

Edgar Filing: Kearny Financial Corp. - Form 10-K/A

Kearny Financial Corp.  
Form 10-K/A  
May 16, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 1 TO  
FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2005

- or -

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission Number: 0-51093

Kearny Financial Corp.

(Exact name of Registrant as specified in its Charter)

United States

22-3803741

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(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: None

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

-----  
(Title of Class)

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer [X]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2004 was \$0.

As of September 26, 2005 there were issued and outstanding 72,737,500 shares of the Registrant's Common Stock.

### DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2005 Annual Meeting of Stockholders. (Part III)

### EXPLANATORY NOTE: REASON FOR AMENDMENT

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Kearny Financial Corp. (the "Company") is filing this amendment to its Annual Report on Form 10-K for the year ended June 30, 2005 in order to revise its presentation of net income per common share. There have been no changes to previously reported total net income for any period. Only share and per share amounts are being restated.

The effective date of the Company's initial public offering (the "IPO") was February 23, 2005, and a total of 72,737,500 shares were issued. The 10,000 shares issued to the mutual holding company, Kearny MHC (the "MHC"), in connection with the mutual holding company reorganization completed in 2001 were "replaced" with 50,916,250 shares, representing 70% of the total shares issued in the IPO. The remaining 30% of the shares issued, totaling 21,821,250 shares, were sold in the IPO to the public.

In the Company's Form 10-K for the year ended June 30, 2005 previously filed with the Securities and Exchange Commission ("SEC"), the presentation of basic and diluted net income per share assumed the effective date of the transaction was July 1, 2004. Additionally, basic and diluted net income per share for fiscal 2004, 2003, 2002 and 2001 were not retroactively adjusted to reflect that 70% of the shares issued in the IPO were a replacement for the 10,000 shares held by the MHC before the IPO.

At the request of the staff of the SEC, the Company is restating its share and per share computations for the five years ended June 30, 2005. The share and per share data for the year ended June 30, 2005 has been restated based on a weighted average number of shares outstanding beginning on February 23, 2005, the date the Company's initial public offering was completed. Additionally, the share and per share data for the four fiscal years ended June 30, 2004 has been restated to reflect the replacement of the MHC's shares in connection with the IPO.

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### Item 6. Selected Financial Data

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The following financial information and other data in this section for the years ended June 30, 2005, 2004 and 2003 is derived from the Company's audited consolidated financial statements and should be read together with the consolidated financial statements and the notes thereto contained in this Annual Report on Form 10-K. The information at and for the year ended June 30, 2001 is derived from unaudited consolidated financial statements of the Company. The Company acquired Pulaski Bancorp, Inc. in October 2002 and West Essex Bancorp, Inc. in July 2003. For an explanation of the accounting treatment of the acquisitions, see Note 2 to the consolidated financial statements.

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|   | For the Year Ended June 30,      |         |         |
|---|----------------------------------|---------|---------|
|   | 2005                             | 2004    | 2003    |
|   | ----                             | ----    | ----    |
|   | (In Thousands, Except Per Share) |         |         |
| Per Share Data:                                   |                                  |         |         |
| Net income per share - basic (as restated).....   | \$ 0.33                          | \$ 0.25 | \$ 0.08 |
| Net income per share - diluted (as restated)..... | \$ 0.33                          | \$ 0.25 | \$ 0.08 |
| Weighted average number of common                 |                                  |         |         |
| Shares outstanding - basic (as restated).....     | 57,963                           | 50,916  | 50,916  |
| Weighted average number of common                 |                                  |         |         |
| Shares outstanding - diluted (as restated)....    | 57,963                           | 50,916  | 50,916  |
| Cash dividends per share (1).....                 | \$ --                            | \$ --   | \$ 0.02 |

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

### Item 8. Financial Statements and Supplementary Data

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The Company's financial statements are contained in this amended Annual Report on Form 10-K immediately following Item 15.

### Item 15. Exhibits and Financial Statement Schedules

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(1) The following financial statements and the independent auditors' report appear in this Annual Report on Form 10-K immediately after this Item 15:

Report of Independent Registered Public Accounting Firm  
 Consolidated Statements of Financial Condition as of June 30, 2005 and 2004  
 Consolidated Statements of Income for the Years Ended June 30, 2005, 2004 and 2003  
 Consolidated Statements of Changes in Stockholders' Equity for the Years Ended  
 June 30, 2005, 2004 and 2003  
 Consolidated Statements of Cash Flows for the Years Ended June 30, 2005, 2004

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and 2003  
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) The following exhibits are filed as part of this report:

|    |   |
|----|---|
| 11 | Statement regarding computation of earnings per share |
| 23 | Consent of Beard Miller Company LLP                   |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2005

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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BEARD MILLER COMPANY LLP

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Certified Public Accountants and Consultants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Board of Directors  
Kearny Financial Corp. and Subsidiaries

We have audited the accompanying consolidated statements of financial condition of Kearny Financial Corp. (the "Company") and Subsidiaries as of June 30, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 2005. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the second preceding paragraph present fairly, in all material respects, the consolidated financial position of Kearny Financial Corp. and Subsidiaries as of June 30, 2005 and 2004, and the consolidated results of their operations and cash flows for each of the years in the three-year period ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/Beard Miller Company LLP

Pine Brook, New Jersey  
July 29, 2005

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES  
-----  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS  
  
Cash and amounts due from depository institutions  
Interest-bearing deposits in other banks

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Cash and Cash Equivalents

1

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|  |                                      |        |
|--|--------------------------------------|--------|
| Securities available for sale  |                                      |        |
| Investment securities held to maturity   |                                      | 4      |
| Loans receivable, including net deferred loan costs 2005 \$815; 2004 \$758   |                                      | 5      |
| Less allowance for loan losses   |                                      |        |
|  |                                      | -----  |
| Net Loans Receivable   |                                      | 5      |
| Mortgage-backed securities held to maturity  |                                      | 7      |
| Premises and equipment   |                                      |        |
| Federal Home Loan Bank of New York stock ("FHLB")  |                                      |        |
| Interest receivable  |                                      |        |
| Goodwill   |                                      |        |
| Other assets   |                                      |        |
|  |                                      | -----  |
| Total Assets   |                                      | \$ 2,1 |
|  |                                      | =====  |
|  | LIABILITIES AND STOCKHOLDERS' EQUITY |        |
| LIABILITIES  |                                      |        |
| Deposits:  |                                      |        |
| Non-interest bearing   |                                      | \$     |
| Interest bearing   |                                      | 1,4    |
|  |                                      | -----  |
| Total Deposits   |                                      | 1,5    |
| Advances from FHLB   |                                      |        |
| Advance payments by borrowers for taxes  |                                      |        |
| Other liabilities  |                                      |        |
|  |                                      | -----  |
| Total Liabilities  |                                      | 1,6    |
|  |                                      | -----  |
| STOCKHOLDERS' EQUITY   |                                      |        |
| Preferred stock, \$0.10 par value; 25,000,000 shares authorized; non-issued and outstanding  |                                      |        |
| Common stock, \$0.10 par value; 75,000,000 shares authorized; 2005 72,737,500 shares and 2004 10,000 shares issued and outstanding |                                      |        |
| Paid-in capital  |                                      | 2      |
| Retained earnings - substantially restricted   |                                      | 3      |
| Unearned Employee Stock Ownership Plan shares  |                                      | (      |
| Accumulated other comprehensive income   |                                      |        |
|  |                                      | -----  |
| Total Stockholders' Equity   |                                      | 5      |
|  |                                      | -----  |
| Total Liabilities and Stockholders' Equity   |                                      | \$ 2,1 |
|  |                                      | =====  |
| See notes to consolidated financial statements.  |                                      |        |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF INCOME

