	$ 15	$ 15	$ 45	$ 45
Interest cost	44	44	132	132
Amortization of unrecognized past service costs	(3)	(3)	(9)	(9)
Amortization of unrecognized net actuarial loss	46	46	138	138

Net periodic pension expense	$ 102	$ 102	$ 306	$ 306

Postretirement Welfare Plan net periodic postretirement benefit cost was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
	(In Thousands)		(In Thousands)	
Service cost	$ 8	$ 6	$24	$18
Interest cost	7	6	21	18
Amortization of unrecognized past service liability	2	3	6	9
Net periodic postretirement benefit cost	$17	$15	$51	$45

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Directors' Consultation and Retirement Plan net periodic plan cost was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
	(In Thousands)		(In Thousands)	
Service cost	$ 34	$ 32	$102	$ 96
Interest cost	34	29	102	87
Amortization of unrecognized transition obligation	11	11	33	33
Amortization of unrecognized past service liability	15	15	45	45
Net periodic postretirement benefit cost	$ 94	$ 87	$282	$261

8. NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial condition, results of operations and cash flows.

On September 29, 2006, the Financial Accounting Standards Board "FASB" issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS 158"), which amends SFAS 87 and SFAS 106 to require recognition of the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date -- the date at which the benefit obligation and plan assets are measured -- is required to be the company's fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 158 on our consolidated financial condition and results of operations.

In September 2006, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" ("EITF 06-4"). EITF 06-4 requires the recognition of a liability related to

the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principals Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The Company does not believe that the implementation of this guidance will have a material impact on the Company's consolidated financial statements.

On September 7, 2006, the Task Force reached a conclusion on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance

policies purchased by entities protecting against the loss of "key persons." The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company does not expect it to have a material impact on the Company's consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact of EITF 06-10 on its consolidated financial position and results of operations.

In March 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for non-vested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The Company does not expect EITF 06-11 will have a material impact on its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company July 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

9. RESTATEMENT

As previously reported, the Company intends to file restated Consolidated Statement of Financial Condition for the fiscal year ended June 30, 2006 and quarterly periods ended March 31, 2006 and September 30, 2006. The effect of this change is that the securities and mortgage-backed securities are now reported at fair value instead of at amortized cost, which results in a change in the value of these assets previously reported on the Consolidated Statements of Financial Condition at March 31, 2006, June 30, 2006 and September 30, 2006. Carrying these securities at fair value will impact the accumulated other comprehensive income (loss), which is a component of stockholders' equity. The adjustments to be made to the financial statements are non-cash in nature and do not result in changes to the income statements or previously reported total net income for any period.

The following table presents changes to the Consolidated Statement of Financial Condition at June 30, 2006 resulting from the restatement:

	June 30, 2006 (As previously	June 30, 2006 (As restated)

	reported)	
	(In Thousands)	
Securities available for sale	18,346	222,793
Securities held to maturity	209,048	-
Mortgage-backed securities available for sale	-	670,329
Mortgage-backed securities held to maturity	689,962	-
Other assets	9,203	17,685
Total Assets	2,007,525	1,991,773
Accumulated other comprehensive (loss)	(133)	(15,885)
Total Stockholders' Equity	490,886	475,134
Total Liabilities and Stockholders' Equity	2,007,525	1,991,773

10. SUBSEQUENT EVENT

On April 30, 2007, the bank entered into a severance agreement with a senior officer of the Bank. The officer will receive a severance payment of $264,000, payable over the next 14 months. Management will record a charge to income of $264,000 during the quarter ending June 30, 2007.

ITEM 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Form 10-Q may include certain forward-looking statements based on current management expectations. The actual results of Kearny Financial Corp. (the "Company") could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities. Additional potential factors include changes in interest rates, deposit flows, cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of loan and investment portfolios of Kearny Federal Savings Bank, the Company's wholly-owned subsidiary, (the "Bank"). Other factors that could cause future results to vary from current management expectations include changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in the Company's other filings with the Securities and Exchange Commission.

Comparison of Financial Condition at March 31, 2007 and June 30, 2006

Total assets increased $15.9 million or 0.8%, to $2.01 billion at March 31, 2007, from $1.99 billion at June 30, 2006, due primarily to a $114.1 million increase in net loans receivable and a $47.2 million increase in cash and cash equivalents and to a lesser degree, a $19.0 million increase in the fair value of the securities and mortgage-backed securities portfolios. Partially offsetting these increases were decreases totaling $157.7 million in the amortized cost of the securities and mortgage-backed securities portfolios due to calls and maturities, repayments and sales of securities.

Cash and cash equivalents increased $47.2 million or 20.5%, to $277.5 million at March 31, 2007 from $230.3 million at June 30, 2006. The increase in cash and cash equivalents resulted primarily from the sale of securities as well as principal and interest payments and maturities from the securities and mortgage-backed securities portfolios and to a lesser degree an increase in deposits at the Bank, particularly in tiered money market accounts, as discussed below. To the extent that the Bank does not need the funds for loan originations, management expects to maintain liquidity at an elevated level as long as the Treasury yield curve remains inverted or flat in order to take advantage of the high short term interest rates resulting from the current yield curve.

The amortized cost of securities decreased by $136.3 million or 59.9%, to $91.3 million at March 31, 2007, compared to $227.6 million at June 30, 2006. Between June 30, 2006 and March 31, 2007, the fair value of the securities portfolio increased by $4.4 million and was $90.9 million at March 31, 2007. During the quarter ended March 31, 2007, management continued to sell securities from the municipal bond portfolio selling bonds with a par value of $25.7 million, recording a loss of $97,000. Since the sale of the bonds began in October 2006, a total of $131.7 million of bonds have been sold as of March 31, 2007, for a gain of $55,000. A decline in pre-tax income reduces the advantage of holding tax-exempt instruments and the portfolio's yield continues to be substantially below market. The municipal bond portfolio was $195.7 million at June 30, 2006, with a weighted average yield of 3.78%. At March 31, 2007, the Bank's remaining municipal bond portfolio was $67.2 million with a weighted average yield of 3.72%. During the nine months ended March 31, 2007, there was also a call of a $2.0 million trust

preferred security. Management utilized cash flows from principal and interest payments to fund loan originations during the nine month period.

Loans receivable, net of deferred fees and costs and the allowance for loan losses, increased $114.1 million or 16.2%, to $817.7 million at March 31, 2007, compared to $703.6 million at June 30, 2006. The increase resulted from management's focus on increasing the Bank's loan portfolio while reducing its dependence on securities to generate interest income. Total loans constituted 40.9% of assets at March 31, 2007, compared to 35.5% at June 30, 2006. By comparison, the securities and mortgage-backed securities portfolios constituted 37.6% of assets at March 31, 2007, compared to 44.8% at June 30, 2006.

