Kearny Financial Corp.
Form 10-Q
November 09, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from ____________________ to ______________________

Commission 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: November 2, 2006.

$0.10 par value common stock - 72,284,200 shares outstanding

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

INDEX

	Page Number
PART I - FINANCIAL INFORMATION	
Item 1: Financial Statements	
Consolidated Statements of Financial Condition at September 30, 2006 and June 30, 2006 (Unaudited)	1
Consolidated Statements of Income for the Three Months Ended September 30, 2006 and 2005 (Unaudited)	2-3
Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2006 and 2005 (Unaudited)	4
Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2006 and 2005 (Unaudited)	5-6
Notes to Consolidated Financial Statements	7-12
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	13-21
Item 3: Quantitative and Qualitative Disclosure About Market Risk	22-23
Item 4: Controls and Procedures	24
PART II - OTHER INFORMATION	25-26
SIGNATURES	27

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Thousands, Except Share Data, Unaudited)

	September 30, 2006	June 30, 2006
Assets		
Cash and amounts due from depository institutions	$ 19,987	$ 22,563
Interest-bearing deposits in other banks	209,768	207,716
Cash and Cash Equivalents	229,755	230,279
Securities available for sale (amortized cost $18,643 and $18,550)	18,509	18,346
Securities held to maturity (estimated fair value $207,713 and $204,447)	206,732	209,048
Loans receivable, including net deferred loan costs of $991 and $1,087	748,945	709,064
Less allowance for loan losses	(5,609)	(5,451)
Net Loans Receivable	743,336	703,613
Mortgage-backed securities held to maturity (estimated fair value $663,849 and $670,329)	673,219	689,962
Premises and equipment	35,729	35,941
Federal Home Loan Bank of New York ("FHLB") stock	5,400	5,406
Interest receivable	8,709	8,836
Goodwill	82,263	82,263
Bank owned life insurance	14,759	14,628
Other assets	9,286	9,203
Total Assets	$ 2,027,697	$ 2,007,525
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 58,518	$ 61,080
Interest-bearing	1,407,771	1,382,658
Total Deposits	1,466,289	1,443,738
Advances from FHLB	60,954	61,105
Advance payments by borrowers for taxes	4,964	5,232
Other liabilities	7,733	6,564
Total Liabilities	1,539,940	1,516,639
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 issued and 72,454,700 outstanding and 72,737,500 issued and outstanding	7,274	7,274
Paid-in capital	193,241	192,534
Retained earnings	306,734	306,728
Unearned Employee Stock Ownership Plan shares; 1,515,365 shares and 1,551,733 shares	(15,154)	(15,517)
Treasury stock, at cost; 282,800 shares and 0 shares	(4,251)	--
Accumulated other comprehensive (loss)	(87)	(133)
Total Stockholders' Equity	487,757	409,886
Total Liabilities and Stockholders' Equity	$ 2,027,697	$ 2,007,525

See notes to consolidated financial statements

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended September 30,	
	2006	2005
Interest Income:		
Loans	$10,311	$ 8,121
Mortgage-backed securities	8,021	8,568
Securities:		
Taxable	400	2,438
Tax-exempt	1,885	1,925
Other interest-earning assets	2,667	919
Total Interest Income	23,284	21,971
Interest Expense:		
Deposits	10,745	8,287
Borrowings	851	871
Total Interest Expense	11,596	9,158
Net Interest Income	11,688	12,813
Provision for Loan Losses	158	75

Net Interest Income after Provision for Loan Losses	11,530	12,738
Non-Interest Income:		
Fees and service charges	228	277
Gain on sale of securities	--	86
Miscellaneous	340	230
Total Non-Interest Income	568	593
Non-interest expenses:		
Salaries and employee benefits	6,814	5,603
Net occupancy expense of premises	858	896
Equipment	1,076	1,052
Advertising	393	325
Federal insurance premium	142	134
Amortization of intangible assets	159	159
Directors' compensation	657	230
Miscellaneous	997	979
Total Non-Interest Expenses	11,096	9,378
Income before Income Taxes	1,002	3,953
Income Taxes	76	989
Net Income	$ 926	$ 2,964

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Continued)
(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended September 30,	
	2006	2005
Net Income per Common Share:		
Basic	$ 0.01	$ 0.04
Diluted	0.01	0.04
Weighted Average Number of Common Shares Outstanding:		
Basic	69,751	71,053
Diluted	70,465	71,053

Dividends Declared Per Common Share	$ 0.05	$ 0.09

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2006	2005
Net Income	$ 926	$ 2,964
Other comprehensive income (loss), net of income taxes:		
Gross realized holdings (gain) on securities available for sale	-	(86)
Income tax expense	-	30
Gross unrealized holdings gain (loss) on securities available for sale	70	(1,261)
Deferred income tax benefit (expense)	(24)	441
Other Comprehensive Income (Loss)	46	(876)
Comprehensive Income	$ 972	$ 2,088