|   | Years Ended    |
|---|----------------|
|   | 2005           |
|   | -----          |
|   | (In Thousands, |
|   | -----          |
| INTEREST INCOME                                     |                |
| Loans   | \$29,311       |
| Mortgage-backed securities                          | 33,954         |
| Investment and available for sale securities        | 16,536         |
| Other interest-earning assets                       | 2,640          |
|   | -----          |
| Total Interest Income                               | 82,441         |
|   | -----          |
| INTEREST EXPENSE                                    |                |
| Deposits  | 26,532         |
| Borrowings  | 3,890          |
|   | -----          |
| Total Interest Expense                              | 30,422         |
|   | -----          |
| Net Interest Income                                 | 52,019         |
|   | -----          |
| PROVISION FOR LOAN LOSSES                           | 68             |
|   | -----          |
| Net Interest Income after Provision for Loan Losses | 51,951         |
|   | -----          |
| NON-INTEREST INCOME                                 |                |
| Fees and service charges                            | 712            |
| Gain on sale of available for sale securities       | 7,705          |
| Miscellaneous                                       | 1,086          |
|   | -----          |
| Total Non-Interest Income                           | 9,503          |
|   | -----          |
| NON-INTEREST EXPENSES                               |                |
| Salaries and employee benefits                      | 20,790         |
| Net occupancy expense of premises                   | 3,163          |
| Equipment   | 3,931          |
| Advertising   | 1,176          |
| Federal insurance premium                           | 554            |
| Amortization of intangible assets                   | 636            |
| Directors' fees                                     | 886            |
| Merger related expenses                             | -              |
| Miscellaneous                                       | 3,726          |
|   | -----          |
| Total Non-Interest Expenses                         | 34,862         |
|   | -----          |

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|  |          |
|--|----------|
| Income before Income Taxes                           | 26,592   |
| INCOME TAXES   | 7,694    |
|  | -----    |
| Net Income   | \$18,898 |
|  | =====    |
| NET INCOME PER COMMON SHARE                          |          |
| Basic (As restated)                                  | \$0.33   |
|  | =====    |
| Diluted (As restated)                                | \$0.33   |
|  | =====    |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING |          |
| Basic (As restated)                                  | 57,963   |
|  | =====    |
| Diluted (As restated)                                | 57,963   |
|  | =====    |

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Years Ended June 30, 2005, 2004, and 2003

|  | Common Stock   |        | Paid-In<br>Capital | Retained                                  | Unearned<br>ESOP Shares | Unearned                 |
|--|----------------|--------|--------------------|---|-------------------------|--------------------------|
|  | Shares         | Amount |                    | Earnings -<br>Substantially<br>Restricted |                         | Incentive<br>Plan Shares |
|  | -----          | -----  | -----              | -----                                     | -----                   | -----                    |
|  | (In Thousands) |        |                    |   |                         |                          |
| BALANCE - JUNE 30, 2002  | 13             | \$ 1   | \$27,906           | \$272,983                                 | \$ (811)                | \$ (419)                 |
| Comprehensive income:  |                |        |                    |   |                         |                          |
| Net income   | -              | -      | -                  | 4,055                                     | -                       | -                        |
| Unrealized loss<br>on securities<br>available for<br>sale, net of<br>deferred income<br>tax benefit of \$743 | -              | -      | -                  | -   | -                       | -                        |
| Total Comprehensive<br>Income  |                |        |                    |   |                         |                          |
| ESOP shares  |                |        |                    |   |                         |                          |



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|   |     |   |         |         |       |       |
|---|-----|---|---------|---------|-------|-------|
| committed to be released  | -   | - | 459     | -       | 148   | -     |
| Incentive Plan shares earned  | -   | - | -       | -       | -     | 182   |
| Treasury stock reissued   | -   | - | (20)    | -       | -     | -     |
| Cash dividends declared   | -   | - | -       | (986)   | -     | -     |
| Acquisition of Pulaski Bancorp, Inc.  | (1) | - | (9,850) | (2,082) | -     | 44    |
| Permanent tax benefit related to stock options  | -   | - | 571     | -       | -     | -     |
| <hr/>   |     |   |         |         |       |       |
| BALANCE - JUNE 30, 2003   | 12  | 1 | 19,066  | 273,970 | (663) | (193) |
| <br>  |     |   |         |         |       |       |
| Comprehensive income:   |     |   |         |         |       |       |
| Net income  | -   | - | -       | 12,897  | -     | -     |
| Unrealized gain on securities available for sale, net of deferred income tax expense of \$1,296 | -   | - | -       | -       | -     | -     |
| <br>  |     |   |         |         |       |       |
| Total Comprehensive Income  |     |   |         |         |       |       |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)  
Years Ended June 30, 2005, 2004, and 2003

|   | Common Stock |        | Paid-In Capital | Retained Earnings - Substantially Restricted | Unearned ESOP Shares | Unearned Incentive Plan Shares | Treasury Shares |
|---|--------------|--------|-----------------|--|----------------------|--------------------------------|-----------------|
|   | Shares       | Amount |                 |  |                      |                                |                 |
| (In Thousands)                          |              |        |                 |  |                      |                                |                 |
| Acquisition of West Essex Bancorp, Inc. | (2)          | \$ -   | \$ (18,567)     | \$ (3,908)                                   | \$ 663               | \$ 193                         | \$ -            |
| BALANCE - JUNE 30, 2004                 | 10           | 1      | 499             | 282,959                                      | -                    | -                              | -               |
| <br>                                    |              |        |                 |  |                      |                                |                 |
| Comprehensive income:                   |              |        |                 |  |                      |                                |                 |
| Net income                              | -            | -      | -               | 18,898                                       | -                    | -                              | -               |

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|  |        |          |           |           |             |       |
|--|--------|----------|-----------|-----------|-------------|-------|
| Realized gain<br>on securities<br>available for<br>sale, net of<br>income tax<br>of \$2,697                  | -      | -        | -         | -         | -           | -     |
| Unrealized gain<br>on securities<br>available for<br>sale, net of<br>deferred income<br>tax expense of \$240 | -      | -        | -         | -         | -           | -     |
| <br>Total Comprehensive<br>Income  |        |          |           |           |             |       |
| <br>Initial capitalization<br>from establishment<br>of mutual<br>holding company                             | (10)   | (1)      | 1         | -         | -           | -     |
| Proceeds from common<br>stock offering   | 72,738 | 7,274    | 207,293   | -         | (17,457)    | -     |
| ESOP shares committed<br>to be released  | -      | -        | 45        | -         | 485         | -     |
|  | -----  | -----    | -----     | -----     | -----       | ----- |
| BALANCE - JUNE 30, 2005  | 72,738 | \$ 7,274 | \$207,838 | \$301,857 | \$ (16,972) | \$ -  |
|  | =====  | =====    | =====     | =====     | =====       | ===== |

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Years E        |           |
|--|----------------|-----------|
|  | 2005           | 2004      |
|  | (In thousands) |           |
| CASH FLOWS FROM OPERATING ACTIVITIES   |                |           |
| Net income   | \$ 18,898      | \$ 18,898 |
| Adjustments to reconcile net income to net cash provided by<br>operating activities: |                |           |
| Depreciation and amortization of premises and equipment                              | 1,549          | 1,549     |
| Net amortization of premiums, discounts and loan fees<br>and costs                   | 1,035          | 1,035     |
| Deferred income taxes  | 343            | 343       |
| Amortization of intangible assets  | 636            | 636       |
| Provision for loan losses  | 68             | 68        |
| Realized gains on sale of securities available for sale                              | (7,705)        | (7,705)   |

