Kearny Financial Corp.
Form 10-K
September 15, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2008

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: **0-51093**

KEARNY FINANCIAL CORP.
(Exact name of Registrant as specified in its Charter)

United States	**22-3803741**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

120 Passaic Avenue, Fairfield, New Jersey	**07004**
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value	**The NASDAQ Stock Market LLC**

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

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

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

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2007 (the last business day of the Registrant's most recently completed second fiscal quarter) was $198.6 million. Solely for purposes of this calculation, shares held by directors, executive officers and greater than 10% stockholders are treated as shares held by affiliates.

As of September 5, 2008 there were outstanding 70,450,703 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the definitive Proxy Statement for the Registrant's 2008 Annual Meeting of Stockholders. (Part III)

KEARNY FINANCIAL CORP.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended June 30, 2008

INDEX

PART I		
		Page
Item 1.	Business	2
Item 1A.	Risk Factors	33
Item 1B.	Unresolved Staff Comments	36
Item 2.	Properties	36
Item 3.	Legal Proceedings	38
Item 4.	Submission of Matters to a Vote of Security Holders	38
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	39
Item 6.	Selected Financial Data	42
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	44
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	73
Item 8.	Financial Statements and Supplementary Data	76
Item 9.	Changes and Disagreements with Accountants on Accounting and Financial Disclosure	76
Item 9A.	Controls and Procedures	76
Item 9B.	Other Information	76
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	77
Item 11.	Executive Compensation	77
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	77
Item 13.	Certain Relationships and Related Transactions, and Director Independence	78
Item 14.	Principal Accounting Fees and Services	78
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	79

SIGNATURES

Forward-Looking Statements

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

These forward-looking statements involve risks and uncertainties, such as statements of the Company’s plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company’s control). In addition to the factors described under Item 1A. Risk Factors, the following factors, among others, could cause the Company’s financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economy in which the Company conducts operations; the effects of and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the impact of changes in financial services laws and regulations (including laws concerning taxation, banking, securities and insurance); changes in accounting policies and practices, as may be adopted by regulatory agencies, the Financial Accounting Standards Board (“FASB”) or the Public Company Accounting Oversight Board; technological changes; competition among financial services providers; and the success of the Company at managing the risks involved in the foregoing and managing its business.

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

PART I

Item 1. Business

General

The Company is a federally-chartered corporation that was organized on March 30, 2001 for the purpose of being a holding company for Kearny Federal Savings Bank (the “Bank”), a federally-chartered stock savings bank. On February 23, 2005, the Company completed a minority stock offering in which it sold 21,821,250 shares, representing 30% of its outstanding common stock upon completion of the offering. The remaining 70% of the outstanding common stock, totaling 50,916,250 shares, were retained by Kearny MHC (the “MHC”). The MHC is a federally-chartered mutual holding company and so long as the MHC is in existence, it will at all time own a majority of the outstanding common stock of the Company. The stock repurchase programs conducted by the Company since the offering have reduced the total number of shares outstanding. The 50,916,250 shares held by the MHC represented 72.2% of the total shares outstanding as of the Company’s June 30, 2008 fiscal year end. The MHC and the Company are regulated by the Office of Thrift Supervision.

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

2

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

Our primary business is attracting retail deposits from the public and using those deposits, together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for our investing and lending activities. We invest in mortgage-backed securities, U.S. government obligations, obligations of state and political subdivisions and other securities. Our loan portfolio consists of one-to-four family residential mortgage loans, multi-family and commercial mortgage loans, commercial business loans, home equity loans and lines of credit, other consumer loans and construction loans. At June 30, 2008, net loans receivable comprised 49.0% of our total assets while securities (mortgage-backed securities and non-mortgage-backed) comprised 36.7% of our total assets. By comparison, at June 30, 2007, net loans receivable comprised 44.9% of our total assets while securities comprised 38.2% of our total assets. It is our intention to continue increasing the balance of our loan portfolio relative to the size of our securities portfolio.

We operate from an administrative headquarters in Fairfield, New Jersey and as of June 30, 2008 had 28 branch offices. We also operate an Internet website at www.kearnyfederalsavings.com. As of June 30, 2008, we had 266 full-time employees and 20 part-time employees.

Market Area. Our primary market area consists of the northern New Jersey counties in which we currently operate branches: Bergen, Hudson, Passaic, Morris, Middlesex, Essex, Union and Ocean Counties. We also consider Monmouth County, New Jersey to be part of our market area. Our lending is concentrated in these nine counties and our predominant sources of deposits are the communities in which our offices are located as well as the neighboring communities.

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

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

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

Our competition for deposits and loans historically has come from other insured financial institutions such as local and regional commercial banks, savings institutions and credit unions located in our primary market area. We also compete with mortgage banking and finance companies for real estate loans and with commercial banks and savings institutions for consumer loans and we face competition for funds from investment products such as mutual funds, short-term money market funds and corporate and government securities. There are large competitors operating throughout our total market area, including Bank of America, TD Commerce Bank, Wachovia Bank, PNC Bank and Hudson City Savings Bank with JP Morgan Chase Bank and Citibank also expanding their presence and we face strong competition from other community-based financial institutions. Based on data compiled by the Federal Deposit Insurance

3

Corporation as of June 30, 2007, the latest date for which such data is available, Kearny Federal Savings Bank was ranked 20th of 119 depository institutions operating in the eight counties in which it has branches with 0.95% of total FDIC-insured deposits.

Lending Activities

General. We have traditionally focused on the origination of one-to-four family loans, which comprise a significant majority of our total loan portfolio. Our next largest category of lending is commercial real estate, which includes multi-family dwellings, mixed-use properties and other commercial properties. We also offer consumer loans (primarily composed of home equity loans and lines of credit), construction loans (to builders and developers as well as to individual homeowners) and commercial business loans, generally secured by real estate. Substantially all of our borrowers are residents of our primary market area and would be expected to be similarly affected by economic and other conditions in that area. Since May 2007, we have been purchasing out-of-state one-to-four family first mortgage loans in states we have deemed to be minimally affected by the housing and credit crises, to supplement our in-house originations, as discussed on Page 11.

	At June 30,									
	2008		**2007**		**2006**		**2005**		**2004**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(Dollars in Thousands)									
Real estate mortgage:										
One-to-four family	**$ 687,679**	**66.99 %**	$ 559,306	64.66 %	$ 465,822	65.80 %	$ 382,766	68.03 %	$ 358,241	70.22 %
Multi-family and commercial	**178,588**	**17.40**	159,147	18.40	107,111	15.13	96,685	17.19	83,426	16.35
Commercial business	**8,735**	**0.85**	4,205	0.48	3,208	0.45	2,930	0.52	5,161	1.01
Consumer:										
Home equity loans	**123,978**	**12.08**	113,624	13.14	93,639	13.23	54,199	9.63	37,381	7.33
Home equity lines of credit	**11,478**	**1.12**	12,748	1.47	12,988	1.83	14,850	2.64	15,677	3.07
Passbook or certificate	**2,662**	**0.26**	3,250	0.38	2,884	0.41	2,831	0.50	2,746	0.54
Other	**1,332**	**0.13**	1,391	0.16	247	0.03	264	0.05	336	0.07
Construction	**12,062**	**1.17**	11,360	1.31	22,078	3.12	8,094	1.44	7,212	1.41
Total loans	**1,026,514**	**100.00 %**	865,031	100.00 %	707,977	100.00 %	562,619	100.00 %	510,180	100.00 %
Less:										
Allowance for loan losses	**6,104**		6,049		5,451		5,416		5,144	
Deferred loan (costs) and fees, net	**(1,276)**		(1,511)		(1,087)		(815)		(758)	
	4,828		4,538		4,364		4,601		4,386	
Total loans, net	**$ 1,021,686**		$ 860,493		$ 703,613		$ 558,018		$ 505,794	

Loan Maturity Schedule. The following table sets forth the maturities of our loan portfolio at June 30, 2008. Demand loans, loans having no stated maturity and overdrafts are shown as due in one year or less. Loans are stated in the following table at contractual maturity and actual maturities could differ due to prepayments.