One-to-four family residential first mortgage loans, the Bank's largest category increased by $64.1 million to $529.9 million at March 31, 2007. Nonresidential mortgages increased by $37.1 million to $133.1 million at March 31, 2007. Multi-family mortgages increased by $6.5 million to $17.5 million at March 31, 2007. Home equity loans increased by $15.0 million to $108.6 million at March 31, 2007. Commercial loans decreased by $1.6 million and totaled $1.6 million at March 31, 2007. There was a nominal decrease in home equity lines of credit of

$472,000 to $12.5 million at March 31, 2007. Construction loans outstanding and gross construction loans decreased $6.5 million to $15.6 million and $10.6 million to $22.9 million, respectively at March 31, 2007. Virtually the entire decrease in gross construction loans occurred in the nonresidential category. To supplement the Bank's in-house loan originations, the Bank purchases mortgages from several mortgage companies, with $71.4 million of one-to-four family residential mortgage loans purchased during the nine months ended March 31, 2007. The Bank has not originated or purchased any interest only mortgages, pay option adjustable rate mortgages or sub-prime mortgages.

The amortized cost of mortgage-backed securities decreased $21.4 million or 3.1%, to $668.6 million at March 31, 2007, from $690.0 million at June 30, 2006. Between June 30, 2006 and March 31, 2007, the fair value of the mortgage-backed securities portfolio increased by $14.6 million and was $663.5 million at March 31, 2007. Management reinvested approximately $81.7 million of cash flows from the mortgage-backed securities portfolio during the nine months ended March 31, 2007, purchasing $22.7 million in fixed rate Community Reinvestment Act ("CRA") eligible issues and $59.0 million in issues in which the underlying loans are 3/1 or 5/1 adjustable rate mortgages. Excluding the CRA eligible issues, which the Bank purchases to meet its CRA investments requirement, it has been management's policy for several years to purchase only adjustable rate issues, preferably seasoned such that the conversion to a one-year adjustable product may be less than three or five years away. Management's redeployment of cash flows from principal and interest payments to fund loan originations contributed to the decrease in the size of the mortgage-backed securities portfolio.

Premises and equipment was virtually unchanged at $35.7 million at March 31, 2007 compared to $35.9 million at June 30, 2006, as depreciation nominally exceeded the cost of additions to fixed assets. The most significant addition to premises and equipment during the period was completion of renovations at the Bank's retail branch in Old Tappan, New Jersey at a cost of approximately $371,000.

Bank owned life insurance increased $392,000 or 2.7%, to $15.0 million at March 31, 2007 compared to $14.6 million at June 30, 2006, due to an increase in the cash surrender value of the underlying insurance policies.

Deposits increased $23.0 million or 1.6%, to $1.47 billion at March 31, 2007, compared to $1.44 billion at June 30, 2006. During the nine months ended March 31, 2007, certificates of deposit and interest-bearing demand deposits, particularly tiered money market deposit accounts, increased approximately $53.0 million and $26.2 million, to $936.1 million and $148.3 million, respectively; while savings deposits decreased approximately $52.7 million to $324.7 million and non-interest-bearing deposits

decreased $3.6 million to $57.5 million. The threat of loss of deposits to competitors, both core deposits and certificates of deposit, necessitated the continuance of promotional interest rates during most of the nine month period ended March 31, 2007 to counteract promotions offered by other financial institutions in the Bank's market area, however, mid-way through the quarter ended December 31, 2006, management began to back away from this strategy in an attempt to mitigate margin compression resulting from the increased cost of deposits from promotional interest rates. Beginning in the quarter ending June 30, 2007, certificates of deposit with the highest interest rates begin to mature. Management anticipates that deposit pricing in the marketplace will become less competitive and expects that this will help the Bank to retain a significant percentage of the maturing accounts. However, the Bank's current substantial liquidity position should help management deal with any deposit

attrition.

Federal Home Loan Bank advances decreased $5.5 million or 9.0%, to $55.6 million at March 31, 2007, compared to $61.1 million at June 30, 2006. The reduction in borrowings resulted from the maturity of a $5.0 million advance, with an interest rate of 5.90%, and scheduled principal payments on amortizing advances.

During the nine months ended March 31, 2007, stockholders' equity decreased $1.5 million or 0.3%, to $473.6 million at March 31, 2007 compared to $475.1 million at June 30, 2006. The decrease was primarily the result of the purchase of Company common stock partially offset by an increase in accumulated other comprehensive income. The Company purchased 54,314 shares at a cost of $789,000 for the restricted stock plan and purchased 1,143,563 shares at a cost of $18.2 million as treasury shares. Accumulated other comprehensive loss decreased by $12.3 million as a result of an increase in the fair value of securities and mortgage-backed securities available for sale between June 30, 2006 and March 31, 2007. Cash dividends of $0.15 per share totaling $2.8 million in aggregate also contributed to the decrease in stockholders' equity. The Company's current regular quarterly dividend is $0.05 per share. Partially offsetting the decrease in stockholders' equity was net income of $1.7 million recorded during the period, the release of $1.7 million of Employee Stock Ownership Plan shares, the release of $2.5 million of restricted stock plan shares, a $1.5 million adjustment to equity for expensing stock options, a tax benefit of $434,000 recorded due to vesting of restricted stock and $108,000 due to treasury stock reissued.

Comparison of Operating Results for the Three Months Ended March 31, 2007 and 2006

General. Net income for the quarter ended March 31, 2007 was $242,000 or less than $0.01 per share, a decrease of $2.2 million or 91.7%, from $2.4 million or $0.03 per share for the quarter ended March 31, 2006. The decrease in net income resulted primarily from decreases in net interest income and non-interest income partially offset by a nominal decrease in non-interest expense.

Net Interest Income. Net interest income for the three months ended March 31, 2007 was $11.3 million, a decrease of $1.4 million or 11.0%, compared to $12.7 million for the three months ended March 31, 2006. The decrease in net interest income was due to a significant increase in interest expense partially offset by an increase in interest income.

The Bank's net interest rate spread decreased 41 basis points to 1.70% for the quarter ended March 31, 2007, from 2.11% for the quarter ended March 31, 2006. As of December 31, 2006, the most recent date for which the Bank has data, re-pricing interest-bearing liabilities are expected to exceed re-pricing interest-earning assets expressed as a percentage of total assets by approximately 16% over the next twelve months. Management does not believe that there has been a material change in the Bank's interest rate sensitivity during the three months ended March 31, 2007. The Bank continued to be liability sensitive during the quarter ended March 31, 2007 due primarily to maturing certificates of deposit. The cost of average interest-bearing liabilities increased 89 basis points, from 2.63% for the three months

ended March 31, 2006, to 3.52% for the three months ended March 31, 2007. By comparison, the yield on average interest-earning assets increased 47 basis points, from 4.75% for the three months ended March 31, 2006, to 5.22% for the three months ended March 31, 2007.