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|  |           |
|--|-----------|
| (Increase) decrease in interest receivable                                   | (569)     |
| (Increase) decrease in other assets  | 3,861     |
| (Decrease) in interest payable   | (57)      |
| Increase (decrease) in other liabilities                                     | 1,045     |
| ESOP expenses  | 530       |
|  | -----     |
| Net Cash Provided by Operating Activities                                    | 19,634    |
|  | -----     |
| CASH FLOWS FROM INVESTING ACTIVITIES   |           |
| Purchases of securities available for sale                                   | (202)     |
| Proceeds from sale of securities available for sale                          | 8,866     |
| Purchases of investment securities held to maturity                          | (54,387)  |
| Proceeds from calls and maturities of investment securities held to maturity | 15,387    |
| Proceeds from repayments of investment securities held to maturity           | 4,797     |
| Purchase of loans  | (1,515)   |
| Proceeds from sale of student loans  | -         |
| Net (increase) decrease in loans receivable                                  | (50,913)  |
| Purchases of mortgage-backed securities held to maturity                     | (163,607) |
| Principal repayments on mortgage-backed securities held to maturity          | 175,911   |
| Additions to premises and equipment  | (9,877)   |
| Redemption of FHLB stock   | 31        |
| Cash paid for acquisition of minority interest in Pulaski Bancorp, Inc.      | -         |
| Cash paid for acquisition of minority interest in West Essex Bancorp, Inc.   | -         |
|  | -----     |
| Net Cash Provided by (Used in) Investing Activities                          | (75,509)  |
|  | -----     |

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

|  | Years E    |       |
|--|------------|-------|
|  | 2005       |       |
|  | -----      | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES                               |            |       |
| Net increase (decrease) in deposits                                | \$ (8,714) | \$    |
| Repayment of FHLB advances   | (2,547)    |       |
| Net change in short-term borrowings from FHLB                      | (30,000)   |       |
| Increase (decrease) in advance payments by borrowers for taxes     | 403        |       |
| Proceeds from issuance of common stock of West Essex Bancorp, Inc. | -          |       |

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|   |           |    |
|---|-----------|----|
| Proceeds from issuance of common stock of Kearny Financial Corp.                              | 197,110   |    |
| Dividends paid to minority stockholders of West Essex Bancorp, Inc. and Pulaski Bancorp, Inc. | -         |    |
|   | -----     |    |
| Net Cash Provided by (Used in) Financing Activities   | 156,252   |    |
|   | -----     |    |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 100,377   |    |
|   | -----     |    |
| CASH AND CASH EQUIVALENTS - BEGINNING   | 39,488    |    |
|   | -----     |    |
| CASH AND CASH EQUIVALENTS - ENDING  | \$139,865 | \$ |
|   | =====     | == |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION  |           |    |
| Cash paid during the year for:  |           |    |
| Income taxes, net of refunds  | \$ 2,090  | \$ |
|   | =====     | == |
| Interest  | \$ 30,479 | \$ |
|   | =====     | == |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS   |           |    |
| Minority interest in consolidated subsidiaries  | \$ -      | \$ |
|   | =====     | == |
| Goodwill - West Essex acquisition   | \$ -      | \$ |
|   | =====     | == |
| Deposit for acquisition of West Essex Bancorp, Inc.   | \$ -      | \$ |
|   | =====     | == |

See notes to consolidated financial statements.

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

###### Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, Kearny Federal Savings Bank (the "Bank") and Kearny Financial Securities, Inc., and the Bank's wholly-owned subsidiaries, KFS Financial Services, Inc. and Kearny Federal Investment Corp., and have been prepared in conformity with accounting principles generally accepted in the United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation.

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In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses represents its best estimate of losses known and inherent in the loan portfolio that are both probable and reasonable to estimate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the recognition of additions to the allowance based on their judgments about information available to them at the time of their examination.

### Business of the Company and Subsidiaries

The Company's primary business is the ownership and operation of the Bank. The Bank is principally engaged in the business of attracting deposits from the general public at its 25 locations in New Jersey and using these deposits, together with other funds, to invest in securities and to make loans collateralized by residential and commercial real estate and, to a lesser extent, consumer loans. The Company's other subsidiary, Kearny Financial Securities, Inc., was organized in April 2005 under Delaware law as a Delaware Investment Company primarily to hold investment and mortgage-backed securities. The Bank's subsidiary, Kearny Federal Investment Corp. was organized in July 2004 under New Jersey law as a New Jersey Investment Company primarily to hold investment and mortgage-backed securities.

### Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts due from depository institutions and interest-bearing deposits in other banks, all with original maturities of three months or less.

### Securities

Investments in debt securities that we have the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. Debt and equity securities not classified as trading securities or as held-to-maturity securities are classified as available for sale securities and reported at fair value, with unrealized holding gains or losses, net of deferred income taxes, reported in the accumulated other comprehensive income component of stockholders' equity.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Securities (Continued)

Individual securities are considered impaired when fair value is less than amortized cost. Management evaluates on a monthly basis whether any securities are other-than-temporarily impaired. In making this determination, we consider the extent and duration for the impairment, the nature and financial health of the issuer, other factors relevant to specific securities, and our ability and intent to hold securities for a period of time sufficient to allow for any anticipated recovery in market value. If a security is determined to be other-than-temporarily impaired, an impairment loss is charged to operations.

Premiums and discounts on all securities are amortized/accreted to maturity by use of the level-yield method. Gain or loss on sales of securities is based on the specific identification method.

##### Concentration of Risk

The Bank's lending activity is concentrated in loans secured by real estate located primarily in the State of New Jersey.

##### Loans Receivable

Loans receivable are stated at unpaid principal balances plus net deferred loan origination costs and discounts less the allowance for loan losses. Loan origination fees and certain direct loan origination costs are deferred and amortized, using the level-yield method, as an adjustment of yield over the contractual lives of the related loans. Unearned discounts are accreted by use of the level-yield method over the contractual lives of the related loans.

Recognition of interest by the accrual method is generally discontinued when interest or principal payments are ninety days or more in arrears on a contractual basis, or when other factors indicate that the collection of such amounts is doubtful. At the time a loan is placed on nonaccrual status, an allowance for uncollected interest is recorded in the current period for previously accrued and uncollected interest. Interest on such loans, if appropriate, is recognized as income when payments are received. A loan is returned to accrual status when interest or principal payments are no longer ninety days or more in arrears on a contractual basis and factors indicating doubtful collectibility no longer exist.

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Allowance for Loan Losses

An allowance for loan losses is maintained at a level that represents management's best estimate of losses known and inherent in the loan portfolio that are both probable and reasonable to estimate. The allowance is decreased by loan charge-offs, increased by subsequent recoveries of loans previously charged off, and then adjusted, via either a charge or credit to operations, to an amount determined by management to be necessary. Loans or portions thereof, are charged off when, after collection efforts are exhausted, they are determined to be uncollectible. Management of the Bank, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume inherent in its loan activities, along with the general economic and real estate market conditions. The Bank utilizes 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 its loan portfolio. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type of collateral and financial condition of the borrowers. 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 losses 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. Although management believes that specific and general loan losses are established in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further additions to the level of loan loss allowances may be necessary.

A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that the Bank 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. The Bank does not aggregate such loans for evaluation purposes. Payments received on impaired loans are applied first to interest receivable and then to principal.

### Premises and Equipment

Land is carried at cost. Buildings and improvements, furnishings and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the following estimated useful lives:

|                           | Years                            |
|---------------------------|----------------------------------|
|                           | -----                            |
| Building and improvements | 10 - 50                          |
| Furnishings and equipment | 4 - 20                           |
| Leasehold improvements    | Shorter of useful<br>lives or 10 |

Construction in progress primarily represents facilities under construction for future use in our business and includes all costs to acquire land and construct buildings, as well as capitalized interest during the construction period. Interest is capitalized at the Bank's average cost of interest-bearing liabilities.