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands, Unaudited)

Three Months September	
2006	

Cash Flows from Operating Activities:		
Net income	$ 926	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	489	
Net amortization of premiums, discounts and loan fees and costs	243	
Deferred income taxes	(151)	
Amortization of intangible assets	159	
Provision for loan losses	158	
Realized gains on sale of securities available for sale	-	
(Increase) in cash surrender value of bank owned life insurance	(131)	
ESOP, stock option plan and restricted stock plan expenses	1,859	
Realized loss on sale of real estate owned	-	
Decrease in interest receivable	127	
(Increase) in other assets	(116)	
Increase (decrease) in interest payable	(1)	
Increase (decrease) in other liabilities	1,180	
Net Cash Provided by Operating Activities	4,742	
Cash Flows from Investing Activities:		
Purchases of securities available for sale	(92)	
Proceeds from sale of securities available for sale	-	
Purchases of securities held to maturity	-	
Proceeds from calls and maturities of securities held to maturity	1,305	
Proceeds from repayments of securities held to maturity	1,011	
Purchase of loans	(13,528)	
Net (increase) in loans receivable	(26,414)	(
Proceeds from sale of real estate owned	-	
Purchases of mortgage-backed securities held to maturity	(19,419)	(
Principal repayments on mortgage-backed securities held to maturity	35,979	
Additions to premises and equipment	(277)	
Redemption of FHLB stock	7	
Purchase of bank owned life insurance	-	
Net Cash (Used in) Investing Activities	$(21,428)	$(

See notes to consolidated financial statements.

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

(In Thousands, Unaudited)

	Three Months Ended September 30,	
	2006	2005
Cash Flows from Financing Activities:		

Net increase (decrease) in deposits	$ 22,555	$ (32,047)
Repayment of FHLB advances	(151)	(143)
Increase (decrease) in advance payments by borrowers for taxes	(268)	35
Refund of common stock offering expense	-	3
Return of dividends paid in prior periods	8	-
Dividends paid to minority stockholders of Kearny Financial Corp.	(942)	(873)
Purchase of common stock of Kearny Financial Corp. for treasury	(4,251)	-
Purchase of common stock of Kearny Financial Corp. for restricted stock plan	(789)	-
Net Cash Provided by (Used in) Financing Activities	$ 16,162	$ (33,025)
Net (Decrease) in Cash and Cash Equivalents	$ (524)	$ (54,577)
Cash and Cash Equivalents - Beginning	230,279	139,865
Cash and Cash Equivalents - Ending	$ 229,755	$ 85,288
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	$ 500	$ 4,076
Interest	$ 11,597	$ 9,146
Supplemental Disclosure of Non-Cash Transactions:		
Cash dividend declared	$ 928	$ 1,004

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-month period ended September 30, 2006, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

3. NET INCOME PER COMMON SHARE

Basic EPS is based on the weighted average number of common shares actually outstanding adjusted for Employee Stock Ownership Plan ("ESOP") 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.

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

	Three Months Ended September 30, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In Thousands, Except Per Share Data)		
Net income	$926		
Basic earnings per share, income available to common stockholders	$926	69,751	$0.01
Effect of dilutive securities:			
Stock options	-	514	
Restricted stock awards	-	200	
	$926	70,465	$0.01

	Three Months Ended September 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount

	(In Thousands, Except Per Share Data)		
Net income	$2,964		
Basic earnings per share, income available to common stockholders	$2,964	71,053	$0.04
Effect of dilutive securities:			
Stock options	-	-	
Restricted stock awards	-	-	
	$2,964	71,053	$0.04

4. DIVIDEND WAIVER

During the quarter ended September 30, 2006, the federally chartered mutual holding company of the Company ("Kearny MHC"), waived its right, upon non-objection from the Office of Thrift Supervision, to receive cash dividends of approximately $2,546,000 declared during the quarter, on the shares of Company common stock it owns.

5. STOCK COMPENSATION PLANS

The Company has two stock-related compensation plans: stock options and restricted stock awards. 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 Bank received in aggregate 2,305,000 options and 910,000 shares of restricted stock. The Company adopted SFAS No. 123R 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. 123R 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 $0 for the three months ended September 30, 2006). 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.

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 under the Company's restricted stock plans. 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 September 30, 2006, the Company recorded $1.3 million of share-based compensation expense, comprised of stock option expense of $498,000 and restricted stock expense of $825,000. The Company estimates it will record an additional $4.0 million of share-based compensation expense during the remainder of fiscal 2007.