	Real estate mortgage: One-to-four family	**Real estate mortgage: Multi-family and commercial**	**Commercial business**	**Home equity loans**	**Home equity lines of credit**	**Passbook or certificate**	**Other**	**Construction**	**Total**
	(In Thousands)								
Amounts Due:									
Within 1 Year	$ 303	$ 262	$ 1,342	$ 147	$ 37	$ 1,438	$ 106	$ 8,467	$ 12,102
After 1 year:									
1 to 3 years	2,135	1,189	3,402	5,303	22	123	9	3,595	15,778
3 to 5 years	18,164	3,265	457	9,487	161	8	—	—	31,542
5 to 10 years	102,384	11,645	—	36,732	5,284	10	—	—	156,055
10 to 15 years	121,819	33,584	1,554	36,782	5,068	—	—	—	198,807
Over 15 years	442,874	128,643	1,980	35,527	906	1,083	1,217	—	612,230
Total due after one year	687,376	178,326	7,393	123,831	11,441	1,224	1,226	3,595	1,014,412
Total amount due	$ 687,679	$ 178,588	$ 8,735	$ 123,978	$ 11,478	$ 2,662	$ 1,332	$ 12,062	$ 1,026,514

The following table shows the dollar amount of loans as of June 30, 2008 due after June 30, 2009 according to rate type and loan category.

	Fixed Rates	Floating or Adjustable Rates	Total
	(In Thousands)		
Real estate mortgage:			
One-to-four family	$ 604,022	$ 83,354	$ 687,376
Multi-family and commercial	155,626	22,700	178,326
Commercial business	3,162	4,231	7,393
Consumer:			
Home equity loans	123,831	—	123,831
Home equity lines of credit	2,904	8,537	11,441
Passbook or certificate	—	1,224	1,224
Other	9	1,217	1,226
Construction	—	3,595	3,595
Total	$ 889,554	$ 124,858	$ 1,014,412

One-to-Four Family Mortgage Loans. Our primary lending activity consists of the origination of one-to-four family first mortgage loans, of which approximately $618.8 million are secured by property located within New Jersey. During the year ended June 30, 2008, the Bank originated $99.1 million of one-to-four family first mortgage loans within New Jersey compared to $67.2 million in the year ended June 30, 2007. Contributing to the increase in one-to-four family first mortgage loan originations were increased marketing efforts as well as the tightening of credit standards by large mortgage originators negatively impacted by the housing and credit crisis. We also purchased one-to-four family first mortgages totaling $102.2 million during the year ended June 30, 2008, compared to $97.5 million during the year ended June 30, 2007.

We will originate a one-to-four family mortgage loan on an owner-occupied property with a principal amount of up to 95% of the lesser of the appraised value or the purchase price of the property, with private mortgage insurance required if the loan-to-value ratio exceeds 80%. Our loan-to-value limit on a non-owner-occupied property is 75%. Loans in excess of $1.0 million are handled on a case-by-case basis and are subject to lower loan-to-value limits, generally no more than 50%.

Our fixed-rate and adjustable-rate residential mortgage loans on owner-occupied properties have terms of ten to 30 years. Residential mortgage loans on non-owner-occupied properties have terms of up to 15 years for fixed-rate loans and terms up to 20 years for adjustable-rate loans. We also offer ten-year balloon mortgages with a thirty-year amortization schedule on owner-occupied properties and a twenty-year amortization schedule on non-owner-occupied properties.

Our adjustable-rate loan products provide for an interest rate that is tied to the one-year Constant Maturity U.S. Treasury index and have terms of up to 30 years with initial fixed-rate periods of one, three, five, seven, or ten years according to the terms of the loan and annual rate adjustment thereafter. We also offer an adjustable-rate loan with a term of up to 30 years with a rate that adjusts every five years to the five-year Constant Maturity U.S. Treasury index. There is a 200 basis point limit on the rate adjustment in any adjustment period and the rate adjustment limit over the life of the loan is 600 basis points.

We offer a first-time homebuyer program for persons who have not previously owned real estate and are purchasing a one-to-four family property in Bergen, Passaic, Morris, Essex, Hudson, Middlesex, Monmouth, Ocean and Union Counties, New Jersey for use as a primary residence. This program is also available outside these areas only to persons who are existing deposit or loan customers of Kearny Federal Savings Bank and/or members of their immediate families. The financial incentives offered under this program are a one-eighth of one percent rate reduction on all first mortgage loan types and the refund of the application fee at closing.

The fixed-rate mortgage loans that we originate generally meet the secondary mortgage market standards of the Federal Home Loan Mortgage Corporation. However, as our focus is on increasing the size of the loan portfolio, we generally do not sell loans in the secondary market and do not currently anticipate that we will commence doing so in any large capacity. There were no residential mortgage loan sales during the last three fiscal years.

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

Multi-Family and Commercial Real Estate Mortgage Loans. We also originate mortgage loans on multi-family and commercial real estate properties, including loans on apartment buildings, retail/service properties and other income-producing properties, such as mixed-use properties combining residential and commercial space. The Bank originated $44.9 million of multi-family and commercial real estate mortgages during the year ended June 30, 2008, compared to $62.9 million during the year ended June 30, 2007. The Bank’s business plan calls for an increased emphasis on originating these types of mortgages, however, a slowing economy led to the decrease in originations year-over-year. Also, this type of loan product became somewhat less desirable due to depressed yields resulting from intense competition in our market area for quality commercial real estate loans.

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

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

Commercial Business Loans. We also originate commercial term loans and lines of credit to a variety of professionals, sole proprietorships and small businesses in our market area. During the year ended June 30, 2008, the Bank originated $7.6 million of commercial business loans compared to $4.6 million during the year ended June 30, 2007. Year-over-year, commercial business loan originations

increased despite the decrease in commercial real estate mortgage originations. Management expects a gradual increase in the origination of commercial business loans since the typical borrower may have a need for both types of loans.

These loans are normally secured by real estate and we require personal guarantees on all commercial loans. Approximately 65.6% of our commercial business loans are secured by one-to-four family properties and approximately 33.8% are secured by commercial real estate. Marketable securities may also be accepted as collateral on lines of credit, but with a loan to value limit of 50%. The loan to value limit on secured commercial lines of credit and term loans is otherwise generally limited to 70%. We also make unsecured commercial loans in the form of overdraft checking authorization up to $25,000 and unsecured lines of credit up to $25,000.

Our commercial term loans generally have terms of up to 15 years and are mostly fixed-rate loans. Our commercial lines of credit have terms of up to two years and are mostly adjustable-rate loans. We also offer a one-year, interest-only commercial line of credit with a balloon payment.

Unlike single-family, owner-occupied residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. Commercial business loans, therefore, have greater credit risk than residential mortgage loans. In addition, commercial loans generally carry larger balances to single borrowers or related groups of borrowers than one-to-four family first mortgage loans. Commercial lending requires substantially greater evaluation and oversight efforts compared to residential or commercial real estate lending.

Home Equity Loans and Lines of Credit. Our home equity loans are fixed-rate loans for terms of generally up to 20 years. We also offer fixed-rate and adjustable-rate home equity lines of credit with terms of up to 15 years. During the year ended June 30, 2008, the Bank originated $45.0 million of home equity loans and lines of credit compared to $51.4 million in the year ended June 30, 2007. The decrease in originations resulted from strong competition in the marketplace for these types of loans as well as a general decline in the value of residential real estate.