The Bank's net interest margin decreased 25 basis points to 2.43% for the three months ended March 31, 2007, compared with 2.68% for the three months ended March 31, 2006. Average interest-earning assets during the quarter ended March 31, 2007 were $1.85 billion or $39.5 million less than average interest-earning assets of $1.89 billion during the quarter ended March 31, 2006. The decrease resulted in part from use of cash to reduce borrowings as well as fund stock repurchases. Average interest-bearing liabilities during the quarter ended March 31, 2007 were $1.47 billion or $15.9 million less than average interest-bearing liabilities of $1.48 billion during the quarter ended March 31, 2006. The ratio of average interest-earning assets to average interest-bearing liabilities was 126.2% for the quarter ended March 31, 2007, compared to 127.5% for the quarter ended March 31, 2006.

Interest Income. Total interest income increased $1.7 million or 7.6%, to $24.2 million for the three months ended March 31, 2007, from $22.5 million for the three months ended March 31, 2006. Year-over-year, interest income from loans and other interest-earning assets increased while interest from mortgage-backed securities and securities decreased as a result of a shift in assets into loans.

Interest income from loans receivable increased $2.6 million or 28.6%, to $11.7 million for the three months ended March 31, 2007, from $9.1 million for the three months ended March 31, 2006 due to growth in the portfolio as well as an improvement in yield. The average balance of loans receivable increased $156.4 million to $811.4 million during the quarter ended March 31, 2007, from $655.0 million during the quarter ended March 31, 2006. Management continued to focus on increasing the Bank's loan portfolio while reducing its dependence on securities to generate interest income. Loans receivable represented 43.8% of average interest-earning assets for the quarter ended March 31, 2007, as compared to 34.6% for the same quarter a year ago. By comparison, the average securities and mortgage-backed securities portfolios constituted 42.3% of average interest-earning assets for the quarter ended March 31, 2007, as compared to 56.3% for the quarter ended March 31, 2006. The yield on average loans receivable increased 19 basis points to 5.75% for the quarter ended March 31, 2007, compared to 5.56% for the quarter ended March 31, 2006. The improvement in yield year-over-year was due in part to growth in the nonresidential mortgage category.

Interest income from mortgage-backed securities decreased $158,000 or 1.9%, to $8.1 million for the three months ended March 31, 2007, compared to $8.3 million for the three months ended March 31, 2006 due to a reduction in the portfolio partially offset by an improvement in yield. The average balance of mortgage-backed securities decreased $43.6 million to $670.0 million for the quarter ended March 31, 2007, from $713.6 million for the quarter ended March 31, 2006. The yield on average mortgage-backed securities increased 20 basis points to 4.83% for the three months ended March 31, 2007, from 4.63% for the three months ended March 31, 2006. The decrease in the average balance of mortgage-backed securities, year-over-year, resulted from utilization of principal and interest payments to fund loan originations. The increase in yield resulted from rate adjustments on pass-through certificates containing adjustable rate mortgages. Excluding fixed rate CRA eligible issues, management purchases only 3/1 and 5/1 adjustable rate pass-through certificates, preferably seasoned such that the conversion to a one-year adjustable product may be less than three or five years away.

Interest income from securities decreased $2.0 million or 62.5%, to $1.2 million for the quarter ended March 31, 2007, from $3.2 million for the quarter ended March 31, 2006 due to a significant reduction in the portfolio partially offset by an improvement in yield. The average balance of securities decreased $239.1 million to $112.8 million for the quarter ended March 31, 2007, compared to $351.9 million for the quarter ended March 31, 2006. The decrease in the average balance was due primarily to the sale of

the Bank's entire portfolio of government agency notes and Freddie Mac common stock in February 2006. Those sales were followed by the sale of municipal bonds totaling $131.7 million between October 2006 and March 2007, including $25.7 million in the current quarter. The yield on average securities improved 50 basis points from 3.67% for the three months ended March 31, 2006, to 4.17% for the three months ended March 31, 2007. The higher yield on the securities portfolio resulted from the sale of the government agency notes and municipal bonds. The yield on the notes was 3.22% at the time of their sale. The yield on the bonds was 3.78% at June 30, 2006, with the remaining balance of the portfolio yielding 3.72% at March 31, 2007.

Interest income from other interest-earning assets increased $1.3 million or 68.4%, to $3.2 million for the quarter ended March 31, 2007, from $1.9 million for the quarter ended March 31, 2006. This was a result of a significant increase in the average balance of other interest-earning assets as well as an improvement in yield. There was an $86.9 million increase in the average balance of other interest-earning assets to $258.4 million for the three months ended March 31, 2007, from $171.5 million for the three months ended March 31, 2006. There was a 65 basis point increase in the yield on average other interest-earning assets to 5.00% for the quarter ended March 31, 2007, from 4.35% for the quarter ended March 31, 2006, due to increases in short-term interest rates year-over-year, particularly the rate paid on overnight deposits. The increase can also be attributed to an increase in the dividend yield on Federal Home Loan Bank ("FHLB") of New York capital stock. The average balance of other interest-earning assets increased due to an increase in interest-earning deposits in other banks, partially offset by a decrease in the average balance of FHLB capital stock as a result of the lower balance of FHLB advances. Year-over-year, the average balance of interest-earning deposits increased $87.6 million to $253.2 million while the average balance of FHLB capital stock decreased $679,000 to $5.2 million. To the extent not required to fund loan originations, management reinvested cash flows from the securities and mortgage-backed securities portfolios into cash equivalents pending redeployment into other interest-earning assets.

Interest Expense. Total interest expense increased $3.1 million or 31.6%, to $12.9 million for the three months ended March 31, 2007, from $9.8 million for the three months ended March 31, 2006. Year-over-year, there was a significant increase in interest expense attributed to deposits and a nominal decrease in interest expense from borrowings.

Interest expense from deposits increased $3.4 million or 38.6%, to $12.2 million for the three months ended March 31, 2007, from $8.8 million for the three months ended March 31, 2006. The increase resulted primarily from an increase in the cost of average interest-bearing deposits plus a nominal increase in the average balance of interest-bearing deposits. The cost of average interest-bearing deposits increased 95 basis points to 3.44% for the quarter ended March 31, 2007, from 2.49% for the quarter ended March 31, 2006. An accelerating increase in the Bank's cost of deposits year-over-year, slowed during the quarter ended December 31, 2006 and the current quarter as the intense competition on the pricing of certificates of deposit eased. The average balance of interest-bearing deposits increased $4.5 million, virtually unchanged at $1.41 billion for the three months ended March 31, 2007 and the three months ended March 31, 2006.