The following is a summary of the Company's stock option activity and related information for its option plans for the three months ended September 30, 2006:

	Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at June 30, 2006	3,374	$12.34	
Granted	-	-	
Exercised	-	-	
Forfeited	-	-	
Outstanding at September 30, 2006	3,374	$12.34	9.1 years
Exercisable at September 30, 2006	-	-	N/A

The following is a summary of the status of the Company's non-vested options as of September 30, 2006 and changes during the three months ended September 30, 2006:

Options

	(000's)
Non-vested at June 30, 2006	3,374
Granted	-
Exercised	-
Forfeited	-
Non-vested at September 30, 2006	3,374

Expected future compensation expense relating to the 3.4 million non-vested options outstanding as of September 30, 2006 is $8.3 million over a weighted average period of 4.1 years.

Upon exercise of vested options, management expects to draw on treasury stock as the source of the shares. In July 2006, the Company announced a stock repurchase plan to acquire up to 1,091,063 shares during the next twelve months for general corporate purposes.

-9-

The following is a summary of the status of the Company's restricted shares as of September 30, 2006 and changes during the three months ended September 30, 2006:

	Restricted Shares (000's)
Non-vested at June 30, 2006	1,338
Granted	-
Exercised	-
Forfeited	-
Non-vested at September 30, 2006	1,338

Expected future compensation expense relating to the 1.3 million restricted shares at September 30, 2006 is $13.7 million over a weighted average period of 4.1 years.

6. STOCK REPURCHASE PLANS

On November 9, 2005, the Company announced that it received regulatory approval to begin the purchase of up to 1,425,655 shares or approximately 2% of the outstanding shares of its common stock in open market transactions for use in funding the Company's 2005 Stock Compensation and Incentive Plan previously approved by stockholders. During the year ended June 30, 2006, the Company purchased 1,371,341 shares at a total cost of $18,941,000, or approximately $13.81 per share. During the quarter ended September 30, 2006, the Company purchased an additional 54,314 shares at a cost of $789,000, or approximately $14.52 per share to complete the funding of the Company's 2005 Stock

Compensation and Incentive Plan.

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 the Company's 2005 Stock Compensation and Incentive Plan. During the quarter ended September 30, 2006, the Company purchased 282,800 shares at a cost of $4,251,000, or approximately $15.03 per share.

7. BENEFIT PLANS - COMPONENTS OF NET PERIODIC COST

Benefit Equalization Plan net periodic pension expense was as follows:

	Three Months Ended September 30,	
	2006	2005
	(In Thousands)	
Service cost	$ 15	$ 15
Interest cost	44	44
Amortization of unrecognized past service costs	(3)	(3)
Amortization of unrecognized net actuarial loss	46	46
Net periodic pension expense	$ 102	$ 102

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

	Three Months Ended September 30,	
	2006	2005
	(In Thousands)	
Service cost	$ 8	$ 6
Interest cost	7	6
Amortization of unrecognized past service liability	2	3
Net periodic postretirement benefit cost	$ 17	$ 15

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

	Three Months Ended September 30,	

	2006	2005
	(In Thousands)	
Service cost	$ 34	$ 32
Interest cost	34	29
Amortization of unrecognized transition obligation	11	11
Amortization of unrecognized past service liability	15	15
Net periodic postretirement benefit cost	$ 94	$ 87

8. NEW ACCOUNTING PRONOUNCEMENTS

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 overfunded or underfunded 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.

On September 13, 2006, the Securities and Exchange Commission "SEC" issued Staff Accounting Bulleting No. 108 ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to

either the income statement or balance sheet approach. The Company has analyzed SAB 108 and determined that upon adoption it will have no impact on the reported results of operations or financial condition.

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, the 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 September 30, 2006 and June 30, 2006

Total assets increased $20.2 million, or 1.0%, to $2.03 billion at September 30, 2006, from $2.01 billion at June 30, 2006, due primarily to an increase in net loans receivable offset by decreases in securities held to maturity and mortgage-backed securities held to maturity. Generally, cash flows from the securities portfolio partially funded loan originations during the quarter ended September 30, 2006.

Cash and cash equivalents remained virtually unchanged between June 30, 2006 and September 30, 2006 at approximately $230 million. Generally, cash flows from the securities portfolio and an increase in deposits funded loan originations during the three months ended September 30, 2006. Management expects to maintain liquidity at an elevated level as long as the Treasury yield curve remains inverted or flat, to the extent that the Bank does not need the funds for loan originations.

Securities available for sale increased $163,000 or 0.9%, to $18.5 million at September 30, 2006 compared to $18.3 million at June 30, 2006. The increase was due to reinvestment of dividends earned on mutual fund holdings and mark-to-market adjustments reflecting an easing of interest rates at the mid-to-long end of the Treasury yield curve during the quarter ended September 30, 2006.