Significant renewals and betterments are charged to the property and equipment account. Maintenance and repairs are charged to operations in the year incurred. Rental income is netted against occupancy costs in the

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consolidated statements of income.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Goodwill and Other Intangible Assets

Goodwill and other intangible assets principally represent the excess cost over the fair value of the net assets of the institutions acquired in purchase transactions. Goodwill is evaluated annually by reporting unit and an impairment loss recorded if indicated. The impairment test is performed in two phases. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit's goodwill (as defined in SFAS No. 142), with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Fair value is determined by a combination of the Comparable Transaction and Discounted Cash Flow approaches. No impairment charges were required to be recorded in the years ended June 30, 2005, 2004 or 2003. If an impairment loss is determined to exist in the future, such loss will be reflected as an expense in the consolidated statements of income in the period in which the impairment loss is determined. Separate intangible assets, including core deposit intangibles that are not deemed to have indefinite lives, continue to be amortized over their useful lives, which is estimated to be ten years.

#### Income Taxes

The Company and its subsidiaries file consolidated federal income tax returns. Income taxes are allocated based on the contribution of income to the consolidated income tax returns. Separate state income tax returns are filed.

Federal and state income taxes have been provided on the basis of the reported income. The amounts reflected on our tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. Deferred income taxes are recorded to recognize such temporary differences.

#### Interest Rate Risk

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to purchase securities and to make loans secured by real estate. The potential for interest-rate risk exists as a result of the generally shorter duration of interest-sensitive liabilities compared to the generally longer duration of interest-sensitive assets. In a rising rate environment, liabilities will reprice faster than assets, thereby reducing net interest income. For



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this reason, management regularly monitors the maturity structure of the Bank's assets and liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

### Net Income per Common Share

Net income per common share is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted net income per common share did not differ from basic net income per common share as there were no contracts or securities exercisable or which could be converted into common stock. The calculation of basic and diluted net income per common share excludes Kearny Federal Savings Bank Employee Stock Ownership Plan (the "ESOP") shares that have not been previously allocated to participants or have not been committed to be released for allocation to participants. The 10,000 shares issued to Kearny MHC in connection with the Company's reorganization in 2001 were "replaced" with 70% of the shares issued in the Company's initial public offering. This transaction is analogous to a stock split or significant stock dividend, therefore, net income per common share for those shares have been retroactively restated for all periods presented. See Note 3 to Consolidated Financial Statements.

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

### ----- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Reclassification

Certain amounts as of and for the years ended June 30, 2004 and 2003 have been reclassified to conform to the current year's presentation.

#### NOTE 2 - BUSINESS COMBINATIONS

On January 10, 2002, the Company and the Bank, entered into a merger agreement with Pulaski Bancorp, Inc. ("Pulaski") and its subsidiary, Pulaski Savings Bank (PSB). On October 18, 2002, the Company purchased Pulaski's common stock held by public stockholders for \$32.90 per share, in cash. The purchase of minority interest shares was recorded as the acquisition of the noncontrolling interests of a subsidiary utilizing the purchase method of accounting and the immediately following mergers of the Company and Pulaski, and the Bank and PSB, were recorded as a combination of entities under common control. The amount paid to minority shareholders of Pulaski in excess of their interest in Pulaski amounted to \$16,146,000, which was recorded as goodwill.

On September 11, 2002, the Company and the Bank entered into a merger agreement with West Essex Bancorp, Inc. (West Essex), West Essex Savings Bank (WESB) and its 100% owned subsidiaries. On July 1, 2003, the Company purchased West Essex's common stock held by public stockholders for \$35.10 per share, in cash. (The purchase price was transferred to a third party escrow agent as of June 30, 2003.) The purchase of minority interest shares was recorded as the acquisition of the noncontrolling interests of a subsidiary utilizing the purchase method of accounting and the immediately following merger of the Company and West Essex, and the Bank and WESB, were recorded as a combination of entities under common

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control. The amount paid to minority shareholders of West Essex in excess of their interest in West Essex amounted to \$50,517,000, which was recorded as goodwill.

Merger related expenses include the following:

|  | Years Ended June 30, |        |           |
|--|----------------------|--------|-----------|
|  | 2005                 | 2004   | 2003      |
|  | (In Thousands)       |        |           |
| Legal, professional, filing fees and other expenses  | \$ -                 | \$ 592 | \$ 2,000  |
| Payments for terminated employment contracts and stock-based compensation plans for officers | -                    | -      | 10,000    |
| Stock option payment to directors  | -                    | -      | 1,000     |
|  | -----                | -----  | -----     |
|  | \$ -                 | \$ 592 | \$ 14,000 |
|  | =====                | =====  | =====     |

In addition, compensation expense for the year ended June 30, 2003, included approximately \$1,464,000 and \$607,000 in pension and ESOP expense, respectively, of West Essex Bancorp, Inc.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3 - STOCK OFFERING

On June 7, 2004, the Board of Directors of the Company and the Bank adopted a plan of stock issuance pursuant to which the Company subsequently sold common stock representing a minority ownership of the estimated pro forma market value of the Company to eligible depositors of the Bank. On February 23, 2005, the Company completed the minority stock offering in which it sold 21,821,250 shares, valued at \$10.00 per share, representing 30% of its outstanding common stock. Kearny MHC (the "MHC") owns the remaining 70% of the outstanding common stock, or 50,916,250 shares. The MHC is a federally-chartered mutual holding company organized on March 30, 2001, and is subject to regulation by the Office of Thrift Supervision. So long as the MHC is in existence, it will continue to own a majority of the outstanding common stock of the Company. The Office of Thrift Supervision also regulates the Company and the Bank.

Following the sale of common stock, all depositors who had membership or liquidation rights with respect to the Bank as of the effective date of the transaction continue to have such rights solely with respect to the MHC as long as they continue to hold deposit accounts with the Bank. In addition, all persons who become depositors of the Bank subsequent to the date of the transaction have such membership and liquidation rights with respect to the holding company. Borrowers of the Bank as of the date of the transaction have the same membership rights in the holding company that they had in the Bank

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immediately prior to the date of the transaction as long as their borrowings remain outstanding.

The minority stock offering resulted in net proceeds of \$214.6 million, after expenses of \$3.6 million. The Company used 50% of the net proceeds to make a capital contribution to the Bank. The Company also provided a term loan to the Bank's Employee Stock Ownership Plan (the "ESOP") to enable it to purchase 1,745,700 shares of the Company's common stock for the plan.

### NOTE 4 - SECURITIES AVAILABLE FOR SALE

|  | June 30, 2005     |                              |                               |                   |
|--|-------------------|------------------------------|-------------------------------|-------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carrying<br>Value |
|  | (In Thousands)    |                              |                               |                   |
| Common stock                                   | \$ 128            | \$8,423                      | \$ -                          | \$ 8,551          |
| Mutual funds                                   | 14,134            | 161                          | 155                           | 14,140            |
| Trust preferred securities due after ten years | 10,891            | 200                          | 191                           | 10,900            |
|  | -----             | -----                        | -----                         | -----             |
|  | \$25,153          | \$8,784                      | \$ 346                        | \$33,281          |
|  | =====             | =====                        | =====                         | =====             |

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 4 - SECURITIES AVAILABLE FOR SALE (CONTINUED)

|  | June 30, 2004     |                              |                               |                   |
|--|-------------------|------------------------------|-------------------------------|-------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carrying<br>Value |
|  | (In Thousands)    |                              |                               |                   |
| Common stock                                   | \$ 246            | \$15,648                     | \$ -                          | \$15,894          |
| Mutual funds                                   | 13,933            | 63                           | 97                            | 13,900            |
| Trust preferred securities due after ten years | 11,929            | 69                           | 227                           | 11,771            |
|  | -----             | -----                        | -----                         | -----             |
|  | \$26,108          | \$15,780                     | \$ 324                        | \$41,813          |
|  | =====             | =====                        | =====                         | =====             |