Interest expense from FHLB advances decreased $251,000 or 25.0%, to $754,000 for the quarter ended March 31, 2007, from $1.0 million for the quarter ended March 31, 2006 due to a decrease in average borrowings partially offset by an increase in cost. Average borrowings decreased $20.4 million to $55.7 million for the

three months ended March 31, 2007, from $76.1 million for the three months ended March 31, 2006. The decrease in the average balance resulted from scheduled principal payments on amortizing advances, the maturity of a $5.0 million advance in November 2006 and the absence of overnight borrowings. There were overnight borrowings on the Bank's books during the first two months of the comparative quarter. The cost of average borrowings increased 13 basis points to 5.41% for the quarter ended March 31, 2007 from 5.28% for the quarter ended March 31, 2006, due to the inexpensive

overnight borrowings during the comparative quarter, relative to the interest rates on the long-term advances on the Bank's books during both quarters.

Provision for Loan Losses. The provision for loan losses decreased $5,000 to $101,000 for the quarter ended March 31, 2007, as compared to $106,000 during the quarter ended March 31, 2006. The provisions during both quarters resulted primarily from growth in the loan portfolio. Total loans increased to $822.0 million at March 31, 2007 from $798.1 million at December 31, 2006. Asset quality continued to be strong as non-performing loans were $1.1 million or 0.13% of total loans at March 31, 2007; though not as good as the $639,000 or 0.08% of total loans reported at December 31, 2006. The allowance for loan losses as a percentage of total loans outstanding was 0.71% at March 31, 2007 and 0.72% at December 31, 2006, reflecting allowance balances of $5.9 million and $5.8 million, respectively.

Management assesses the allowance for loan losses monthly. Management uses available information to recognize losses on loans, however, additional loan loss provisions may be necessary in the future, 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 March 31, 2007 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 decreased $12,000 or 2.0%, to $580,000 for the quarter ended March 31, 2007 from $592,000 for the quarter ended March 31, 2006. Fees and service charges from operations and the Bank's retail branch network were lower by $37,000 but miscellaneous income increased $25,000 compared to the year earlier quarter. Management plans to introduce an overdraft privilege program for the Bank's retail customers in May 2007 as a way of increasing fee income.

There was a loss on the sale of securities during the quarter ended March 31, 2007 of $97,000 due to the sale of municipal bonds with a par value of $25.7 million. There was a $937,000 net gain on the sale of securities attributed to a restructuring of the securities portfolio during the quarter ended March 31, 2006.

Non-Interest Expense. Total non-interest expense decreased $117,000 or 1.0%, to $11.3 million for the three months ended March 31, 2007, from $11.4 million for the three months ended March 31, 2006. The decrease resulted primarily from decreases in equipment expense, directors' compensation and miscellaneous expense partially offset by increases in salaries and employee benefits, net occupancy expense of premises and a nominal increase in advertising expense.

Salaries and employee benefits increased $106,000 or 1.5%, to $7.1 million for the quarter ended March 31, 2007, compared to $7.0 million for the quarter ended

March 31, 2006. Compensation expense increased $45,000 to $3.5 million and pension plan expense increased $15,000 to $663,000, both due to normal salary increases. The current quarter included Employee Stock Ownership Plan expense of $562,000, an increase of $65,000 due to an increase in the Company's average stock price, year-over-year. Stock compensation plans expense was unchanged at $933,000 and payroll taxes were virtually unchanged at $324,000. Other benefits expense decreased $23,000 to $1.0 million.

In a Form 8-K filed April 19, 2007, the Company reported that the Board of Directors of the Bank approved, effective July 1, 2007, "freezing" all future benefit accruals under the Kearny Federal Savings Bank Pension Plan, a non-contributory defined benefit pension plan. This action also includes "freezing" the benefit accruals under the Benefits Equalization Plan related to the defined benefit pension

plan. These actions are intended to provide the Company with additional flexibility in managing the costs associated with the benefit plans while still preserving all retirement plan participants' earned and vested benefits. Management estimates that these actions will result in pre-tax expense reductions of approximately $1.3 million and $226,000 for the defined benefit pension plan and benefits equalization plan, respectively, during the year ending June 30, 2008.

Net occupancy expense of premises increased $59,000 or 7.1%, to $895,000 for the quarter ended March 31, 2007 from $836,000 for the quarter ended March 31, 2006. The increase resulted principally from a $51,000 increase in property taxes expense attributed to the Bank's facilities.

Equipment expense decreased $76,000 or 6.5%, to $1.1 million from $1.2 million during the comparative quarter. Maintenance expense and service bureau expense decreased $36,000 and $37,000, respectively, due to management's negotiation of cost savings from the Bank's electronic data processing service providers as well as the Bank's core processor. The tentative settlement of a long-standing dispute with an electronic data processing service provider will result in an expense of approximately $88,000 in the quarter ending June 30, 2007 for which the vendor agrees to perform certain services.

Directors' compensation decreased $87,000 or 13.8%, to $544,000 during the quarter ended March 31, 2007, compared to $631,000 in the quarter ended March 31, 2006. The decrease was due primarily to the Board of Directors' decision to freeze its incentive compensation plan in December 2006.

Miscellaneous expense decreased $132,000 or 11.4%, to $1.0 million for the quarter ended March 31, 2007, from $1.2 million for the quarter ended March 31, 2006. The most significant decreases were attributed to audit and accounting services expense, printing and office supplies expense and annual meeting expense, which decreased $49,000, $39,000 and $30,000, respectively. Audit and accounting services expense declined due to lower costs associated with Sarbanes-Oxley Act compliance. Reduced printing expense and annual meeting expense resulted from the use of lower cost service providers for the 2006 annual meeting compared to the 2005 meeting. Several other miscellaneous expense categories decreased a total of $56,000, including officers', directors' and employee expense which decreased $23,000 due primarily to lower costs incurred by the dining facility located in the Company's administrative building. These decreases were partially offset by increases of $43,000 in other categories, the largest being a $22,000 increase in loan expense. The increase in loan expense was due primarily to an increase in servicing fees resulting from loans purchased and serviced by others.

Provision for Income Taxes. The provision for income taxes decreased $158,000 or 63.2%, to $92,000 for the quarter ended March 31, 2007, from $250,000 for the quarter ended March 31, 2006. The effective income tax rate was 27.5% for the three months ended March 31, 2007, as compared to 9.3% for the three months ended March 31, 2006. The effective tax rate increased due a decline in the ratio of interest from tax-exempt instruments to pre-tax income, year-over-year. Tax-exempt interest reduced the Company's federal income expense by approximately $251,000 during the quarter ended March 31, 2007, compared to a reduction of approximately $598,000 in the quarter ended March 31, 2006. Management continued to liquidate the municipal bond portfolio due to the decline in pre-tax income which reduces the advantage of holding tax-exempt instruments as well as the portfolio's low yield.

Comparison of Operating Results for the Nine Months Ended March 31, 2007 and 2006

General. Net income for the nine months ended March 31, 2007 was $1.7 million or $0.02 per share, a decrease of $6.0 million or 77.9%, from $7.7 million or $0.11 per share for the nine months ended March 31, 2006. The decrease in net income resulted primarily from decreases in net interest income and non-interest income and an increase in non-interest expense, particularly salaries and employee benefits and directors' compensation due to the cost of stock compensation plans.