Securities held to maturity decreased $2.3 million, or 1.1%, to $206.7 million at September 30, 2006, from $209.0 million at June 30, 2006. The decrease was due primarily to maturities in the tax-exempt municipal bond portfolio and

principal amortization from pass-through certificates consisting of Small Business Administration loans. Cash flows from the securities portfolio partially funded loan originations during the three months ended September 30, 2006. During the quarter ending December 31, 2006, management plans to reclassify its portfolio of securities held to maturity, for the most part municipal bonds, to available for sale for the purpose of executing sales of the bonds at opportune times. The carrying value of the municipal bond portfolio was $199.0 million at September 30, 2006, with a weighted average yield of 3.77%. A decline in pre-tax income reduces the advantage of holding tax-exempt instruments and their yield is substantially below market. In October 2006, management sold $27.4 million of the bonds recording a nominal gain.

Loans receivable, net of deferred fees and costs and the allowance for loan losses, increased $39.7 million, or 5.6%, to $743.3 million at September 30, 2006 compared to $703.6 million at June 30, 2006. Management continues to emphasize growth in the loan portfolio while in turn reducing the size of the securities portfolio. One-to-four family residential mortgage loans, particularly first mortgages and home equity loans, registered most of the growth, increasing approximately $19.1 million and $7.4 million, to $484.9 million and $101.1 million at September 30, 2006, respectively. There was also an increase in nonresidential and multi-family mortgages of approximately $18.0 million, which totaled $125.1 million at September 30, 2006. Commercial loans remained virtually unchanged and totaled $3.1 million at September 30, 2006, while there was a nominal decrease in home equity lines of credit to $12.3 million at the close of the current quarter. Construction loans were the only category to see a substantial decrease during the quarter with balances outstanding decreasing $3.6 million to $18.5 million and gross constructions loans decreasing $6.6 million to $26.9 million between June 30, 2006 and September 30, 2006. With the housing market slowing, management believes it is prudent to reduce its exposure in this category, notwithstanding its policy of generally not making construction loans to builders on a speculative basis. To supplement the Bank's own loan originations, management relies on agreements to purchase mortgages from several mortgage companies, with $13.5 million purchased during the quarter ended September 30, 2006. The Bank has not originated or purchased any interest only mortgages or pay option adjustable rate mortgages.

Mortgage-backed securities held to maturity decreased $16.8 million, or 2.4%, to $673.2 million at September 30, 2006, from $690.0 million at June 30, 2006. Cash flows from monthly principal and interest payments partially funded loan originations during the quarter ended September 30, 2006. Management reinvested approximately $19.4 million in mortgage-backed securities, purchasing $5.2 million in fixed rate Community Reinvestment Act ("CRA") eligible issues and $14.2 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 first rate change date and conversion to a one-year adjustable product may be less than three or five years away.

Premises and equipment decreased $212,000, or 0.6%, to $35.7 million at September 30, 2006 compared to $35.9 million at June 30, 2006 as depreciation exceeded the cost of additions to fixed assets. Bank owned life insurance increased $131,000, or 0.9%, to $14.8 million at September 30, 2006 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 $22.6 million, or 1.6%, to $1.47 billion at September 30, 2106 compared to $1.44 billion at June 30, 2006. During the quarter ended

September 30, 2006, certificates of deposit and interest-bearing demand deposits increased approximately $52.3 million and $4.9 million, to $935.3 million and $127.0 million, respectively; while savings deposits decreased approximately $32.1 million to $345.4 million and non-interest-bearing deposits decreased $2.6 million to $58.5 million. The ongoing threat of loss of deposits to competitors, both core deposits and certificates of deposit, necessitated the continuance of promotional interest rates to counteract promotions offered by other financial institutions in the Bank's market area. The challenge for management continued to be balancing the potential rate of attrition against a significant increase in the cost of deposits. The most popular products were certificates of deposits with five, nine and 13 month terms and a tiered money market account, which management expects will re-price lower if the Federal Reserve Bank begins to ease short-term interest rates as anticipated during the first half of 2007.

Federal Home Loan Bank advances decreased $151,000, to $61.0 million at September 30, 2006 compared to $61.1 million at June 30, 2006 due to scheduled principal payments on amortizing advances. Management expects to repay a $5.0 million advance, with an interest rate of 5.90%, when this advance matures in November 2006.