Collateral value is determined through an Automated Valuation Module (AVM), specifically, Freddie Mac's Home Valuation Explorer (HVE), or property value analysis report (FHLMC Form 704) provided by a state certified or licensed independent appraiser. In some cases, we determine collateral value by a full appraisal performed by a state certified or licensed independent appraiser. Home equity loans and lines of credit do not require title insurance but do require homeowner, liability and fire insurance and, if applicable, flood insurance.

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

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

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

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

Construction Lending. Our construction lending includes loans to individuals for construction of one-to-four family residences or for major renovations or improvements to an existing dwelling. Our construction lending also includes loans to builders and developers for multi-unit buildings or multi-house projects. All of our construction lending is in New Jersey. During the year ended June 30, 2008, construction loan originations and/or disbursements were $5.6 million compared to $6.3 million during the year ended June 30, 2007. For the second year in a row, there was a decrease in construction loan originations and/or disbursements year-over-year, due to the sluggish residential real estate market.

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

We have no formal limits as to the number of projects a builder has under construction or development and make a case-by-case determination on loans to builders and developers who have multiple projects under development. The Board of Directors reviews the Bank's business relationship with a builder or developer prior to accepting a loan application for processing. We generally do not make construction loans to builders on a speculative basis. There must be a contract in place. Financing is provided for up to two houses at a time in a multi-house project, requiring a contract on one of the two houses before financing for the next house may be obtained.

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

Loans to One Borrower. Federal law generally limits the amount that a savings institution may lend to one borrower to the greater of $500,000 or 15% of the institution's unimpaired capital and surplus. Accordingly, as of June 30, 2008, our loans-to-one-borrower limit was approximately $52.6 million.

At June 30, 2008, our largest single borrower had an aggregate loan balance of approximately $14.9 million, representing four mortgage loans secured by commercial real estate. Our second largest single borrower had an aggregate loan balance of approximately $10.7 million, representing nine loans secured by commercial real estate, two residential construction loans and one residential loan. Our third largest borrower had an aggregate loan balance of approximately $10.0 million, representing two loans

9

secured by commercial real estate. At June 30, 2008, all of these lending relationships were current and performing in accordance with the terms of their loan agreements.

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

	For the Years Ended June 30,		
	2008	**2007**	**2006**
	(In Thousands)		
Loan originations and purchases:			
Loan originations:			
Real estate mortgage:			
One-to-four family	**$ 99,113**	$ 67,158	$ 118,371
Multi-family and commercial	**44,854**	62,948	23,444
Commercial business	**7,622**	4,604	708
Construction	**5,569**	6,268	22,638
Consumer:			
Home equity loans and lines of credit	**44,992**	51,437	66,456
Passbook or certificate	**1,504**	1,802	1,578
Other	**334**	1,553	412
Total loan originations	**203,988**	195,770	233,607
Loan purchases:			
Real estate mortgage:			
One-to-four family	**102,228**	97,521	24,434
Multi-family and commercial	—	—	—
Total loan purchases	**102,228**	97,521	24,434
Loan principal repayments	**(145,959)**	(136,669)	(113,786)
Increase due to other items	**936**	258	1,340
Net increase in loan portfolio	**$ 161,193**	$ 156,880	$ 145,595

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

We primarily originate our own loans and retain them in our portfolio. As part of our loan growth strategy, we generally do not sell loans in the secondary market and do not currently anticipate that we will commence doing so in any large capacity. There were no whole loan sales during the year ended June 30, 2008. Gross loan originations totaled $204.0 million for the year ended June 30, 2008 and exceeded principal repayments by approximately $58.0 million.

The Bank maintains loan purchase and servicing agreements with two large nationwide lenders, in order to supplement the Bank’s loan production pipeline. Each agreement calls for the purchase of loan pools that contain mortgages on residential properties in our lending area. We have procedures in place for purchasing these mortgages such that the underwriting guidelines are consistent with those used in our in-house loan origination process. The evaluation and approval process ensures that the purchased loans generally conform to our normal underwriting guidelines. Our due diligence process includes full credit reviews and an examination of the title policy and associated legal instruments. We recalculate debt service and loan-to-value ratios for accuracy and review appraisals for reasonableness. We expanded our loan purchase and servicing agreements with the same nationwide lenders to include mortgage loans

10

secured by residential real estate located outside of New Jersey. All loan packages presented to the Bank must meet the Bank's underwriting requirements as outlined in the purchase and servicing agreements and are subject to the same review process shown above. Furthermore, there are stricter underwriting guidelines in place for out-of-state mortgages, including higher minimum credit scores. During the year ended June 30, 2008, we purchased a total of $77.7 million fixed-rate loans from these sellers.

Once we purchase the loans, we continually monitor the seller's performance by thoroughly reviewing portfolio balancing reports, remittance reports, delinquency reports and other data supplied to us on a monthly basis. We also review the seller's financial statements and documentation as to their compliance with the servicing standards established by the Mortgage Bankers Association of America.

We purchase out-of-state one-to-four family first mortgage loans in states we have judged to be minimally affected by the housing and credit crises. As of June 30, 2008, our portfolio of out-of-state loans included mortgages in 22 states and totaled $68.9 million. The largest concentration of loans at June 30, 2008 is located in the state of Georgia, totaling $7.1 million.

The Bank also enters into purchase agreements with a limited number of smaller, local mortgage companies to supplement the Bank's loan production pipeline. These agreements call for the purchase, on a flow basis, of adjustable-rate and/or 10, 15 and 30-year fixed-rate mortgage loans with servicing released to the Bank. During the year ended June 30, 2008, we purchased a total of $2.1 million adjustable-rate loans and $22.4 million of fixed-rate loans from these companies.

In addition to purchasing one-to-four family loans, we also occasionally purchase participations in loans originated by other banks and through the Thrift Institutions Community Investment Corporation of New Jersey ("TICIC"). Our TICIC participations include multi-family and commercial real estate properties. The aggregate balance of TICIC participations at June 30, 2008 was $8.5 million and the average balance of a single participation was approximately $259,000. At June 30, 2008, we had six non-TICIC participations with an aggregate balance of $14.2 million, consisting of loans on commercial real estate properties, including a medical center, a self-storage facility, a shopping plaza and commercial buildings with a combination of retail and office space and a construction loan to build townhouses. During the year ended June 30, 2008, the Bank did not purchase any participations in loans originated by other banks.

Loan Approval Procedures and Authority. Senior management recommends and the Board of Directors approves our lending policies and loan approval limits. Our Chief Lending Officer may approve loans up to $750,000. Loan department personnel of the Bank serving in the following positions may approve loans as follows: mortgage loan managers, mortgage loans up to $500,000; mortgage loan underwriters, mortgage loans up to $25,000; consumer loan managers, consumer loans up to $250,000; and consumer loan underwriters, consumer loans up to $150,000. In addition to these principal amount limits, there are established limits for different levels of approval authority as to minimum credit scores and maximum loan to value ratios and debt ratios. Our Chief Executive Officer, Chief Financial Officer and Chief Investment Officer have authorization to countersign loans for amounts that exceed $750,000 up to a limit of $1.0 million. Our Chief Lending Officer must approve loans between $750,000 and $1.0 million along with one of these designated officers. Non-conforming mortgage loans and loans over $1.0 million require the approval of the Board of Directors.

Asset Quality

Loan Delinquencies and Collection Procedures. The borrower is notified by both mail and telephone when a loan is 30 days past due. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices and letters are sent. When a loan is 90 days delinquent, it is our general practice to refer it to an attorney for repossession or foreclosure. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs and we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold or otherwise disposed of. When real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial writedown of the property, if necessary, is charged to the allowance for loan losses. Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines occur. At June 30, 2008, we held real estate owned totaling $109,000, consisting of one parcel of vacant land currently under a contract of sale.