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The age of unrealized losses and fair value of related securities available for sale at June 30, 2005 and 2004 were as follows:

|                            | Less than 12 Months |                   | 12 Months or More |                   | Total      |
|----------------------------|---------------------|-------------------|-------------------|-------------------|------------|
|                            | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value |
| (In Thousands)             |                     |                   |                   |                   |            |
| June 30, 2005:             |                     |                   |                   |                   |            |
| Common stock               | \$ -                | \$ -              | \$ -              | \$ -              | \$ -       |
| Mutual funds               | -                   | -                 | 7,201             | 155               | 7,201      |
| Trust preferred securities | -                   | -                 | 5,210             | 191               | 5,210      |
|                            |                     |                   |                   |                   |            |
| Total                      | \$ -                | \$ -              | \$12,411          | \$ 346            | \$12,411   |
|                            |                     |                   |                   |                   |            |
| June 30, 2004:             |                     |                   |                   |                   |            |
| Common stock               | \$ -                | \$ -              | \$ -              | \$ -              | \$ -       |
| Mutual funds               | -                   | -                 | 7,057             | 97                | 7,057      |
| Trust preferred securities | -                   | -                 | 7,577             | 227               | 7,577      |
|                            |                     |                   |                   |                   |            |
| Total                      | \$ -                | \$ -              | \$14,634          | \$ 324            | \$14,634   |
|                            |                     |                   |                   |                   |            |

As of June 30, 2005 and 2004, management has concluded that the unrealized losses are temporary in nature since they are primarily related to market interest rates and not related to the underlying credit quality of the issuer of the securities. Additionally, we have the intent and ability to hold these investments for a time necessary to recover the amortized cost.

During the year ended June 30, 2005, proceeds from sales of securities available for sale totaled \$8,866,000 and resulted in gross gains of \$7,705,000. There were no sales of securities available for sale during the years ended June 30, 2004 and 2003.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENT SECURITIES HELD TO MATURITY

June 30, 2005

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|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carry<br>Val |
|---|-------------------|------------------------------|-------------------------------|--------------|
| (In Thousands)                                    |                   |                              |                               |              |
| Government agencies:                              |                   |                              |                               |              |
| Within one year                                   | \$ 17,000         | \$ -                         | \$ 152                        | \$ 16,848    |
| After one year but within five years              | 235,019           | 4                            | 4,065                         | 230,958      |
| After five years but within ten years             | 494               | 81                           | -                             | 575          |
| After ten years                                   | 12,956            | -                            | 112                           | 12,844       |
|   | -----             | -----                        | -----                         | -----        |
|   | 265,469           | 85                           | 4,329                         | 261,225      |
|   | -----             | -----                        | -----                         | -----        |
| Obligations of states and political subdivisions: |                   |                              |                               |              |
| Within one year                                   | 4,202             | 11                           | 3                             | 4,186        |
| After one year but within five years              | 16,139            | 216                          | 78                            | 15,856       |
| After five years but within ten years             | 99,841            | 2,453                        | 261                           | 102,033      |
| After ten years                                   | 84,447            | 1,327                        | 298                           | 85,422       |
|   | -----             | -----                        | -----                         | -----        |
|   | 204,629           | 4,007                        | 640                           | 207,996      |
|   | -----             | -----                        | -----                         | -----        |
|   | \$470,098         | \$4,092                      | \$4,969                       | \$469,221    |
|   | =====             | =====                        | =====                         | =====        |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENT SECURITIES HELD TO MATURITY (CONTINUED)

|                                       | June 30, 2004     |                              |                               |              |
|---------------------------------------|-------------------|------------------------------|-------------------------------|--------------|
|                                       | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carry<br>Val |
| (In Thousands)                        |                   |                              |                               |              |
| Government agencies:                  |                   |                              |                               |              |
| After one year but within five years  | \$246,259         | \$ -                         | \$5,223                       | \$241,036    |
| After five years but within ten years | 10,493            | 117                          | 62                            | 10,548       |
| After ten years                       | 17,649            | 11                           | 104                           | 17,555       |
|                                       | -----             | -----                        | -----                         | -----        |
|                                       | 274,401           | 128                          | 5,389                         | 269,140      |
|                                       | -----             | -----                        | -----                         | -----        |

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Obligations of states and political subdivisions:

|                                       |           |         |         |        |
|---------------------------------------|-----------|---------|---------|--------|
| Within one year                       | 5,386     | 33      | -       | 5,     |
| After one year but within five years  | 13,606    | 369     | 54      | 13,    |
| After five years but within ten years | 65,990    | 922     | 991     | 65,    |
| After ten years                       | 76,487    | 394     | 2,507   | 74,    |
|                                       | -----     | -----   | -----   | -----  |
|                                       | 161,469   | 1,718   | 3,552   | 159,   |
|                                       | -----     | -----   | -----   | -----  |
|                                       | \$435,870 | \$1,846 | \$8,941 | \$428, |
|                                       | =====     | =====   | =====   | =====  |

There were no sales of investment securities held to maturity during the years ended June 30, 2005, 2004 and 2003. During the years ended June 30, 2005, 2004 and 2003, proceeds from calls of securities totaled \$10,000,000, \$111,189,000, and \$108,705,000, respectively, resulting in no gains or losses. At June 30, 2005, investment securities held to maturity with a carrying value of \$243,007,000 are callable within one year.

At June 30, 2005 and 2004, all obligations of states and political subdivisions were guaranteed by insurance policies issued by various insurance companies.

The age of unrealized losses and fair value of related investment securities held to maturity at June 30, 2005 and 2004 were as follows:

|  | Less than 12 Months |                   | 12 Months or More |                   | Total      |
|--|---------------------|-------------------|-------------------|-------------------|------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value |
|  | -----               | -----             | -----             | -----             | -----      |
|  | (In Thousands)      |                   |                   |                   |            |
| June 30, 2005:                                   |                     |                   |                   |                   |            |
| Government agencies                              | \$ 754              | \$ 6              | \$254,116         | \$4,323           | \$254,870  |
| Obligations of states and political subdivisions | 19,469              | 221               | 32,923            | 419               | 52,392     |
|  | -----               | -----             | -----             | -----             | -----      |
| Total  | \$20,223            | \$227             | \$287,039         | \$4,742           | \$307,262  |
|  | =====               | =====             | =====             | =====             | =====      |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENT SECURITIES HELD TO MATURITY (CONTINUED)

|                     |                   |       |
|---------------------|-------------------|-------|
| Less than 12 Months | 12 Months or More | Total |
|---------------------|-------------------|-------|

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|  | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value |
|--|------------|-------------------|------------|-------------------|------------|
| (In Thousands)                                   |            |                   |            |                   |            |
| June 30, 2004:                                   |            |                   |            |                   |            |
| Government agencies                              | \$250,973  | \$5,285           | \$16,386   | \$104             | \$267,359  |
| Obligations of states and political subdivisions | 85,620     | 3,026             | 7,365      | 526               | 92,985     |
| Total  | \$336,593  | \$8,311           | \$23,751   | \$630             | \$360,344  |

As of June 30, 2005 and 2004, management has concluded that the unrealized losses are temporary in nature since they are primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities. Additionally, we have the intent and ability to hold these investments for the time necessary to recover the amortized cost.

NOTE 6 - LOANS RECEIVABLE

|                                   | June 30,  |           |
|-----------------------------------|-----------|-----------|
|                                   | 2005      | 2004      |
| (In Thousands)                    |           |           |
| Real estate mortgage              | \$479,451 | \$441,667 |
| Commercial business               | 2,930     | 5,161     |
| Consumer:                         |           |           |
| Home equity loans                 | 54,199    | 37,381    |
| Home equity lines of credit       | 14,850    | 15,677    |
| Passbook or certificate           | 2,831     | 2,746     |
| Other                             | 264       | 336       |
|                                   | 72,144    | 56,140    |
| Construction                      | 8,094     | 7,212     |
| Total Loans                       | 562,619   | 510,180   |
| Deferred loan costs and fees, net | 815       | 758       |
|                                   | \$563,434 | \$510,938 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - LOANS RECEIVABLE (CONTINUED)

At June 30, 2005 and 2004, real estate mortgage loans included \$382,766,000 and \$358,241,000, respectively, of loans secured by one-to-four-family residential properties.