Stockholders' equity decreased $3.1 million, to $487.8 million at September 30, 2006, from $490.9 million at June 30, 2006. The decrease was primarily the result of the purchase of stock to fund the restricted stock plan and for treasury purposes. The Company purchased 54,314 shares at a cost of $789,000 for the restricted stock plan and 282,800 shares at a cost of $4,251,000 as treasury shares. A common stock dividend of $0.05 per share totaling $928,000 declared for payment in the subsequent quarter also contributed to the decrease in stockholders' equity. Partially offsetting the decrease was net income of $926,000 recorded during the quarter, the release of $535,000 of unearned employee stock ownership plan shares, the vesting of $826,000 of unearned restricted stock plan shares and a $498,000 adjustment to equity for expensing stock options.

Comparison of Operating Results for the Three Months Ended September 30, 2006 and 2005

General. Net income for the quarter ended September 30, 2006 was $926,000 or $0.01 per share, a decrease of $2.0 million, or 66.7%, from $3.0 million or $0.04 per share for the quarter ended September 30, 2005. The decrease in net income resulted primarily from an increase in non-interest expense, particularly salaries and employee benefits and directors' compensation due to stock compensation plans, and a decrease in net interest income. An increase in the provision for loan losses also contributed to the decrease in net income.

Net Interest Income. Net interest income for the three months ended September 30, 2006 was $11.7 million, a decrease of $1.1 million, or 8.6%, compared to $12.8 million for the three months ended September 30, 2005. The decrease in net interest income was due almost exclusively to a substantial increase in interest expense partially offset by an increase in interest income, rather than a change in volume of interest-earnings assets versus interest-bearing liabilities. The ratio of average interest-earning assets to average interest-earning liabilities remained virtually unchanged at September 30, 2006 compared to a year earlier.

The net interest rate spread decreased 27 basis points to 1.84% for the quarter ended September 30, 2006, from 2.11% for the quarter ended September 30, 2005. During the quarter ended September 30, 2006, interest-bearing liabilities continued to re-price faster than interest-earning assets, due primarily to the promotional interest rates introduced to attract new deposits which also

affected the rollover rates on maturing certificates of deposit. The cost of average interest-bearing liabilities increased 80 basis points, from 2.40% for the three months ended September 30, 2005, to 3.20% for the three months ended September 30, 2006. During the quarter ended September 30, 2006, the yield on average interest-earning assets increased 53 basis points, to 5.04% for the quarter ended September 30, 2006, from 4.51% for the quarter ended September 30, 2005.

The net interest margin decreased ten basis points to 2.53% for the three months ended September 30, 2006, compared with 2.63% for the three months ended September 30, 2005. The decrease in the net interest margin resulted from a decrease in net interest income partially offset by a decrease in average interest-earning assets. Average interest-earning assets during the quarter ended September 30, 2006 were $1.85 billion or $100.6 million less than average interest-earning assets of $1.95 billion during the quarter ended September 30, 2005. The decrease resulted primarily from cash flows utilized to fund deposit outflows. Average interest-bearing liabilities during the quarter ended September 30, 2006 were $1.45 billion or $75.0 million less than average interest-bearing liabilities of $1.52 billion during the quarter ended September 30, 2005. The ratio of average interest-earning assets to average interest-bearing liabilities was 127.4% for the quarter ended September 30, 2006, virtually unchanged from 127.7% for the quarter ended September 30, 2005.

Interest Income. Total interest income increased $1.3 million, or 5.9%, to $23.3 million for the three months ended September 30, 2006, from $22.0 million for the three months ended September 30, 2005. Year-over-year, interest income from loans and other interest-earning assets increased while interest from mortgage-backed securities and securities decreased.

Interest income from loans receivable increased $2.2 million, or 27.2%, to $10.3 million for the three months ended September 30, 2006, from $8.1 million for the three months ended September 30, 2005 due to growth in the portfolio as well as an improvement in yield. The average balance of net loans receivable increased $145.0 million, or 25.1%, to $721.8 million for the quarter ended September 30, 2006, from $576.8 million for the quarter ended September 30, 2005. The Bank's business plan seeks to continue increasing the Bank's loan portfolio while reducing its reliance on securities to generate interest income. The yield on average net loans receivable increased eight basis points to 5.71% for the quarter ended September 30, 2006, compared to 5.63% for the quarter ended September 30, 2005. The improvement in yield year-over-year was due in part to growth in the nonresidential and multi-family mortgage category.

Interest income from mortgage-backed securities held to maturity decreased $547,000, or 6.4%, to $8.0 million for the three months ended September 30, 2006, compared to $8.6 million for the three months ended September 30, 2005. The average balance of mortgage-backed securities decreased $73.8 million, or 9.7%, to $683.7 million for the quarter ended September 30, 2006, from $757.5 million for the quarter ended September 30, 2005. The yield on average mortgage-backed securities increased 17 basis points to 4.69% for the three months ended September 30, 2006, from 4.52% for the three months ended September 30, 2005. The decrease in the average balance of mortgage-backed securities, year-over-year, resulted from the redeployment of principal payments into loan originations as well as funding deposit outflows. The increase in yield resulted from rate adjustments in pass-through certificates containing adjustable rate mortgages as management's plan to invest primarily in adjustable rate products began to produce positive results.