Loans are reviewed on a regular basis and are placed on non-accrual status when they are more than 90 days delinquent, with the exception of passbook loans. When a passbook loan becomes 120 days delinquent, we collect the outstanding balance of the loan from the related passbook account along with accrued interest (and a penalty is charged if the account securing the loan is a certificate of deposit). Loans may be placed on a non-accrual status at any time if, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At June 30, 2008, we had approximately $1.6 million of loans that were held on a non-accrual basis compared to $1.5 million at June 30, 2007.

Non-Performing Assets. The following table provides information regarding the Bank's non-performing loans and other non-performing assets. At each of the dates indicated, we did not have any troubled debt restructurings. At June 30, 2008 and 2007, the allowance for loan losses totaled $6.1 million and $6.0 million, non-performing loans totaled $1.6 million and $1.5 million and the ratio of allowance for loan losses to non-performing loans was 388.1% and 406.3%, respectively.

	At June 30,				
	2008	**2007**	**2006**	**2005**	**2004**
	(Dollars in Thousands)				
Loans accounted for on a non-accrual basis:					
Real estate mortgage:					
One- to four-family	**$ 530**	$ 472	$ 329	$ 846	$ 771
Multi-family and commercial	**1,012**	1,017	592	1,004	1,414
Commercial business	**—**	—	—	31	39
Consumer:					
Home equity loans	**31**	—	21	20	65
Home equity lines of credit	**—**	—	—	17	—
Other	**—**	—	—	4	—
Construction	**—**	—	—	—	—
Total	**1,573**	1,489	942	1,922	2,289
Accruing loans which are contractually past due 90 days or more:					
Real estate mortgage:					
One- to four-family	**—**	—	—	—	—
Multi-family and commercial	**—**	—	—	—	—
Commercial business	**—**	—	—	—	—
Consumer:	**—**				
Home equity loans and lines of credit	**—**	—	—	—	—
Passbook or certificate	**—**	—	—	—	39
Other	**—**	—	—	—	—
Construction	**—**	—	—	—	—
Total	**—**	—	—	—	39
Total non-performing loans	**$ 1,573**	$ 1,489	$ 942	$ 1,922	$ 2,328
Real estate owned	**$ 109**	$ 109	$ 109	$ 209	$ 209
Other non-performing assets	**$ —**	$ —	$ —	$ —	$ —
Total non-performing assets	**$ 1,682**	$ 1,598	$ 1,051	$ 2,131	$ 2,537
Total non-performing loans to total loans	**0.15 %**	0.17 %	0.13 %	0.34 %	0.46 %
Total non-performing loans to total assets	**0.08 %**	0.08 %	0.05 %	0.09 %	0.12 %
Total non-performing assets to total assets	**0.08 %**	0.08 %	0.05 %	0.10 %	0.13 %

During the years ended June 30, 2008, 2007 and 2006, gross interest income of $105,000, $111,000 and $81,000, respectively, would have been recognized on loans accounted for on a non-accrual basis if those loans had been current. Interest income recognized on such loans of $47,000, $45,000 and $9,000 was included in income for the years ended June 30, 2008, 2007 and 2006, respectively.

As of June 30, 2008, the Bank had no loans not disclosed in the table on Page 13 or the table below, where known information about possible credit problems of borrowers cause management to have serious doubts about the ability of such borrowers to comply with the present loan repayment terms.

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

An asset is considered “substandard” if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. Assets or portions thereof, classified as “loss” are considered uncollectible and of so little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to a sufficient degree of risk to warrant classification in one of the aforementioned categories but which have credit deficiencies or potential weaknesses are required to be designated “special mention” by management.

Management’s classification of assets is reviewed by the Board on a regular basis and by the regulatory agencies as part of their examination process. An independent loan review firm performs a review of our residential and commercial loan portfolios and we downgrade our classifications to match those of this reviewing firm if there is disagreement between our assessment and the independent assessment. The following table discloses our classification of assets and designation of certain loans as special mention as of June 30, 2008. At June 30, 2008, all of the classified assets and special mention designated assets were loans.

	At June 30,		
	2008	**2007**	**2006**
	(In Thousands)		
Special Mention	**$ —**	$ 736	$ 236
Substandard	**749**	1,470	1,448
Doubtful	**1,871**	1,881	2,001
Loss	**—**	—	—
Total	**$ 2,620**	$ 4,087	$ 3,685

At June 30, 2008, three loans totaling approximately $134,000 classified as “substandard” and three loans totaling approximately $763,000 classified as “doubtful,” respectively, are included under non-performing assets, as shown in the table on Page 13. Generally, the underlying cause for these classifications is the borrower’s inability to generate sufficient cash flow from the property to cover the debt payments. The borrowers, in most cases, have continued to honor these obligations using personal funds to make the payments.

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

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

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

We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potentially impaired loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and financial condition of the borrower. Large groups of smaller balance homogeneous loans, such as residential real estate and home equity and consumer loans are evaluated in the aggregate using historical loss factors and current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, are evaluated individually for impairment. At June 30, 2008, impaired loans were $2.5 million compared to no impaired loans at June 30, 2007. As of June 30, 2008, the related allowance for loan losses totaled $1.2 million and impaired loans which did not have a specific allocation of the allowance for loan losses totaled $596,000.

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

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

The following table sets forth information with respect to activity in the allowance for loan losses for the periods indicated.

	For the Years Ended June 30,				
	2008	2007	2006	2005	2004
	(Dollars in Thousands)				
Allowance balance (at beginning of period)	**$ 6,049**	$ 5,451	$ 5,416	$ 5,144	$ 5,180
Provision for loan losses	**94**	571	72	68	—
Charge-offs:					
Real estate mortgage – One-to-four family	**30**	—	—	—	12
Commercial business	**—**	—	30	5	24
Other	**9**	—	12	4	—
Total charge-offs	**39**	—	42	9	36
Recoveries:					
Real estate mortgage – One-to-four family	**—**	—	—	213	—
Commercial business	**—**	27	5	—	—
Total recoveries	**—**	27	5	213	—
Net (charge-offs) recoveries	**(39)**	27	(37)	204	(36)
Allowance balance (at end of period)	**$ 6,104**	$ 6,049	$ 5,451	$ 5,416	$ 5,144
Total loans outstanding	**$ 1,026,514**	$ 865,031	$ 707,977	$ 562,619	$ 510,180
Average loans outstanding	**$ 951,019**	$ 785,210	$ 633,758	$ 523,029	$ 504,672
Allowance for loan losses as a percent of total loans outstanding	**0.59%**	0.70%	0.77%	0.96%	1.01%
Net loan charge-offs as a percent of average loans outstanding	**0.00%**	0.00%	0.01%	0.00%	0.01%
Allowance for loan losses to non-performing loans	**388.05%**	406.25%	578.66%	281.79%	220.96%

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

	At June 30,									
	2008		**2007**		**2006**		**2005**		**2004**	
	Amount	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**	**Amount**	**Percent of Loans to Total Loans**
	(Dollars in Thousands)									
At end of period allocated to:										
Real estate mortgage:										
One-to-four family	**$ 3,131**	**66.99 %**	$ 1,854	64.66 %	$ 1,582	65.80 %	$ 1,514	68.03 %	$ 1,422	70.22 %
Multi-family and commercial	**1,934**	**17.40**	3,602	18.40	3,133	15.13	3,368	17.19	3,358	16.35
Commercial business	**46**	**0.85**	27	0.48	34	0.45	50	0.52	57	1.01
Consumer:										
Home equity loans	**756**	**12.08**	356	13.14	286	13.23	182	9.63	131	7.33
Home equity lines of credit	**70**	**1.12**	46	1.47	39	1.83	47	2.64	52	3.07
Passbook or certificate	**—**	**0.26**	—	0.38	—	0.41	—	0.50	—	0.54
Other	**43**	**0.13**	34	0.16	27	0.03	120	0.05	4	0.07
Construction	**124**	**1.17**	130	1.31	350	3.12	135	1.44	120	1.41
Total	**$ 6,104**	**100.00 %**	$ 6,049	100.00 %	$ 5,451	100.00 %	$ 5,416	100.00 %	$ 5,144	100.00 %

Our focus has been to maintain an allowance for loan losses that represents our best estimate of the current amount of loss that it is probable given current facts and economic circumstances as of the evaluation date. Management has procedures in place to document loss allowance policies and methodologies, to consider all relevant information at the evaluation date, to support qualitative factors and unallocated amounts and to ensure directional consistency with changes in loss factors.