Net Interest Income. Net interest income for the nine months ended March 31, 2007 was $34.1 million, a decrease of $3.9 million or 10.3%, compared to $38.0 million for the nine months ended March 31, 2006. The decrease in net interest income was due to a significant increase in interest expense partially offset by an increase in interest income.

The Bank's net interest rate spread decreased 37 basis points to 1.73% for the nine months ended March 31, 2007, from 2.10% for the nine months ended March 31, 2006. The cost of average interest-bearing liabilities increased 88 basis points, from 2.52% for the nine months ended March 31, 2006, to 3.40% for the nine months ended March 31, 2007. During the nine months ended March 31, 2007, the yield on average interest-earning assets increased 51 basis points to 5.13% for the nine months ended March 31, 2007, from 4.62% for the nine months ended March 31, 2006. Interest-bearing liabilities continued to re-price faster than interest-earning assets during the nine months ended March 31, 2007. As of March 31, 2006, re-pricing interest-bearing liabilities were expected to exceed re-pricing interest-earning assets expressed as a percentage of total assets by approximately 19% over the next twelve months. This ratio improved to approximately 16% as of December 31, 2006, the most recent date for which the Bank has data, due to the redeployment of funds realized from the sale of securities into cash and cash equivalents. Management does not believe that there has been a material change in the Bank's interest rate sensitivity during the three months ended March 31, 2007. The Bank continued to be liability sensitive during the nine months ended March 31, 2007 due primarily to maturing certificates of deposit. Promotional interest rates utilized to attract new deposits, also affected the rollover rates on existing certificates of deposit, generally pushing non-promotional interest rates higher in order to remain competitive in the market place.

The Bank's net interest margin decreased 19 basis points to 2.45% for the nine months ended March 31, 2007, compared with 2.64% for the nine months ended March 31, 2006. Average interest-earning assets during the nine months ended March 31, 2007 were $1.86 billion or $55.2 million less than average interest-earning

assets of $1.92 billion during the nine months ended March 31, 2006. The decrease resulted in part from use of cash to fund deposit outflows and reduce borrowings as well as fund stock repurchases. Average interest-bearing liabilities during the nine months ended March 31, 2007 were $1.47 billion or $35.5 million less than average interest-bearing liabilities of $1.50 billion during the nine months ended March 31, 2006. The ratio of average interest-earning assets to average interest-bearing liabilities was 126.9% for the nine months ended March 31, 2007, compared to 127.6% for the nine months ended March 31, 2006.

Interest Income. Total interest income increased $5.1 million or 7.7%, to $71.5 million for the nine months ended March 31, 2007, from $66.4 million for the nine months ended March 31, 2006. Year-over-year, interest income from loans and other interest-earning assets increased while interest from mortgage-backed securities and securities decreased as a result of a shift in assets into loans.

Interest income from loans receivable increased $7.2 million or 27.9%, to $33.0 million for the nine months ended March 31, 2007, from $25.8 million for the nine months ended March 31, 2006 due primarily to growth in the portfolio as well as an improvement in yield. The average balance of loans receivable increased $152.3 million to $770.0 million during the nine months ended March 31, 2007, from $617.7 million during the nine months ended March 31, 2006. Management continued to implement the Bank's business plan which calls for increasing the Bank's loan portfolio while reducing its dependence on securities to generate interest income. Average loans receivable constituted 41.4% of average interest-earning assets for the nine months ended March 31, 2007, as compared to 32.2% for the same period a year ago. By contrast, average securities and mortgage-backed securities represented 45.6% of average interest-earning assets for the nine months ended March 31, 2007, as compared to 61.6% for the nine months ended March 31, 2006. During the nine months ended March 31, 2007, the Bank purchased approximately $71.4 million in loans from mortgage companies compared to

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approximately $14.6 million during the same period a year earlier due to the slowing real restate market, which affected the Bank's ability to originate loans internally. The yield on average loans receivable increased 16 basis points to 5.72% for the nine months ended March 31, 2007, compared to 5.56% for the nine months ended March 31, 2006. The improvement in yield year-over-year was due in part to growth in the nonresidential mortgage category.

Interest income from mortgage-backed securities decreased $1.0 million or 4.0%, to $24.2 million for the nine months ended March 31, 2007, compared to $25.2 million for the nine months ended March 31, 2006 due to a reduction in the portfolio partially offset by an improvement in yield. The average balance of mortgage-backed securities decreased $60.6 million to $676.4 million for the nine months ended March 31, 2007, from $737.0 million for the nine months ended March 31, 2006. The yield on average mortgage-backed securities increased 20 basis points to 4.77% for the nine months ended March 31, 2007, from 4.57% for the nine months ended March 31, 2006. To the extent not required to fund loan originations, management reinvested cash flows from principal and interest payments from mortgage-backed securities into cash equivalents pending redeployment into other interest-earning assets, which contributed to the decrease in the average balance year-over-year. The increase in yield resulted from rate adjustments on pass-through certificates containing adjustable rate mortgages. Excluding CRA eligible securities which are fixed rate, when redeploying cash flows from the portfolio back into mortgage-backed securities, management routinely reinvested in adjustable rate product, preferably seasoned 3/1 and 5/1 adjustable rate mortgages such that the first rate change date and

conversion to a one-year adjustable product may be less than three or five years away. By sacrificing higher yields on fixed rate securities in the short-term, the Bank gained some interest rate risk protection in the future.

Interest income from securities decreased $6.7 million or 56.3%, to $5.2 million during the nine months ended March 31, 2007, from $11.9 million during the nine months ended March 31, 2006 due to a significant reduction in the portfolio partially offset by an improvement in yield. The average balance of securities decreased $271.5 million to $171.4 million for the nine months ended March 31, 2007, compared to $442.9 million for the nine months ended March 31, 2006. The decrease in the average balance was due primarily to the sale of the Bank's entire portfolio of government agency notes, with an amortized cost of $249.0 million, and Freddie Mac common stock with a fair value of $8.9 million, in February 2006. Those sales were followed by sales of municipal bonds, totaling $131.7 million during the nine months ended March 31, 2007. To the extent not required to fund loan originations, management reinvested the proceeds from the sales into cash equivalents pending redeployment into other interest-earning assets. During the comparative period, management was still reinvesting cash flows from maturing securities back into the portfolio, primarily in the municipal bond category, due to nominally higher coupons as well as higher tax equivalent yields. However, the advantage of holding tax-exempt instruments gradually disappeared with declining pre-tax income. The yield on average securities improved 48 basis points from 3.59% for the nine months ended March 31, 2006, to 4.07% for the nine months ended March 31, 2007. The higher yield on the securities portfolio resulted from the sale of the government agency notes and municipal bonds. The yield on the notes was 3.22% at the time of their sale. The yield on the bonds was 3.78% at June 30, 2006, with the remaining balance of the portfolio yielding 3.72% at March 31, 2007.