The Bank has granted loans to officers and directors of the Company and its Subsidiaries and to their associates. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectibility. As of June 30, 2005 and 2004 such loans totaled approximately \$1,285,000 and \$1,633,000, respectively. During the year ended June 30, 2005, new loans to related parties totaled \$-0- and repayments totaled approximately \$348,000.

The activity in the allowance for loan losses is as follows:

|                                  | Years Ended June 30, |          |          |
|----------------------------------|----------------------|----------|----------|
|                                  | 2005                 | 2004     | 2003     |
|                                  | -----                |          |          |
|                                  | (In Thousands)       |          |          |
| Balance - beginning              | \$ 5,144             | \$ 5,180 | \$ 5,170 |
| Provisions charged to operations | 68                   | -        | -        |
| Loans charged off                | (9)                  | (36)     | -        |
| Loans recovered                  | 213                  | -        | 10       |
|                                  | -----                | -----    | -----    |
| Balance - ending                 | \$ 5,416             | \$ 5,144 | \$ 5,180 |
|                                  | =====                | =====    | =====    |

At June 30, 2005 and 2004, nonaccrual loans for which the accrual of interest had been discontinued totaled approximately \$1,922,000 and \$2,289,000, respectively. Had these loans been performing in accordance with their original terms, the interest income recognized for the years ended June 30, 2005, 2004 and 2003, would have been \$162,000, \$177,000, and \$178,000, respectively. Interest income recognized on such loans was \$69,000, \$118,000, and \$102,000, respectively.

Impaired loans and related amounts recorded in allowance for loan losses are summarized as follows:

|   | June 30,       |       |
|---|----------------|-------|
|   | 2005           | 2004  |
|   | -----          |       |
|   | (In Thousands) |       |
| Recorded investment in impaired loans with recorded allowance | \$ -           | \$256 |
| Without recorded allowance                                    | -              | -     |
|   | -----          | ----- |
| Total Impaired Loans  | -              | 256   |
| Related allowance for loan losses                             | -              | 115   |
|   | -----          | ----- |



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Net Impaired Loans \$ -      \$141  
=====

\$88,000, \$-0-, and \$-0- was received and recognized for these loans during the years ended June 30, 2005, 2004 and 2003, respectively. The average balance of impaired loans during the years ended June 30, 2005, 2004 and 2003 approximated \$235,000, \$243,000, and \$229,000, respectively.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - MORTGAGE-BACKED SECURITIES HELD TO MATURITY

|  | June 30, 2005     |                              |                               |                   |
|--|-------------------|------------------------------|-------------------------------|-------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carrying<br>Value |
|  | -----             | -----                        | -----                         | -----             |
|  | (In Thousands)    |                              |                               |                   |
| Government National Mortgage Association | \$ 63,399         | \$1,767                      | \$ 196                        | \$ 65,060         |
| Federal Home Loan Mortgage Corporation   | 305,059           | 2,465                        | 1,712                         | 305,812           |
| Federal National Mortgage Association    | 389,663           | 3,985                        | 1,700                         | 391,948           |
|  | -----             | -----                        | -----                         | -----             |
|  | \$758,121         | \$8,217                      | \$3,608                       | \$768,730         |
|  | =====             | =====                        | =====                         | =====             |

|  | June 30, 2004     |                              |                               |                   |
|--|-------------------|------------------------------|-------------------------------|-------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carrying<br>Value |
|  | -----             | -----                        | -----                         | -----             |
|  | (In Thousands)    |                              |                               |                   |
| Government National Mortgage Association | \$ 94,499         | \$2,507                      | \$1,487                       | \$ 95,519         |
| Federal Home Loan Mortgage Corporation   | 314,221           | 2,472                        | 3,505                         | 313,193           |
| Federal National Mortgage Association    | 362,633           | 4,670                        | 3,300                         | 363,903           |
|  | -----             | -----                        | -----                         | -----             |
|  | \$771,353         | \$9,649                      | \$8,292                       | \$772,710         |
|  | =====             | =====                        | =====                         | =====             |

Net premiums of approximately \$3,613,000 and \$3,565,000 at June 30, 2005 and 2004, respectively, are included in the carrying amounts of mortgage-backed securities held to maturity.

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There were no sales of mortgage-backed securities held to maturity during the years ended June 30, 2005, 2004 and 2003. At June 30, 2005 and 2004, securities with carrying value of approximately \$426,000 and \$906,000, respectively, was pledged to secure public funds on deposit.

The age of unrealized losses and fair value of related mortgage-backed securities held to maturity at June 30, 2005 and 2004 were as follows:

|                            | Less than 12 Months |                   | 12 Months or More  |                   | Total              |
|----------------------------|---------------------|-------------------|--------------------|-------------------|--------------------|
|                            | Fair Value          | Unrealized Losses | Fair Value         | Unrealized Losses | Fair Value         |
|                            | (In Thousands)      |                   |                    |                   |                    |
| June 30, 2005:             |                     |                   |                    |                   |                    |
| Mortgage-backed securities | \$143,550<br>=====  | \$ 986<br>=====   | \$230,786<br>===== | \$2,622<br>=====  | \$374,336<br>===== |
| June 30, 2004:             |                     |                   |                    |                   |                    |
| Mortgage-backed securities | \$376,245<br>=====  | \$7,977<br>=====  | \$ 4,126<br>=====  | \$ 315<br>=====   | \$380,371<br>===== |

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### NOTE 7 - MORTGAGE-BACKED SECURITIES HELD TO MATURITY (CONTINUED)

As of June 30, 2005 and 2004, management has concluded that the unrealized losses are temporary in nature since they are primarily related to market interest rates and not related to the underlying credit quality of the issuers of the securities. Additionally, we have the intent and ability to hold these investments for the time necessary to recover the amortized cost.

##### NOTE 8 - PREMISES AND EQUIPMENT

|                            | June 30,       |          |
|----------------------------|----------------|----------|
|                            | 2005           | 2004     |
|                            | (In Thousands) |          |
| Land                       | \$ 8,984       | \$ 5,689 |
| Buildings and improvements | 27,288         | 15,800   |
| Leasehold improvements     | 490            | 422      |

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|  |          |          |
|--|----------|----------|
| Furnishings and equipment                      | 9,455    | 7,203    |
| Construction in progress                       | 516      | 7,902    |
|  | -----    | -----    |
|  | 46,733   | 37,016   |
| Less accumulated depreciation and amortization | 11,756   | 10,367   |
|  | -----    | -----    |
|  | \$34,977 | \$26,649 |
|  | =====    | =====    |

NOTE 9 - INTEREST RECEIVABLE

|                            |                |         |
|----------------------------|----------------|---------|
|                            | June 30,       |         |
|                            | -----          | -----   |
|                            | 2005           | 2004    |
|                            | -----          | -----   |
|                            | (In Thousands) |         |
| Loans                      | \$ 2,266       | \$2,116 |
| Mortgage-backed securities | 3,481          | 3,514   |
| Investments                | 4,683          | 4,231   |
|                            | -----          | -----   |
|                            | \$10,430       | \$9,861 |
|                            | =====          | =====   |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - GOODWILL AND OTHER INTANGIBLE ASSETS

Net assets of an institution acquired in a purchase transaction prior to July 1, 2001, were recorded at fair value at the date of acquisition. The Bank also has finite-lived intangible assets, which are included in other assets, in the form of core deposit intangibles. These intangibles are being amortized on the straight line basis over their estimated useful lives of ten years.

|  |                |                             |
|--|----------------|-----------------------------|
|  | Goodwill       | Core Deposit<br>Intangibles |
|  | -----          | -----                       |
|  | (In Thousands) |                             |
| Balance at June 30, 2002                       | \$15,600       | \$ 3,472                    |
| Pulaski Savings Bank acquisitions (see Note 2) | 16,146         | -                           |
| Amortization                                   | -              | (636)                       |
|  | -----          | -----                       |
| Balance at June 30, 2003                       | 31,746         | 2,836                       |

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|  |          |          |
|--|----------|----------|
| Amortization                                     | -        | (636)    |
| West Essex Savings Bank acquisition (see Note 2) | 50,517   | -        |
|  | -----    | -----    |
| Balance at June 30, 2004                         | 82,263   | 2,200    |
| Amortization                                     | -        | (636)    |
|  | -----    | -----    |
| Balance at June 30, 2005                         | \$82,263 | \$ 1,564 |
|  | =====    | =====    |

The gross carrying amount of core deposit intangibles was \$5,987,000 at both June 30, 2005 and 2004, while accumulated amortization totaled \$4,423,000 and \$3,787,000 at June 30, 2005 and 2004, respectively. Amortization is expected to total \$636,000 in each of the years ending June 30, 2006 and 2007, and \$292,000 in the year ending June 30, 2008.