Securities Portfolio

Our deposits have traditionally exceeded our loan originations and we have invested these deposits primarily in mortgage-backed and non-mortgage-backed securities. Our securities portfolio comprised 36.7% of our total assets at June 30, 2008 compared to 38.2% at June 30, 2007. We have increased the balance of our loan portfolio relative to the size of our securities portfolio in recent years in order to improve earnings. We intend to continue shifting our assets into loans rather than securities, however, such a change will take time and in the foreseeable future, securities will remain a significant component of our assets. It is management's intention to continue to invest in mortgage-backed securities, to the extent the funds are not needed for loan originations.

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

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

As of June 30, 2008, mortgage-backed securities represented approximately 95.0% of our total investment in securities, compared to 87.9% as of June 30, 2007. Mortgage-backed securities are pass-through securities typically issued with stated principal amounts and the securities are backed by pools of mortgages that have loans with interest rates that are within a specific range and have varying maturities. The life of a mortgage-backed security thus approximates the life of the underlying mortgages. Mortgage originators use intermediaries (generally government agencies and government-sponsored enterprises, but also a variety of private corporate issuers) to pool and repackage the participation interests in the form of securities, with investors such as us receiving the principal and interest payments on the mortgages. The characteristics of the underlying pool of mortgages, *i.e.*, fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. Mortgage-backed securities are generally referred to as mortgage participation certificates or pass-through certificates.

We only invest in mortgage-backed securities issued by U.S. government agencies or government-sponsored entities, such as Government National Mortgage Association, the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae"). We do not invest directlyin mortgage-backed securities of private issuers or collateralized mortgage obligations. Mortgage-backed securities issued or sponsored by U.S. government agencies and government-sponsored entities are guaranteed as to the payment of principal and interest to investors.

Mortgage-backed securities generally yield less than the mortgage loans underlying such securities because of their payment guarantees or credit enhancements, which offer nominal credit risk to the security holder.

In addition to our direct investments in mortgage-backed securities, we hold the AMF Ultra Short Mortgage Fund, a mutual fund acquired during 2002 as the result of a merger, which invests primarily in agency and private label mortgage-backed securities and collateralized mortgage obligations of short duration. The housing and credit crises negatively impacted the market value of certain securities in the fund's portfolio resulting in a continuing decline in the net asset value of this fund. In addition, the fund's manager instituted a temporary prohibition against cash redemptions to protect shareholders against the possibility that the fund might be forced to liquidate securities at distressed price levels to satisfy redemption requests. In light of these factors, current accounting rules and associated Securities and Exchange Commission guidance the Company determined that the declines in the net asset value of this fund were other-than-temporary and, during the quarter ended June 30, 2008, we took a non-cash pre-tax charge of $659,000 against our $8.4 million holding in the fund.

Due to a continuing decline in the net asset value of the aforementioned mutual fund, the Company decided in July 2008 to withdraw its investment in the fund by invoking a redemption-in-kind option after the fund's manager instituted the temporary prohibition against cash redemptions. The shares redeemed for cash and the shares redeemed for the underlying securities were written down to fair value as of the trade date resulting in an additional pre-tax charge to operations of $415,000 during the quarter ending September 30, 2008. Upon redemption, the underlying debt securities were classified as held to maturity. Several of the underlying securities were on credit watch or down graded prior to the redemption-in-kind. Since the mortgage-backed securities are carried at a significant discount to fair value, management anticipates that the $1.1 million charge in aggregate will be partially recovered as payments from the mortgage-backed securities are received each month. Withdrawal from the fund also eliminated the 45 basis point management fee.

We hold five single issue trust preferred securities with an aggregate carrying value of $7.4 million. Four of the five securities are with money center banks and have an aggregate carrying value of $6.3 million. The fifth security with a carrying value of $1.1 million was issued by a southeastern community bank. Management continually evaluates these trust preferred securities for other-than-temporary impairment and as of June 30, 2008, we concluded that any unrealized losses were temporary in nature. In making this determination, for each security we considered the extent and duration of the impairment; the nature and financial health of the issuer, including credit rating; our ability and intent to hold the security for a period sufficient to allow for a recovery in market value; and our ability and intent to hold the security for the time necessary to recover the amortized cost.

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

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

separate component of equity. As of June 30, 2008, the Bank's entire portfolios of mortgage-backed securities and non-mortgage-backed securities were classified as available for sale.

Other than mortgage-backed securities issued or guaranteed by the U.S. government or its agencies, at June 30, 2008 we did not hold securities of any one issuer having an aggregate book value in excess of 10% of our equity. All of our securities carry market risk insofar as increases in market rates of interest may cause a decrease in their market value. Purchases of securities are made based on certain considerations, which include the interest rate, tax considerations, volatility, yield, settlement date and maturity of the security, our liquidity position and anticipated cash needs and sources. The effect that the proposed security would have on our credit and interest rate risk and risk-based capital is also considered. We do not currently participate in hedging programs, interest rate caps, floors or swaps, or other activities involving the use of off-balance sheet derivative financial instruments. Further, we do not purchase directly securities that are not rated investment grade.

During the years ended June 30, 2008, 2007 and 2006, proceeds from sales of securities available for sale totaled $48.5 million, $131.4 million and $257.0 million and resulted in gross gains of $57,000, $1.3 million and $8.8 million and gross losses of $57,000, $1.3 million and $7.8 million.

The following table sets forth the carrying value of our securities portfolio at the dates indicated. The table reflects the reclassification of securities held to maturity and mortgage-backed securities held to maturity to available for sale during the year ended June 30, 2006.

	At June 30,				
	2008	**2007**	**2006**	**2005**	**2004**
	(In Thousands)				
Securities Available for Sale:					
U.S. government obligations	**$ 5,513**	$ 6,864	$ 8,786	$ —	$ —
Obligations of states and political subdivisions	**17,757**	65,333	195,661	—	—
Mutual funds [1]	**7,545**	7,795	7,424	14,140	13,899
Common stock [2]	**—**	—	—	8,551	15,894
Trust preferred securities	**7,368**	8,877	10,922	10,900	11,771
Total securities available for sale	**38,183**	88,869	222,793	33,591	41,564
Securities Held to Maturity:					
U.S. government obligations	**—**	—	—	265,469	274,401
Obligations of states and political subdivisions	**—**	—	—	204,629	161,469
Total securities held to maturity	**—**	—	—	470,098	435,870
Mortgage-Backed Securities Available for Sale:					
Government National Mortgage Association	**21,930**	29,540	42,646	—	—
Federal Home Loan Mortgage Corporation	**317,448**	252,497	256,036	—	—
Federal National Mortgage Association	**386,645**	361,742	371,647	—	—
Total mortgage-backed securities available for sale	**726,023**	643,779	670,329	—	—
Mortgage-Backed Securities Held to Maturity:					
Government National Mortgage Association	**—**	—	—	63,399	94,499
Federal Home Loan Mortgage Corporation	**—**	—	—	305,059	314,221
Federal National Mortgage Association	**—**	—	—	389,663	362,633
Total mortgage-backed securities held to maturity	**—**	—	—	758,121	771,353
Total	**$ 764,206**	$ 732,648	$ 893,122	$ 1,261,810	$ 1,248,787

(1) As of June 30, 2008, 2007 and 2006, our mutual fund investment consisted of shares issued by AMF Ultra Short Mortgage Fund. Our mutual fund investment in prior years also included shares in a government income fund.