Interest income from securities available for sale and held to maturity

decreased $2.1 million, or 47.7%, to $2.3 million for the quarter ended September 30, 2006, from $4.4 million for the quarter ended September 30, 2005. The average balance of securities decreased $275.3 million, or 54.9%, to $226.4 million for the quarter ended September 30, 2006, compared to $501.7 million for the quarter ended September 30, 2005. The decrease in the average balance was due primarily to the sale of the Bank's entire portfolio of government agency notes, with a carrying value of $249.0 million, and Freddie Mac common stock with a carrying value of $8.9 million, in February 2006. Management utilized cash flows from maturing securities to fund loan originations and deposit outflows. The yield on average securities improved 56 basis points from 3.48% for the three months ended September 30, 2005, to 4.04% for the three months ended September 30, 2006. The higher yield on securities resulted from the February 2006 sale of the government agency notes, which provided a yield of 3.22%. During the quarter ending December 31, 2006, management plans to reclassify its portfolio of securities held to maturity, for the most part municipal bonds, to available for sale for purposes of executing sales of the bonds. With a weighted average yield of 3.77% as of September 30, 2006, a sale of the municipal bond portfolio and subsequent reinvestment of the proceeds into cash equivalents and ultimately loans should have a positive effect on future results.

Interest income from other interest-earning assets increased $1.7 million to $2.7 million for the quarter ended September 30, 2006, from $919,000 for the quarter ended September 30, 2005. This was a result of a significant increase in the yield as well as the average balance of other interest-earning assets. There was a 166 basis point increase in the yield on average other interest-earning assets to 4.96% for the quarter ended September 30, 2006, from 3.30% for the quarter ended September 30, 2005, due to rising short-term interest rates and particularly the rate paid on overnight deposits. There was a $103.6 million increase in the average balance of other interest-earning assets to $215.0 million for the three months

ended September 30, 2006, from $111.4 million for the three months ended September 30, 2005. The average balance of other interest-earning assets increased due to an increase in interest-earning deposits, the primary component of other interest-earning assets, partially offset by a decrease in Federal Home Loan Bank of New York capital stock. Management placed the proceeds from the restructuring of the securities portfolio in February 2006 in cash equivalents pending redeployment into other earning assets.

Interest Expense. Total interest expense increased $2.4 million, or 26.1%, to $11.6 million for the three months ended September 30, 2006, from $9.2 million for the three months ended September 30, 2005. Year-over-year, there was a significant increase in interest expense attributed to deposits and a slight decrease in interest expense from borrowings.

Interest expense from deposits increased $2.4 million, or 28.9%, to $10.7 million for the three months ended September 30, 2006, from $8.3 million for the three months ended September 30, 2005. 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 82 basis points to 3.09% for the quarter ended September 30, 2006, from 2.27% for the quarter ended September 30, 2005. In an effort to retain and attract deposits, management offered promotional rates on selected certificates of deposit maturities and tiered money market deposit accounts, and this strategy had a significant effect on the Bank's cost of funds during the current quarter.
The average balance of interest-bearing deposits decreased $73.1 million, or

5.0%, to $1.39 billion for the three months ended September 30, 2006, from $1.46 billion for the three months ended September 30, 2005. The decrease in the average balance speaks to the attrition caused by promotions offered by other financial institutions in the Bank's market area.

Interest expense from Federal Home Loan Bank advances decreased $20,000, or 2.3%, to $851,000 for the quarter ended September 30, 2006, from $871,000 for the quarter ended September 30, 2005. Average borrowings decreased $1.8 million, or 2.9%, to $61.0 million for the three months ended September 30, 2006, from $62.8 million for the three months ended September 30, 2005. The decrease in average borrowings was more than enough to offset an increase in the cost of average borrowings, which increased three basis points to 5.58% from 5.55%, year-over-year. The decrease in the average balance resulted from scheduled principal payments on amortizing advances leaving generally higher rate long-term advances on the Bank's books, which contributed to the increase in cost.