NOTE 11 - DEPOSITS

|                             | June 30,               |                                |             |                                |
|-----------------------------|------------------------|--------------------------------|-------------|--------------------------------|
|                             | 2005                   |                                | 2004        |                                |
|                             | Amount                 | Weighted Average Interest Rate | Amount      | Weighted Average Interest Rate |
|                             | -----                  | -----                          | -----       | -----                          |
|                             | (Dollars In Thousands) |                                |             |                                |
| Non-interest bearing demand | \$ 56,142              | - %                            | \$ 55,377   | -                              |
| Interest-bearing demand     | 99,308                 | 0.78                           | 103,648     | 0.75                           |
| Savings and club            | 450,211                | 1.12                           | 481,466     | 1.00                           |
| Certificates of deposit     | 923,116                | 2.81                           | 897,019     | 1.92                           |
|                             | -----                  |                                | -----       |                                |
|                             | \$1,528,777            | 2.08 %                         | \$1,537,510 | 1.48                           |
|                             | =====                  |                                | =====       |                                |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - DEPOSITS (CONTINUED)

Certificates of deposit with balances of \$100,000 or more at June 30, 2005 and 2004, totaled approximately \$209,552,000 and \$188,009,000, respectively. Deposits in excess of \$100,000 are not insured by the Federal Deposit Insurance Corporation.

A summary of certificates of deposit by maturity follows:

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|                          | June<br>-----<br>2005<br>-----<br>(In Tho |
|--------------------------|---|
| One year or less         | \$701,710                                 |
| After one to two years   | 148,557                                   |
| After two to three years | 43,275                                    |
| After three years        | 29,574                                    |
|                          | -----                                     |
|                          | \$923,116                                 |
|                          | =====                                     |

Interest expense on deposits consists of the following:

|                          | Years Ended June 3<br>-----<br>2005<br>-----<br>2004<br>-----<br>(In Thousands) |          |
|--------------------------|---|----------|
| Demand                   | \$ 752  | \$ 882   |
| Savings and clubs        | 5,422   | 5,508    |
| Certificates of deposits | 20,358  | 21,692   |
|                          | -----   | -----    |
|                          | \$26,532  | \$28,082 |
|                          | =====   | =====    |

NOTE 12 - ADVANCES FROM FHLB

|   | June 30,<br>-----<br>2005<br>-----<br>2004<br>-----<br>Amount<br>-----<br>Weighted<br>Average<br>Interest<br>Rate<br>-----<br>Amount<br>-----<br>(Dollars In Thousands) |        |          |
|---|---|--------|----------|
| Due in one year or less   | \$ -  | - %    | \$32,000 |
| After one to five years   | 50,000  | 5.46 % | 50,000   |
| After five to ten years   | 10,000  | 5.40 % | 10,000   |
| Other borrowings, payable in monthly<br>installments through February 25,<br>2008 | 1,687   | 6.03 % | 2,234    |
|   | -----   |        | -----    |
|   | \$61,687  | 5.47 % | \$94,234 |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - ADVANCES FROM FHLB (CONTINUED)

At June 30, 2005, of the \$60,000,000 in advances due after one through ten years, \$57,000,000 are callable, including \$47,000,000 which are callable within one year.

FHLB advances at June 30, 2005 and 2004, are collateralized by the FHLB capital stock owned by the Bank and investment securities held to maturity with fair values totaling approximately \$74,583,000 and \$126,810,000, respectively.

NOTE 13 - BENEFIT PLANS

Employee Stock Ownership Plan

Effective upon completion of the Company's initial public offering in February 2005, the Bank established an Employee Stock Ownership Plan ("ESOP") for all eligible employees who complete a twelve-month period of employment with the Bank, have attained the age of 21 and complete at least 1,000 hours of service in a plan year. The ESOP used \$17,457,000 in proceeds from a term loan obtained from the Company to purchase 1,745,700 shares of Company common stock. The term loan principal is payable over 144 equal installments through March 31, 2017. The interest rate on the term loan is 5.50%. Each year, the Bank intends to make discretionary contributions to the ESOP, which will be equal to principal and interest payments required on the term loan. The ESOP may further pay down the loan with dividends paid, if any, on the Company common stock owned by the ESOP.

Shares purchased with the loan proceeds provide collateral for the term loan and are held in a suspense account for future allocations among participants. Base compensation is the basis for allocation to participants, of contributions to the ESOP and shares released from the suspense account, as described by the Plan, in the year of allocation.

The ESOP is accounted for in accordance with Statement of Position 93-6, "Accounting for Employee Stock Ownership Plans," which was issued by the American Institute of Certified Public Accountants. Accordingly, ESOP shares pledged as collateral were initially recorded as unearned ESOP shares in the consolidated statements of financial condition. Thereafter, on a monthly basis, 12,123 shares are committed to be released, compensation expense is recorded equal to the number of shares committed to be released times the monthly average market price of the shares, and the committed shares become outstanding for basic net income per common share computations. ESOP compensation expense was approximately \$530,000 for the year ended June 30, 2005.

At June 30, 2005, the ESOP shares were as follows:

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|                                 |              |
|---------------------------------|--------------|
| Allocated shares                | -            |
| Shares committed to be released | 48,492       |
| Unearned shares                 | 1,697,208    |
|                                 | -----        |
| Total ESOP Shares               | 1,745,700    |
|                                 | =====        |
| Fair value of unearned shares   | \$20,027,054 |
|                                 | =====        |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - BENEFIT PLANS

Thrift Plan

The Bank sponsors the Financial Institutions Thrift Plan (the "Plan"), pursuant to Section 401(k) of the Internal Revenue Code, for all eligible employees. Employees may elect to save up to 20% of their compensation. The Bank will contribute a matching contribution up to 3% of the employee annual compensation. The Plan expense amounted to approximately \$281,000, \$264,000, and \$183,000 for the years ended June 30, 2005, 2004 and 2003, respectively.

Retirement Plan

The Bank has a non-contributory multiple-employer pension plan covering all eligible employees. Significant actuarial assumptions include the projected unit credit cost valuation method and an annual investment rate of 8.25%, 8.25%, and 8.25% for the years ended June 30, 2005, 2004 and 2003, respectively. At the date of latest plan review, the net assets available for plan benefits exceeded the actuarial present value of accumulated plan benefits. Data for the actuarial present value of accumulated vested and non-vested benefits is not determinable for this multiple-employer retirement plan. During the years ended June 30, 2005, 2004 and 2003, total pension plan expense and contributions to the plan were approximately \$2,538,000, \$1,193,000, and \$685,000, respectively.

Benefit Equalization Plan ("BEP")

The Bank has an unfunded non-qualified plan to compensate senior officers of the Bank who participate in the Bank's qualified benefit plans for certain benefits lost under such plans by reason of benefit limitations imposed by Sections 415 and 401 of the Internal Revenue Code. There were approximately \$59,000 in contributions made to and benefits paid under the BEP during each of the years ended June 30, 2005, 2004 and 2003.