(2) As of June 30, 2005 and 2004, our common stock investment consisted of shares of Freddie Mac common stock.

The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of our securities portfolio at June 30, 2008. This table shows contractual maturities and does not reflect re-pricing or the effect of prepayments. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. At June 30, 2008, securities with a carrying value of $7.4 million are callable within one year.

	At June 30, 2008										
	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Securities		
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Market Value
	(Dollars in Thousands)										
Mutual funds	$7,545	4.13 %	$—	— %	$—	— %	$—	— %	$7,545	4.13 %	$7,545
Trust preferred securities	—	— %	—	— %	—	— %	7,368	4.34 %	7,368	4.34 %	7,368
U.S. government obligations	—	— %	—	— %	385	3.33 %	5,128	2.69 %	5,513	2.74 %	5,513
Obligations of states and political subdivisions	—	— %	1,294	3.24 %	14,037	3.48 %	2,426	3.68 %	17,757	3.49 %	17,757
Mortgage-backed securities:											
Government National Mortgage Association	40	7.73 %	209	11.22 %	365	9.93 %	21,316	6.33 %	21,930	6.44 %	21,930
Federal Home Loan Mortgage Corporation	37	7.56 %	655	4.02 %	10,651	5.20 %	306,105	5.12 %	317,448	5.12 %	317,448
Federal National Mortgage Association	—	— %	10,245	5.67 %	38,086	5.21 %	338,314	5.08 %	386,645	5.11 %	386,645
Total	$7,622	4.17 %	$12,403	5.42 %	$63,524	4.84 %	$680,657	5.11 %	$764,206	5.08 %	$764,206

Sources of Funds

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

Deposits. Our current deposit products include interest-bearing and non-interest-bearing checking accounts, money market deposit accounts, savings accounts and certificates of deposit accounts ranging in terms from 30 days to five years. Certificates of deposit with terms ranging from one year to five years are available for individual retirement account plans. Deposit account terms vary, primarily as to the required minimum balance amount, the amount of time that the funds must remain on deposit and the applicable interest rate.

Deposits are obtained primarily from within New Jersey. Traditional methods of advertising are used to attract new customers and deposits, including radio, print media, direct mail and inserts included with customer statements. We do not utilize the services of deposit brokers. Premiums or incentives for opening accounts are sometimes offered. Our primary retail product is Star Banking, which bundles a number of banking services and products together for those customers with a checking account with direct deposit and combined deposits of $20,000 or more, including Internet banking, bill pay, telephone banking, reduced rates on home equity loans and a 25 basis point premium on certificates of deposit with a term of at least one year, excluding special promotions. We may also offer a 25 basis point premium on certificate of deposit accounts with a term of at least one year, excluding special promotions, to certificate of deposit accountholders that have $200,000 or more on deposit with the Bank. Though certificates of deposit with non-standard maturities are popular in our market, we generally promote certificates of deposit with traditional maturities, including three and six months and one, two, three and five years. We do offer the opportunity one time during the term of the certificate to “step up” the rate paid on 17-month and 29-month certificates of deposit from the rate set on such certificate to the current rate being offering by the Bank on certificates of that particular maturity.

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

A large percentage of our deposits are in certificates of deposit, which represented 63.3% and 62.9% of total deposits at June 30, 2008 and 2007, respectively. Our liquidity could be reduced if a significant amount of certificates of deposit maturing within a short period were not renewed. At June 30, 2008 and 2007, certificates of deposit maturing within one year were $710.0 million and $743.7 million, respectively. Historically, a significant portion of the certificates of deposit remain with us after they mature and we believe that this will continue. At June 30, 2008, $236.7 million or 27.1% of our certificates of deposit were certificates of $100,000 or more compared to $225.7 million or 25.4% at June 30, 2007. General interest rates and money market conditions significantly influence deposit inflows and outflows. The inflow of $100,000 or more certificates of deposit and the retention of such deposits upon maturity are particularly sensitive to general interest rates and money market conditions, making $100,000 or more certificates of deposit traditionally a more volatile source of funding than core deposits. In order to retain $100,000 or more certificates of deposit, we may have to pay a premium rate, resulting

in an increase in our cost of funds. In a rising rate environment, we may be unwilling or unable to pay a competitive rate. To the extent that such deposits do not remain with us, they may need to be replaced with borrowings, which could increase our cost of funds and negatively impact our interest rate spread and our financial condition.

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

	For the Years Ended June 30, 2008			2007			2006		
	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate
	(Dollars in Thousands)								
Non-interest-bearing demand	**$ 59,169**	**4.40 %**	**0.00 %**	$ 57,226	3.91 %	0.00 %	$ 56,517	3.82 %	0.00 %
Interest-bearing demand	**149,871**	**11.16**	**1.81**	136,622	9.34	1.91	103,397	7.00	0.90
Savings and club	**303,818**	**22.61**	**1.08**	336,067	22.97	1.11	429,019	29.03	1.18
Certificates of deposit	**830,726**	**61.83**	**4.49**	932,901	63.78	4.39	888,810	60.15	3.27
Total deposits	**$ 1,343,584**	**100.00 %**	**3.22 %**	$ 1,462,816	100.00 %	3.23 %	$ 1,477,743	100.00 %	2.37 %

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

	At June 30, 2008	2007	2006
	(In Thousands)		
<u>**Interest Rate**</u>			
0.00-1.99%	**$ 2,235**	$ 32	$ 24,638
2.00-2.99%	**91,937**	17,451	46,588
3.00-3.99%	**298,819**	131,375	496,755
4.00-4.99%	**473,649**	488,520	162,070
5.00-5.99%	**6,969**	250,682	153,047
Total	**$ 873,609**	$ 888,060	$ 883,098

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

	At June 30, 2008
	(In Thousands)
<u>**Maturity Period**</u>	
Within three months	$ 76,256
Three through six months	58,803

Six through twelve months	54,691
Over twelve months	46,977
	$ 236,727

24

The following table sets forth the amount and maturities of certificates of deposit at June 30, 2008.

	Amount Due Within						
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	(In Thousands)						
0.00-1.99%	$ 2,235	$ —	$ —	$ —	$ —	$ —	$ 2,235
2.00-2.99%	89,558	2,379	—	—	—	—	91,937
3.00-3.99%	243,602	40,099	11,626	—	3,491	1	298,819
4.00-4.99%	374,070	59,614	16,460	8,920	14,582	3	473,649
5.00-5.99%	524	211	—	1,560	4,674	—	6,969
Total	$ 709,989	$ 102,303	$ 28,086	$ 10,480	$ 22,747	$ 4	$ 873,609

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

Advances from the FHLB are typically secured by the FHLB capital stock we own and mortgage-backed securities we hold in safekeeping there. Additional information regarding our FHLB advances is included under Note 11 to consolidated financial statements.

Short-term FHLB advances generally have original maturities of less than one year. The details of these short-term advances are presented below for the dates and periods indicated. Typically, our short-term advances are in the form of overnight borrowings. Available overnight lines of credit at the FHLB at June 30, 2008 were $200.0 million. The Bank did not have any short-term advances or overnight borrowings during the year ended June 30, 2008.

	At or for the Years Ended June 30,		
	2008	2007	2006
	(Dollars in Thousands)		
<u>Federal Home Loan Bank advances</u>:			
Average balance outstanding	$ —	$ —	$ 3,958
Maximum amount outstanding at any month-end during the period	—	—	28,000
Balance outstanding at end of period	—	—	—
Weighted average interest rate during the period	— %	— %	4.48 %
Weighted average interest rate at end of period	— %	— %	— %

At June 30, 2008, long-term FHLB advances totaled $218.0 million. Long-term advances consist of fixed-rate advances that will mature after one year. The advances are collateralized by FHLB capital stock and certain mortgage-backed securities. These advances had a weighted average interest rate of 3.93% at June 30, 2008.