Provision for Loan Losses. The provision for loan losses increased $83,000, to $158,000 for the quarter ended September 30, 2006, from a $75,000 provision recorded for the quarter ended September 30, 2005. Management attributes the increase primarily to growth in the loan portfolio. Total loans increased to $748.0 million at September 30, 2006 from $708.0 million at June 30, 2006. Asset quality continued to be strong as non-performing loans were $1.0 million, or 0.14% of total loans at September 30, 2006, as compared to $942,000, or 0.13% of total loans at June 30, 2006. The allowance for loan losses as a percentage of total loans outstanding was 0.75% at September 30, 2006 and 0.77% at June 30, 2006, reflecting allowance balances of $5.6 million and $5.5 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 September 30, 2006 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 $61,000, or 12.0%, to $568,000 for the three months ended September 30, 2006, compared to $507,000 for the three months ended September 30, 2005. The increase was due primarily to an increase of $58,000 in income from bank owned life insurance partially offset by lower fees from operations and the Bank's retail branch network of $21,000 and non-recurring loan fees of $11,000. There was a loss on sale of real estate owned of $35,000 in the quarter ended September 30, 2005 with no such loss recorded in the quarter ended September 30, 2006. Management is considering offering an overdraft privilege program to the Bank's retail customers as a way of increasing fee income.

There was no gain on sale of securities during the quarter ended September 30, 2006 compared to a gain on sale of securities of $86,000 recorded in the quarter ended September 30, 2005.

Non-Interest Expense. Total non-interest expense increased $1.7 million, or 18.1%, to $11.1 million for the three months ended September 30, 2006, from $9.4

million for the three months ended September 30, 2005. The increase resulted primarily from increases in salaries and employee benefits and directors' compensation, nominal increases in equipment, advertising and miscellaneous expenses, partially offset by lower net occupancy expense of premises.

Salaries and employee benefits increased $1.2 million, or 21.4%, to $6.8 million for the quarter ended September 30, 2006, compared to $5.6 million for the quarter ended September 30, 2005. Management attributes the increase primarily to stock compensation plans approved at the Company's first annual stockholders' meeting held in October 2005, which resulted in an expense of $933,000 during the quarter ended September 30, 2006, with no such expense recorded in the quarter ended September 30 2005. The current quarter included employee stock ownership plan compensation expense of $548,000, an increase of $89,000 compared to $459,000 during the quarter ended September 30, 2005. Year-over-year, there were increases totaling approximately $189,000 in other components of salaries and employee benefits, including compensation expense, pension expense, other benefits expense and payroll taxes expense.

Year-over-year, net occupancy expense of premises decreased $38,000 to $858,000 from $896,000. The decrease resulted from a commensurate decrease in net rent expense due to management's ongoing efforts to lease surplus space in Bank facilities to other businesses. The rental income partially offsets the occupancy expense of such premises.

Equipment expense increased $24,000, with the expense in both quarters of approximately $1.1 million. The increase resulted from nominal increases in maintenance expense, depreciation expense and data processing costs.

Advertising expense increased $68,000 to $393,000, compared to $325,000 during the same period in the prior year, due to an extensive advertising campaign to promote deposit and loan products. The campaign included programs to market special certificate of deposit rates, a tiered money market deposit account and Star Banking, a relationship based retail-banking product designed to build core deposits.

Directors' compensation increased $427,000, to $657,000 during the quarter ended September 30, 2006, from $230,000 in the quarter ended September 30, 2005. The increase resulted primarily from stock compensation plans, which resulted in an expense of $390,000 during the quarter ended September 30, 2006, with no such expense recorded in the quarter ended September 30, 2005. Year-over-year, there were increases totaling approximately $37,000 in other components of directors' compensation, including fees and an incentive bonus plan.

Miscellaneous expenses increased $18,000, to $997,000 for the quarter ended September 30, 2006, compared to $979,000 for the quarter ended September 30, 2005. The most significant increases included audit and accounting services expense and loan expense, which increased $15,000 and $35,000, respectively. The largest decreases included legal expense, printing and office supplies expense and miscellaneous expense, which decreased $15,000, $21,000 and $27,000, respectively. Expense attributed to the Company's annual meeting was $38,000 in the current quarter with no such expense recorded during the same quarter prior year. All other elements of non-interest expense decreased approximately $8,000, year-over-year.

Provision for Income Taxes. The provision for income taxes decreased $913,000 to $76,000 for the quarter ended September 30, 2006, from $989,000 for the quarter ended September 30, 2005. The effective income tax rate was 7.6% for the three months ended September 30, 2006, as compared to 25.0% for the three months ended

September 30, 2005. Management attributes the lower effective income tax rate primarily to a decrease in pre-tax income, $1.0 million for the quarter ended September 30, 2006 compared to $4.0 million for the quarter ended September 30, 2005. Also a factor, due to the Bank's significant investment in tax-exempt municipal bonds, tax-exempt interest reduced the Company's federal income expense by approximately $593,000 during the quarter ended September 30, 2006, compared to a reduction of approximately $621,000 in the quarter ended September 30, 2005.

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 over-night 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, management expects to maintain liquidity at an elevated level as long as the Treasury yield curve remains inverted or flat, to the extent that the Bank does need the funds for loan originations.