Interest income from other interest-earning assets increased $5.6 million or 160.0%, to $9.1 million for the nine months ended March 31, 2007, from $3.5 million for the nine months ended March 31, 2006. This was a result of a significant increase in the average balance of other interest-earning assets as well as an improvement in yield. There was a $124.5 million increase in the average balance of other interest-earning assets to $242.4 million for the nine months ended March 31, 2007, from $117.9 million for the nine months ended March 31, 2006. There was a 104 basis point increase in the yield on average other interest-earning assets to 4.99% for the nine months ended March 31, 2007, from 3.95% for the nine months ended March 31, 2006, due to increases in short-term interest rates year-over-year, particularly

the rate paid on overnight deposits as well as the dividend yield on Federal Home Loan Bank ("FHLB") of New York capital stock. The average balance of other interest-earning assets increased due to an increase in interest-earning deposits of $128.2 million to $237.2 million, the primary component of other interest-earning assets, partially offset by a decrease in FHLB capital stock of $3.5 million to $5.3 million due to a repurchase by FHLB to meet regulatory requirements. To the extent not required to fund loan originations, management reinvested the proceeds from the sales into cash equivalents pending redeployment into other interest-earning assets.

Interest Expense. Total interest expense increased $9.0 million or 31.7%, to $37.4 million for the nine months ended March 31, 2007, from $28.4 million for the nine months ended March 31, 2006. Year-over-year, there was a significant increase in interest expense attributed to deposits and a nominal decrease in interest expense from borrowings.

Interest expense from deposits increased $9.3 million or 36.2%, to $35.0 million

for the nine months ended March 31, 2007, from $25.7 million for the nine months ended March 31, 2006. The increase resulted primarily from an increase in the cost of average interest-bearing deposits, which more than offset a decrease in the average balance of interest-bearing deposits. The cost of average interest-bearing deposits increased 92 basis points to 3.31% for the nine months ended March 31, 2007, from 2.39% for the nine months ended March 31, 2006. The average balance of interest-bearing deposits decreased $27.1 million to $1.41 billion for the nine months ended March 31, 2007, from $1.43 billion for the nine months ended March 31, 2006. During the year, management offered promotional interest rates on selected certificates of deposit maturities and tiered money market deposit accounts in an effort to retain and attract deposits in the midst of intense competition in the marketplace. This strategy had a significant effect on the Bank's cost of funds year-over-year. Midway through the quarter ended December 31, 2006, management began to abandon this strategy in an attempt to mitigate margin compression. With respect to the same period a year ago, management reacted to competitive pressures in the marketplace earlier in 2005 by offering a premium interest rate on 13 month certificates of deposit, which attracted new money but then ceased offering promotional interest rates due to the rising cost of funds until the June quarter, when loss of deposits again became a concern.

Interest expense from Federal Home Loan Bank advances decreased $321,000 or 11.7%, to $2.4 million for the nine months ended March 31, 2007, from $2.7 million for the nine months ended March 31, 2006. Average borrowings decreased $8.4 million to $58.3 million for the nine months ended March 31, 2007, from $66.7 million for the nine months ended March 31, 2006. The cost of average borrowings increased five basis points to 5.51% for the nine months ended March 31, 2007 from 5.46% for the nine months ended March 31, 2006. The decrease in the average balance resulted from scheduled principal payments on amortizing advances, the maturity of a $5.0 million advance in November 2006 and overnight borrowings on the Bank's books during January and February 2006. The cost of average borrowings increased due to the inexpensive overnight borrowings from a year ago, relative to the interest rates on the long-term advances on the Bank's books during both periods.

Provision for Loan Losses. The provision for loan losses increased $133,000, to $378,000 for the nine months ended March 31, 2007, from a $245,000 provision recorded during the nine months ended March 31, 2006. Management attributes the increase principally to growth in the loan portfolio. Total loans increased to $822.0 million at March 31, 2007 from $708.0 million at June 30, 2006. Asset quality continued to be strong as non-performing loans were $1.1 million or 0.13% of total loans at March 31, 2007, as compared to $1.0 million or 0.14% of total loans at June 30, 2006. The allowance for loan losses as a percentage of total loans outstanding was 0.71% at March 31, 2007 and 0.77% at June 30, 2006, reflecting allowance balances of $5.9 million and $5.5 million, respectively. The increase in the allowance balance during the nine months ended March 31, 2007 included a recovery of $27,000 and no

charge-offs compared to a recovery and charge-offs of $5,000 and $17,000, respectively, during the nine months ended March 31, 2006.

Management assesses the allowance for loan losses monthly. Management uses available information to recognize losses on loans, however, additional loan loss provisions may be necessary in the future, 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 March 31, 2007 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 increased $52,000 or 3.0%, to $1.8 million during the nine months ended March 31, 2007 compared to $1.7 million during the nine months ended March 31, 2006. Fees and service charges from operations and the Bank's retail branch network decreased by $99,000; during the nine months ended March 31, 2006, fees and service charges included non-recurring loan prepayment fees of $85,000 compared to $1,000 in the current period. Miscellaneous income increased $151,000 compared to the year earlier period. Income from bank owned life insurance increased $62,000 due to the purchase of additional insurance during the comparative period. There was also a loss on sale of real estate owned of $35,000 recorded during the nine months ended March 31, 2006, with no such loss in the current period.

There was a gain on sale of securities during the nine months ended March 31, 2007 of $55,000 compared to $1.0 million during the nine months ended March 31, 2006.

Non-Interest Expense. Total non-interest expense increased $2.7 million or 8.7%, to $33.6 million for the nine months ended March 31, 2007, from $30.9 million for the nine months ended March 31, 2006. The increase resulted primarily from increases in salaries and employee benefits and directors' compensation and to a lesser degree, increases in net occupancy expense of premises and advertising expense partially offset by decreases in equipment expense and miscellaneous expense.

Salaries and employee benefits increased $2.3 million or 12.6%, to $20.6 million for the nine months ended March 31, 2007, compared to $18.3 million for the nine months ended March 31, 2006. Management attributes the increase primarily to the 2005 Stock Compensation and Incentive Plan approved at the Company's annual stockholders' meeting held in October 2005, which resulted in an expense of $2.8 million during the nine months ended March 31, 2007; a $1.6 million increase compared to $1.2 million recorded in the nine months ended March 31, 2006. The current nine months included Employee Stock Ownership Plan compensation expense of $1.7 million, an increase of $287,000 compared to $1.4 million during the nine months ended March 31, 2006 due to an increase in the average price of the Company's stock, year-over-year. Other components of salaries and employee benefits increased $438,000 compared to the prior year, including increases of $125,000 and $52,000 in compensation expense and pension expense, respectively, both due to normal salary increases, an increase in other benefits expense of $217,000 due principally to employee health insurance and a $44,000 increase in payroll taxes expense due primarily to vesting of restricted stock.