As of June 30, 2008, long-term advances mature as follows:

Years Ending June 30,	(In Thousands)
2009	$ 8,000
2011	10,000
2018	200,000
Total	$ 218,000

Subsidiary Activity

Kearny Financial Corp. has two wholly owned subsidiaries: Kearny Federal Savings Bank and Kearny Financial Securities, Inc.

Kearny Financial Securities, Inc. was organized in April 2005 under Delaware law as a Delaware investment company primarily to hold securities and mortgage-backed securities. At June 30, 2008, it held assets totaling $5,000 and was considered inactive.

Kearny Federal Savings Bank has two wholly owned subsidiaries: KFS Financial Services, Inc. and Kearny Federal Investment Corp.

KFS Financial Services, Inc. was incorporated as a New Jersey corporation in 1994 under the name of South Bergen Financial Services, Inc., was acquired in Kearny's merger with South Bergen Savings Bank in 1999 and was renamed KFS Financial Services, Inc. in 2000. It is a service corporation subsidiary organized for selling insurance products, including annuities, to Bank customers and the general public through a third party networking arrangement. KFS Financial Services, Inc. is not a licensed insurance agency and it may only offer insurance products through an agreement with a licensed insurance agency. KFS Financial Services, Inc. has entered into an agreement with The Savings Bank Life Insurance Company of Massachusetts, a licensed insurance agency, through which it offers insurance products. At June 30, 2008, it held assets totaling $316,000.

Kearny Federal Investment Corp. was organized in May 2004 under New Jersey law as a New Jersey investment company primarily to hold securities and mortgage-backed securities. In June 2008, Kearny Federal Investment Corp. was formally dissolved and its assets returned to its parent, the Bank.

REGULATION

The Bank and the Company operate in a highly regulated industry. This regulation establishes a comprehensive framework of activities in which a savings and loan holding company and federal savings bank may engage and is intended primarily for the protection of the deposit insurance fund and depositors. Set forth below is a brief description of certain laws that relate to the regulation of the Bank and the Company. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

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

Regulation of the Bank

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

The Bank must file reports with the Office of Thrift Supervision concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other financial institutions. The Office of Thrift Supervision regularly examines the Bank and prepares reports to the Bank's Board of Directors on deficiencies, if any, found in its operations. The Office of Thrift Supervision has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements. In addition, the Federal Deposit Insurance Corporation has the authority to recommend to the Director of the Office of Thrift Supervision to take enforcement action with respect to a particular federally chartered savings bank and, if the Director does not take action, the Federal Deposit Insurance Corporation has authority to take such action under certain circumstances.

Insurance of Deposit Accounts. The Federal Deposit Insurance Corporation ("FDIC") insures the Bank's deposits to applicable limits. Despite the FDIC's authority to assess premiums under a risk-based system for such deposit insurance, most insured depository institutions have not been required to pay premiums for the last ten years. The Federal Deposit Insurance Reform Act of 2005 (the "Reform Act") resulted in significant changes to the federal deposit insurance program: (i) effective March 31, 2006, the Bank Insurance Fund and the Savings Association Insurance Fund were merged into a new combined fund, called the Deposit Insurance Fund; (ii) the current $100,000 deposit insurance coverage will be indexed for inflation (with adjustments every five years, commencing January 1, 2011); and (iii) deposit insurance coverage for retirement accounts was increased to $250,000 per participant subject to adjustment for inflation. In addition, the Reform Act gave the FDIC greater latitude in setting the assessment rates for insured depository institutions, which could be used to impose minimum assessments.

As authorized, the FDIC sets the reserve ratio for the Deposit Insurance Fund annually at between 1.15% and 1.5% of estimated insured deposits. If the Deposit Insurance Fund's reserves exceed the designated reserve ratio, the FDIC is required to pay out all or, if the reserve ratio is less than 1.5%, a portion of the excess as a dividend to insured depository institutions based on the percentage of insured deposits held on December 31, 1996 adjusted for subsequently paid premiums. Insured depository institutions that were in existence on December 31, 1996 and paid assessments prior to that date (or their successors) are entitled to a one-time credit against future assessments based on the amount of their assessable deposits on that date. The Bank's initial one-time assessment credit balance was $1.6 million as of April 1, 2007. At June 30, 2008, our credit balance totaled $597,000, which includes the $150,000 applied by the FDIC against our quarterly insurance payment computation on June 30, 2008. If our calculated premium does not change, the credit may cover premiums due during approximately the next four quarters.

Pursuant to the Reform Act, the FDIC has determined to maintain the designated reserve ratio at 1.25%. The FDIC has also adopted a new risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. Beginning in 2007, well-capitalized institutions with the CAMELS ratings of 1 or 2 will be grouped in Risk Category I and will be assessed for deposit insurance at an annual rate of between five and seven basis points. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution's individual CAMEL component ratings plus either five financial ratios or the average ratings of its long-term debt. Assessments for institutions in Risk Categories II, III and IV will be at annual rates of 10, 28 and 43 basis points, respectively.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the SAIF. The FICO assessment rates, which are determined quarterly, averaged 0.0113% of insured deposits in fiscal 2008. These assessments will continue until the FICO bonds are scheduled to mature in 2017.

Regulatory Capital Requirements. Office of Thrift Supervision capital regulations require savings institutions to meet three minimum capital standards: (1) tangible capital equal to 1.5% of total adjusted assets, (2) "Tier 1" or "core" capital equal to at least 4% of total adjusted assets and (3) risk-based capital equal to 8% of total risk-weighted assets. For information on the Bank's compliance with these regulatory capital standards, see Note 13 to consolidated financial statements. In assessing an institution's capital adequacy, the Office of Thrift Supervision takes into consideration not only these numeric factors but also qualitative factors as well and has the authority to establish higher capital requirements for individual institutions where necessary.

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

For purposes of the Office of Thrift Supervision capital regulations, tangible capital is defined as core capital less all intangible assets except for certain mortgage servicing rights. Tier 1 or core capital is defined as common stockholders' equity, non-cumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of consolidated subsidiaries and certain non-withdrawable accounts and pledged deposits of mutual savings banks. The Bank does not have any non-withdrawable

accounts or pledged deposits. Tier 1 and core capital are reduced by an institution's intangible assets, with limited exceptions for certain mortgage and non-mortgage servicing rights and purchased credit card relationships. Both core and tangible capital are further reduced by an amount equal to the savings institution's debt and equity investments in "non-includable" subsidiaries engaged in activities not permissible for national banks other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies.

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

A savings institution's risk-based capital requirement is measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. These risk weights range from 0% for cash to 100% for delinquent loans, property acquired through foreclosure, commercial loans and certain other assets.

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

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

The Office of Thrift Supervision may disapprove a notice or deny an application for a capital distribution if: (i) the savings institution would be undercapitalized following the capital distribution; (ii) the proposed capital distribution raises safety and soundness concerns; or (iii) the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In December 2006, the Office of Thrift Supervision authorized the Bank to make a capital distribution to the Company in the form of a $15.0 million cash dividend for payment of dividends to stockholders and to fund stock repurchases. The Company received the cash dividend in January 2007. In June 2007, the Bank applied to the Office of Thrift Supervision for approval to distribute an additional

$19.0 million to the Company. In August 2007, the Bank received approval from the Office of Thrift Supervision and the cash dividend was paid in November 2007.