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 September 30, 2006, the Bank had outstanding commitments to originate loans of $40.1 million, commitments to fund the purchase of loans on a flow basis of $56.2 million, construction loans in process of $8.4 million and unused lines of credit of $28.1 million.

During the quarter ended June 30, 2006, management introduced promotional rates for terms of five, nine and 13 months to retain and attract new certificates of deposit. The Bank continued to offer the promotional rates during the quarter ended September 30, 2006. Certificates of deposit increased $52.3 million between the linked quarters, from $883.1 million at June 30, 2006 to $935.4 million at September 30, 2006. Certificates of deposit scheduled to mature in one year or less at September 30, 2006 totaled $758.9 million compared to $658.2 million at June 30, 2006. Based on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank. However, if the cost of deposits continues to increase at the rate experienced during the quarter ended September 30, 2006, management may introduce a more conservative pricing strategy, which could lead to significant deposit outflows. Taking into consideration the Bank's substantial liquidity position, management implemented such a policy change in late October 2006.

While deposits are the Bank's primary source of funds, the Bank also generates

cash through borrowings from the Federal Home Loan Bank of New York (the "FHLB"). At September 30, 2006, advances from the FHLB amounted to $61.0 million. The Bank has the capacity to borrow additional funds from the FHLB, through an overnight line of credit or by taking additional long-term or short-term advances.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of September 30, 2006, 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 September 30, 2006, as compared to the minimum regulatory capital requirements:

	September 30, 2006 (Unaudited)				
	Actual		Minimum Capital Requirements		
	Amount	Ratio	Amount	Ratio	
			(Dollars in Thousands)		
Total Capital (to risk-weighted assets)	$ 376,453	47.49%	$ 63,412	8.00%	$
Tier 1 Capital (to risk-weighted assets)	$ 370,844	46.78%	-	-	$
Core (Tier 1) Capital (to adjusted total assets)	$ 370,844	19.26%	$ 57,759	3.00%	$
Tangible Capital (to adjusted total assets)	$ 370,844	19.26%	$ 28,880	1.50%	

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 June 30, 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 September 30, 2006.

	At June 30, 2006			
	Net Portfolio Value		Net Portfolio V as % of Present Value	
Changes in Rates (1)	$ Amount	$ Change	% Change	Net Portfoli Value Ratio
			(In Thousands)	
+300 bp	274,160	-135,558	-33%	15.39%
+200 bp	318,540	-91,178	-22%	17.40%
+100 bp	364,082	-45,637	-11%	19.35%
0 bp	409,718	-	-	21.20%
-100 bp	451,685	+41,966	+10%	22.80%
-200 bp	482,117	+72,398	+18%	23.88%

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

environment.

This analysis also indicated that as of June 30, 2006 an immediate and permanent 2.00% increase in interest rates would cause an approximately 6.41% 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 September 30, 2006, neither the Company nor the Bank were involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company and the Bank.

ITEM 1A. Risk Factors

Management of the Company does not believe there have been any material changes with regard to the Risk Factors previously disclosed under 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 September 30, 2006.

Period	Total Number of Shares Purchsed	Average Price Paid per Share	Total Number of Shares Purchased by Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 1-31, 2006	-	-	-	-
August 1-31, 2006	53,200	$14.72	53,200	1,037,863
September 1-30, 2006	229,600	$15.11	282,800	808,263
Total	282,800	$15.03	282,800	-

(1) On July 18, 2006, the Company announced a five percent stock repurchase plan (approximately 1,091,063 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. Hopkin
- 10.2 Employment Agreement between Kearny Federal Savings Bank and Allan Beardsle
- 10.3 Employment Agreement between Kearny Federal Savings Bank and Albert E. Goss
- 10.4 Employment Agreement between Kearny Federal Savings Bank and Sharon Jones (
- 10.5 Employment Agreement between Kearny Federal Savings Bank and William C. Led
- 10.6 Employment Agreement between Kearny Federal Savings Bank and Erika K. Paris
- 10.7 Employment Agreement between Kearny Federal Savings Bank and Patrick M. Joy
- 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 2005 Stock Compensation and Incentive Plan (2)
- 11.0 Statements re: computation of per share earnings (Filed herewith).
- 31.0 Rule 13a-14(a)/15d-14(a) Certifications (Filed herewith).
- 32.0 Section 1350 Certifications (Filed herewith).

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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 Registrant's definitive proxy statement filed September 30, 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: November 8, 2006 By: /s/ John N. Hopkins

John N. Hopkins

President and Chief Executive Officer
(Duly authorized officer and principal executive officer)

Date:	November 8, 2006	By:	/s/ Albert E. Gossweiler
			Albert E. Gossweiler Senior Vice President and Chief Financial Officer (Principal financial officer)