Net occupancy expense of premises increased $73,000 or 2.9%, to $2.6 million for the nine months ended March 31, 2007 from $2.5 million for the nine months ended March 31, 2006. Rental income from surplus retail branch space resulted in a $30,000 decrease in rent expense, net, and repairs and maintenance expense decreased $69,000. They were offset by increases in property taxes expense, depreciation expense and utilities expense of $73,000, $58,000 and $42,000, respectively. The Bank

leases surplus space in retail branch facilities in Springfield, River Vale and the Pleasantdale office in West Orange.

Equipment expense decreased $32,000 or 1.0%, virtually unchanged at $3.3 million

year-over-year. A decrease in maintenance expense of $90,000 due to management's negotiation of cost savings from the Bank's electronic data processing service providers was partially offset by higher depreciation expense and service bureau expense, which increased $5,000 and $52,000, respectively. The increase in service bureau expense was due primarily to higher costs associated with the Bank's core processor.

Advertising expense increased $101,000 or 9.5%, to $1.2 million, compared to $1.1 million during the same period in the prior year, due to an extensive advertising campaign to publicize promotional interest rates for certificates of deposit, tiered money market deposit accounts and StarBanking, a bundled services package. There were also extensive advertising campaigns focused on the Bank's loan products.

Directors' compensation increased $319,000 or 22.1%, to $1.8 million during the nine months ended March 31, 2007, compared to $1.4 million during the nine months ended March 31, 2006. Stock compensation plans expense increased $486,000 due to the 2005 Stock Compensation and Incentive Plan approved at the Company's annual stockholders' meeting held in October 2005. This increase was partially offset by decreases in directors' fees and other directors' compensation of $109,000 and $58,000, respectively. The Company's obligation to pay advisory board fees in connection with its acquisition of West Essex Bancorp ended in June 2006, which contributed to the decline in directors' fees. Other directors' compensation decreased due primarily to the freezing of the directors' incentive compensation plan during the quarter ended December 31, 2006.

Miscellaneous expense decreased $128,000 or 3.8%, to $3.3 million from $3.4 million, year-over-year. The two categories with the largest increases were legal expense and loan expense, $77,000 and $56,000, respectively. Management attributes the increase in legal expense to ongoing evaluation and implementation of growth and diversification strategies related to execution of the Company's business plan while the increase in loan expense resulted from origination costs associated with growing the loan portfolio. The two categories with the largest decreases were printing and office supplies expense, which decreased $85,000 due to the use of lower cost service providers and miscellaneous expense, which decreased $73,000. Miscellaneous expense during the nine months ended March 31, 2006 included a settlement for $51,000 with the New Jersey Division of Taxation resulting from a use tax audit covering the previous five years.

Provision for Income Taxes. The provision for income taxes decreased $1.6 million or 88.9%, to $257,000 for the nine months ended March 31, 2007, from $1.8 million for the nine months ended March 31, 2006. The effective tax rate was 13.0% for the nine months ended March 31, 2007, as compared to 19.0% for the nine months ended March 31, 2006. The effective tax rate declined due to interest from tax exempt instruments becoming a greater percentage of net income as net income declined. Tax-exempt interest reduced the Company's federal income expense by approximately $1.2 million during the nine months ended March 31, 2007, compared to a reduction of approximately $1.8 million during the nine months ended March 31, 2006. Management is liquidating the municipal bond portfolio due to the decline in pre-tax income which reduces the advantage of holding tax-exempt instruments as well as the portfolio's low yield.

Liquidity and Capital Resources

The Bank's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. The Bank's primary sources of funds are deposits, principal amortization, principal prepayments and maturities

of mortgage-backed securities and loans receivable; maturities of securities and funds provided from operations. In addition, the Bank invests excess funds in short-term interest-earning assets such as overnight deposits, which provide liquidity to meet lending requirements. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, general interest rates, economic conditions and competition greatly influence deposit flows and prepayments on loans and mortgage-backed securities.

The Bank is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe operation. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. The Bank attempts to maintain adequate but not excessive liquidity, and liquidity management is both a daily and long-term function of business management. However, to the extent that the Bank does not need the funds for loan originations, management expects to maintain liquidity at an elevated level as long as the Treasury yield curve remains inverted or flat.

The Bank reviews cash flow projections regularly and updates 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 March 31, 2007, the Bank had outstanding commitments to originate loans of $57.2 million, commitments to fund the purchase of loans on a flow basis of $74.0 million, construction loans in process of $7.2 million and unused lines of credit of $26.4 million.

During the quarter ended June 30, 2006, management introduced promotional interest rates for terms of five, nine and 13 months to retain and attract new certificates of deposit. The Bank continued to offer the promotional interest rates for certificates of deposit with those terms during the quarter ended September 30, 2006 as well as a promotional interest rate for a tiered money market deposit account. The program continued until midway through the quarter ended December 31, 2006 when the Bank ceased to offer promotional interest rates on certificates of deposit. Management reduced the interest rate tied to the highest tier on the tiered money market deposit account several times during the quarter ended March 31, 2007.

Certificates of deposit increased $53.0 million from $883.1 million at June 30, 2006 to $936.1 million at March 31, 2007 while interest-bearing transaction accounts increased $26.2 million from $122.1 million at June 30, 2006 to $148.3 million at March 31, 2007, with most of the increase attributed to tiered money market deposit accounts. Certificates of deposit scheduled to mature in one year or less at March 31, 2007 totaled $810.9 million compared to $658.2 million at June 30, 2006. Beginning in the quarter ending June 30, 2007, certificates of deposit with the highest promotional interest rates begin to mature. Based on historical experience and expectation of more realistic deposit pricing in the marketplace, management believes that a significant portion of maturing deposits will remain with the Bank. However, given management's more conservative pricing strategy implemented in late October 2006, the Bank could face significant deposit outflows during the next two quarters. The Bank's substantial liquidity position, which includes $277.5 million in cash and cash equivalents at March 31, 2007, provides a cushion for deposit attrition, if it occurs.

Borrowings from the Federal Home Loan Bank ("FHLB") of New York are available to supplement the Bank's liquidity position and to the extent that maturing deposits do not remain with us, they may need to

be replaced with borrowings. At March 31, 2007, advances from the FHLB amounted to $55.6 million. The Bank has the capacity to borrow additional funds from the FHLB, through an overnight line of credit of $200.0 million or by taking additional short-term or long-term advances.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of March 31, 2007, Kearny Federal Savings Bank exceeded all capital requirements of the Office of Thrift Supervision (the "OTS").