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

A savings bank that fails the qualified thrift lender test and does not convert to a bank charter generally will be prohibited from: (1) engaging in any new activity not permissible for a national bank; (2) paying dividends not permissible under national bank regulations; and (3) establishing any new branch office in a location not permissible for a national bank in the institution's home state. In addition, if the institution does not requalify under the qualified thrift lender test within three years after failing the test, the institution would be prohibited from engaging in any activity not permissible for a national bank and would have to repay any outstanding advances from the FHLB as promptly as possible.

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

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

As a member, the Bank is required to purchase and maintain stock in the FHLB of New York in an amount equal to the greater of 1% of our aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of our outstanding FHLB advances.

The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate related collateral to 30% of a member’s capital and limiting total advances to a member.

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

The USA Patriot Act. The Bank is subject to Office of Thrift Supervision regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act. The USA Patriot Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA Patriot Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

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

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

- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period.

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

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

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

31

Regulation of the Company

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

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

Activities Restrictions. As a savings and loan holding company and as a subsidiary holding company of a mutual holding company, the Company is subject to statutory and regulatory restrictions on its business activities. The non-banking activities of the Company and its non-savings institution subsidiaries are restricted to certain activities specified by Office of Thrift Supervision regulation, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987 and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the Gramm-Leach-Bliley Act. Before engaging in any non-banking activity or acquiring a company engaged in any such activities, the Company must file with the Office of Thrift Supervision either a prior notice or (in the case of non-banking activities permissible for bank holding companies) an application regarding its planned activity or acquisition.

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

Waivers of Dividends by Kearny MHC. Office of Thrift Supervision regulations requires the MHC to notify the Office of Thrift Supervision of any proposed waiver of its receipt of dividends from

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

During the year ended June 30, 2008, the MHC waived its right, upon non-objection from the Office of Thrift Supervision, to receive cash dividends of $10.2 million declared during the year.

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

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company or savings association. An acquisition of "control" can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution or as otherwise defined by the Office of Thrift Supervision. Under the Change in Bank Control Act, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Item 1A. Risk Factors

The following is a summary of what management, in its opinion, currently believes to be the material risks related to an investment in the Company's securities.

Changes in interest rates may adversely affect our net interest rate spread and net interest margin, which would hurt our earnings.

We derive our income mainly from the difference or "spread" between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the larger the spread, the more we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our income.

From an interest rate risk perspective, the Company is liability sensitive, which indicates that liabilities re-price faster than assets. The timing mismatch of the re-price of interest-earning assets and

33

interest-bearing liabilities is referred to as the gap position. The most common measurement interval is one year. At June 30, 2007, the Company's one-year gap position was -20.9% and at June 30, 2008 it was -9.5%. During the fiscal year it fluctuated from -15.1% at September 30, 2007 to -9.3% at December 31, 2007 to -11.8% at March 31, 2008.

Following a period of historically low interest rates, the Federal Reserve Board of Governors steadily increased its target federal funds rate 425 basis points between June 2004 and June 2007, raising it to 5.25% where it remained until September 2007. During that period, while the federal funds rate and other short-term market interest rates, which we use as a guide to our deposit pricing increased, intermediate- and long-term market interest rates, which we use as a guide to our loan pricing, did not increase proportionately. In fact, it led to a "flattening" of the market yield curve, which became "inverted" as short-term rates exceeded longer-term rates. The relatively flat yield curve hurt our net interest rate spread and net interest margin because the interest rates we pay on our deposits re-priced upwards faster than the interest rates that we earn on our loans and investments. However, between September 2007 and May 2008, the Federal Reserve reacted to the threat of a recession and the housing and credit crises by steadily decreasing its target federal funds rate, reducing it by 325 basis points to 2.00%. This has had the effect of increasing our net interest spread and net interest margin due to the cost of funds declining by more than the decline in the yield on earning assets.

In this interest rate environment, it is to our benefit to be liability sensitive. As of June 30, 2008, $710.0 million or 81.3% of our certificates of deposit mature within one year. During the year ending June 30, 2009, $100.0 million of FHLB advances are callable, but as of June 30, 2008 it seems unlikely that they will be called. With respect to re-pricing assets, during the year ending June 30, 2009, $12.1 million of loans will reach their contractual maturity dates. The effect of subsequent interest rate changes will be reflected in the re-pricing of $124.9 million of loans maturing after June 30, 2009 and $379.3 million of mortgage-backed securities and non-mortgage-backed securities with floating or adjustable rates.

Interest rates also affect how much money we lend. For example, when interest rates rise, the cost of borrowing increases and loan originations tend to decrease. In addition, changes in interest rates can affect the average life of loans and securities. A reduction in interest rates generally results in increased prepayments of loans and mortgage-backed securities, as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk, because we generally are not able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Changes in market interest rates could also reduce the value of our financial assets. If we are unsuccessful in managing the effects of changes in interest rates, our financial condition and profitability could suffer.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. While our allowance for loan losses was 0.59% of total loans at June 30, 2008, material additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance

for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

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

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

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

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

Our return on equity compares unfavorably to other companies. This could negatively influence the price of our stock.

The net proceeds from our initial public offering in February 2005 substantially increased our equity capital. We expect to take time to invest this capital prudently. As a result, our return on equity, which is the ratio of earnings divided by average equity capital is lower than that of many similar companies. To the extent that the stock market values a company based in part on its return on equity, our low return on equity relative to our peer group could negatively affect the trading price of our common stock. During the year ended June 30, 2008, there was ongoing evaluation and implementation of growth and diversification strategies related to execution of the Company’s business plan. Though so far unsuccessful, the Company expects to carry on in the future similar efforts to grow the balance sheet. At the same time, management expects to continue to restructure the Bank’s asset mix in an attempt to improve profitability.

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

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

35

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

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

Kearny MHC owns a majority of Kearny Financial Corp.'s common stock, 72.2% at June 30, 2008 and is able to exercise voting control over most matters put to a vote of shareholders, including the election of directors. Kearny MHC may also exercise its voting control to prevent a sale or merger transaction in which stockholders could receive a premium for their shares. The Board of Directors of Kearny MHC is also the Board of Directors of Kearny Financial Corp.

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company and the Bank conduct business from their administrative headquarters at 120 Passaic Avenue in Fairfield, New Jersey and 28 branch offices located in Bergen, Hudson, Passaic, Morris, Middlesex, Essex, Union and Ocean Counties, New Jersey. Seven of our offices are leased with remaining terms between less than one year and nine years. At June 30, 2008, our net investment in property and equipment totaled $34.9 million. The following table sets forth certain information relating to our properties as of June 30, 2008.

Office Location	Year Opened	Net Book Value as of June 30, 2008 (In Thousands)	Square Footage	Owned/ Leased

Executive Office: 120 Passaic Avenue Fairfield, New Jersey	2004	$11,223	53,000	Owned
Main Office: 614 Kearny Avenue Kearny, New Jersey	1928	984	6,764	Owned

Office Location	Year Opened	Net Book Value as of June 30, 2008 (In Thousands)	Square Footage	Owned/ Leased
Branches:				
425 Route 9 & Ocean Gate Drive Bayville, New Jersey	1973	$ 44	3,500	Leased
417 Bloomfield Avenue Caldwell, New Jersey	1968	355	4,400	Owned
20 Willow Street East Rutherford, New Jersey	1969	54	3,100	Owned
574 Franklin Avenue Franklin Lakes, New Jersey	1978	1	2,300	Leased
534 Harrison Avenue Harrison, New Jersey	1995	634	3,000	Owned
1353 Ringwood Avenue Haskell, New Jersey	1996	—	2,500	Leased
860 18th Avenue Irvington, New Jersey	1962	25	5,350	Owned
718B Buckingham Drive Lakewood, New Jersey	2008	—	2,800	Leased
630 North Main Street Lanoka Harbor, New Jersey	2005	2,218	3,200	Owned
307 Stuyvesant Avenue Lyndhurst, New Jersey	1970	250	3,338	Owned
270 Ryders Lane				