The following table sets forth the Bank's capital position at March 31, 2007, as compared to the minimum regulatory capital requirements:

	March 31, 2007 (Unaudited)				
	Actual		Minimum Capital Requirements		
	Amount	Ratio	Amount	Ratio	
	(Dollars in Thousands)				
Total Capital (to risk-weighted assets)	$ 365,090	44.51%	$ 65,612	8.00%	$
Tier 1 Capital (to risk-weighted assets)	$ 359,234	43.80%	-	-	$
Core (Tier 1) Capital (to adjusted total assets)	$ 359,234	18.83%	$ 57,223	3.00%	$
Tangible Capital (to adjusted total assets)	$ 359,234	18.83%	$ 28,612	1.50%	

In December 2006, the Bank received approval from the Office of Thrift Supervision for a $15.0 million capital distribution to the Company. The cash dividend was paid in January 2007.

ITEM 3.
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Qualitative Analysis. The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread sustainable during fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities, which either re-price or mature within a given period. The difference, or the interest rate re-pricing "gap", provides an indication of the extent changes in interest rates may affect an institution's

interest rate spread. A positive gap exists when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities, and a negative gap exists when the amount of interest rate sensitive liabilities exceeds the amount of interest-rate sensitive assets. Generally, during a period of rising interest rates, a negative gap within shorter maturities would adversely affect net interest income, while a positive gap within shorter maturities would result in an increase in net interest income. During a period of falling interest rates, a negative gap within shorter maturities would result in an increase in net interest income while a positive gap within shorter maturities would result in a decrease in net interest income.

Because the Bank's interest-bearing liabilities, which mature or re-price within short periods exceed its interest-earning assets with similar characteristics, material and prolonged increases in interest rates generally would adversely affect net interest income, while material and prolonged decreases in interest rates generally would have a positive effect on net interest income.

The Bank's Board of Directors established an Interest Rate Risk Management Committee comprised of members of the board and management. The committee meets quarterly to address management of the Bank's assets and liabilities, including review of its short term liquidity position; loan and deposit pricing and production volumes and alternative funding sources; current investments; average lives, durations and re-pricing frequencies of loans and securities; and a variety of other asset and liability management topics. The committee reports the results of its quarterly review to the full board, which adjusts interest rate risk policy and strategies, as it considers necessary and appropriate.

Quantitative Analysis. Management using the OTS model, which estimates the change in the Bank's net portfolio value (the "NPV") over a range of interest rate scenarios, monitors the Bank's interest rate sensitivity. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. OTS defines the NPV ratio, under any interest rate scenario, as the NPV in that scenario divided by the market value of assets in the same scenario. The OTS produces its analysis based upon data submitted on the Bank's quarterly Thrift Financial Reports.

The following table sets forth the Bank's NPV as of December 31, 2006, the most recent date for which the Bank has received the Bank's NPV as calculated by the OTS. Management does not believe that there has been a material adverse change in the Bank's interest rate risk during the three months ended March 31, 2007.

	At December 31, 2006				
	Net Portfolio Value		Net Portfolio Value as % of Present Value of Assets		
Changes in Rates (1)	$ Amount	$ Change	% Change	Net Portfolio Value Ratio	Basis Point Change
	(In Thousands)				
+300 bp	318,583	-106,269	-25%	17.11%	-431 bp
+200 bp	356,021	-68,831	-16%	18.69%	-272 bp
+100 bp	390,887	-33,965	-8%	20.10%	-131 bp
0 bp	424,852	-	-	21.42%	-
-100 bp	449,564	+24,712	+6%	22.32%	+90 bp

-200 bp	466,448	+41,595	+10%	22.89%	+148 bp

(1) The -300 bp scenario is not shown due to the low prevailing interest rate environment.

This analysis also indicated that as of December 31, 2006 an immediate and permanent 2.00% increase in interest rates would cause an approximately 9.38% decrease in our net interest income.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require the making of certain assumptions, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV model presented assumes that the composition of the Bank's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the measurement period. The model also assumes that a particular change in interest rates reflects uniformly across the yield curve regardless of the duration to maturity or re-pricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of the Bank's interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Bank's net interest income and will differ from actual results.

ITEM 4.
CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. Legal Proceedings

At March 31, 2007, neither the Company nor the Bank were involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company and the Bank.

ITEM 1A. Risk Factors

Management of the Company does not believe there has been any material changes with regard to the Risk Factors previously disclosed under Item 1A. of the Company's Form 10-K for the year ended June 30, 2006, previously filed with the Securities and Exchange Commission.

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

ISSUER PURCHASES OF EQUITY SECURITIES

The following table reports information regarding repurchases of the Company's common stock during the quarter ended March 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1-31, 2007	0	-	0	1,036,634
February 1-28, 2007	21,000	$14.70	21,000	1,015,634
March 1-31, 2007	31,500	$14.68	31,500	984,134
Total	52,500	$14.68	52,500	-

(1) On January 18, 2007, the Company announced a five percent stock repurchase plan (approximately 1,036,634 shares). Such purchases are to be made from time to time in the open market, based on stock availability, price and the Company's financial performance. This program has no expiration date.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The following Exhibits are filed as part of this report:

3.1	Charter of Kearny Financial Corp. (1)
3.2	By-laws of Kearny Financial Corp. (1)
4.0	Specimen Common Stock Certificate of Kearny Financial Corp. (1)
10.1	Employment Agreement between Kearny Federal Savings Bank and John N. H
10.2	Employment Agreement between Kearny Federal Savings Bank and Albert E.
10.3	Employment Agreement between Kearny Federal Savings Bank and Sharon Jo
10.4	Employment Agreement between Kearny Federal Savings Bank and William C
10.5	Employment Agreement between Kearny Federal Savings Bank and Erika K.
10.6	Employment Agreement between Kearny Federal Savings Bank and Patrick M
10.7	Employment Agreement between Kearny Federal Savings Bank and Craig L.
10.8	Directors Consultation and Retirement Plan (1)
10.9	Benefit Equalization Plan (1)
10.10	Benefit Equalization Plan for Employee Stock Ownership Plan (1)
10.11	Stock Option Plan (3)
10.12	Restricted Stock Plan (3)
10.13	Kearny Federal Savings Bank Director Life Insurance Agreement (4)
10.14	Kearny Federal Savings Bank Executive Life Insurance Agreement (4)
11.0	Statements re: computation of per share earnings (Filed herewith).
31.0	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 200
32.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 200

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(1) Incorporated by reference to the identically numbered exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-118815).
(2) Incorporated by reference to the exhibit to the Registrant's Form 8-K filed on July 21, 2005. (File No. 000-51093).
(3) Incorporated by reference to the Registrant's definitive proxy statement filed September 30, 2005 (File No. 000-51093).
(4) Incorporated by reference to the exhibits to the Registrant's Form 8-K filed on August 18, 2005. (File No. 000-51093).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on it behalf by the

undersigned thereunto duly authorized.

KEARNY FINANCIAL CORP.

Date:	May 10, 2007	By:	/s/ John N. Hopkins
			John N. Hopkins President and Chief Executive Officer (Duly authorized officer and principal executive officer)
Date:	May 10, 2007	By:	/s/ William C. Ledgerwood
			William C. Ledgerwood Senior Vice President and Chief Financial Officer (Principal financial officer)