The following table sets forth the BEP's funded status and components of net periodic pension cost:

|  |          |      |
|--|----------|------|
|  | June 30, |      |
|  | -----    |      |
|  | 2005     | 2004 |

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|                                  | -----          | -----   |
|----------------------------------|----------------|---------|
|                                  | (In Thousands) |         |
| Change in benefit obligation:    |                |         |
| Benefit obligation - beginning   | \$1,831        | \$1,328 |
| Service cost                     | 42             | 24      |
| Interest cost                    | 135            | 98      |
| Actuarial loss                   | -              | 440     |
| Benefit payments                 | (59)           | (59)    |
|                                  | -----          | -----   |
| Benefit obligation - ending      | \$1,949        | \$1,831 |
|                                  | =====          | =====   |
| Change in plan assets:           |                |         |
| Fair value of assets - beginning | \$ -           | \$ -    |
| Actual return on plan assets     | -              | -       |
| Settlements                      | 59             | 59      |
| Contributions                    | (59)           | (59)    |
|                                  | -----          | -----   |
| Fair value of assets - ending    | \$ -           | \$ -    |
|                                  | =====          | =====   |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - BENEFIT PLANS (CONTINUED)

Benefit Equalization Plan ("BEP") (Continued)

|  | June 30,       |            |
|--|----------------|------------|
|  | -----          | -----      |
|  | 2005           | 2004       |
|  | -----          |            |
|  | (In Thousands) |            |
| Reconciliation of funded status:                   |                |            |
| Accumulated benefit obligation                     | \$ (1,209)     | \$ (985)   |
|  | =====          | =====      |
| Projected benefit obligation                       | \$ (1,949)     | \$ (1,831) |
| Fair value of assets                               | -              | -          |
|  | -----          | -----      |
| Funded status                                      | (1,949)        | (1,831)    |
| Unrecognized prior service cost                    | (58)           | (50)       |
| Unrecognized net actuarial loss                    | 913            | 1,035      |
|  | -----          | -----      |
| Accrued pension cost included in other liabilities | \$ (1,094)     | \$ (846)   |



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|                      |       |       |
|----------------------|-------|-------|
| Value assumptions:   | ===== | ===== |
| Discount rate        | 7.50% | 7.50% |
| Salary increase rate | 5.50% | 5.50% |

|   | Years Ended June 30, |        |        |
|---|----------------------|--------|--------|
|   | 2005                 | 2004   | 2003   |
|   | -----                | -----  | -----  |
|   | (In Thousands)       |        |        |
| Net periodic pension expense:                   |                      |        |        |
| Service cost                                    | \$ 42                | \$ 24  | \$ 12  |
| Interest cost                                   | 135                  | 98     | 72     |
| Amortization of unrecognized past service costs | 8                    | 8      | 8      |
| Amortization of unrecognized net actuarial      | 122                  | 77     | 38     |
|   | -----                | -----  | -----  |
|   | \$ 307               | \$ 207 | \$ 130 |
|   | =====                | =====  | =====  |
| Valuation assumptions:                          |                      |        |        |
| Discount rate                                   | 7.50%                | 7.50%  | 7.50%  |
| Salary increase rate                            | 5.50%                | 5.50%  | 5.50%  |

It is estimated that contributions of approximately \$72,000 will be made during the year ending June 30, 2006.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - BENEFIT PLANS (CONTINUED)

Benefit Equalization Plan ("BEP") (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

|           |           |
|-----------|-----------|
| 2006      | \$ 72,000 |
| 2007      | 79,000    |
| 2008      | 93,000    |
| 2009      | 99,000    |
| 2010-2014 | 688,000   |

Postretirement Welfare Plan

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The Bank has a postretirement group term life insurance plan covering all eligible employees. The benefits are based on age and years of service. The plan is unfunded. During the years ended June 30, 2005, 2004 and 2003, contributions and benefits paid totaled \$7,000, \$6,000, and \$5,000, respectively. The following table sets forth the accrued accumulated postretirement benefit obligation and the net periodic postretirement benefit cost:

|                                  | June 30,       |        |
|----------------------------------|----------------|--------|
|                                  | 2005           | 2004   |
|                                  | (In Thousands) |        |
| Change in benefit obligation:    |                |        |
| Benefit obligation - beginning   | \$ 409         | \$ 378 |
| Service cost                     | 20             | 18     |
| Interest cost                    | 27             | 22     |
| Actuarial (gain) loss            | 2              | (3)    |
| Premiums/claims paid             | (7)            | (6)    |
| Plan amendment                   | -              | -      |
|                                  | -----          | -----  |
| Benefit obligation - ending      | \$ 451         | \$ 409 |
|                                  | =====          | =====  |
| Change in plan assets:           |                |        |
| Fair value of assets - beginning | \$ -           | \$ -   |
| Actual return on plan assets     | -              | -      |
| Premiums/claims paid             | 7              | 6      |
| Contributions                    | (7)            | (6)    |
|                                  | -----          | -----  |
| Fair value of assets - ending    | \$ -           | \$ -   |
|                                  | =====          | =====  |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - BENEFIT PLANS (CONTINUED)

Postretirement Welfare Plan (Continued)

|                                  | June 30,       |          |
|----------------------------------|----------------|----------|
|                                  | 2005           | 2004     |
|                                  | (In Thousands) |          |
| Reconciliation of funded status: |                |          |
| Accumulated benefit obligation   | \$ (451)       | \$ (409) |
| Fair value of assets             | -              | -        |

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|  |          |          |
|--|----------|----------|
|  | -----    | -----    |
| Funded status  | (451)    | (409)    |
| Unrecognized net actuarial loss                                      | (7)      | (9)      |
| Unrecognized prior service cost                                      | 63       | 74       |
|  | -----    | -----    |
| Accrued postretirement benefit cost included<br>in other liabilities | \$ (395) | \$ (344) |
|  | =====    | =====    |
| Value assumptions:   |          |          |
| Discount rate  | 5.63%    | 6.63%    |
| Salary increase rate   | 3.00%    | 4.00%    |

|  | Years Ended June 30, |       |       |
|--|----------------------|-------|-------|
|  | 2005                 | 2004  | 2003  |
|  | -----                | ----- | ----- |
|  | (In Thousands)       |       |       |
| Net periodic postretirement benefit cost:              |                      |       |       |
| Service cost   | \$ 20                | \$ 18 | \$ 12 |
| Interest cost  | 27                   | 22    | 19    |
| Amortization of unrecognized net actuarial<br>gain     | -                    | -     | -     |
| Amortization of unrecognized past service<br>liability | 11                   | 9     | 4     |
|  | -----                | ----- | ----- |
|  | \$ 58                | \$ 49 | \$ 35 |
|  | =====                | ===== | ===== |
| Valuation assumptions:                                 |                      |       |       |
| Discount rate  | 6.63%                | 5.75% | 7.00% |
| Salary increase rate                                   | 4.00%                | 3.25% | 4.25% |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - BENEFIT PLANS (CONTINUED)

Postretirement Welfare Plan (Continued)

It is estimated that contributions of approximately \$8,000 will be made during the year ending June 30, 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

|      |          |
|------|----------|
| 2006 | \$ 8,000 |
|------|----------|

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|           |        |
|-----------|--------|
| 2007      | 8,000  |
| 2008      | 7,000  |
| 2009      | 10,000 |
| 2010      | 12,000 |
| 2011-2015 | 69,000 |

Directors' Consultation and Retirement Plan ("DCRP")

The Bank has an unfunded retirement plan for non-employee directors. The benefits are payable based on term of service as a director. During the years ended June 30, 2005, 2004 and 2003, contributions and benefits paid totaled \$89,000, \$89,000, and \$51,000, respectively.

The following table sets forth the DCRP's funded status and components of net periodic cost:

|  | June 30, |          |
|--|----------|----------|
|  | 2005     | 2004     |
|  | -----    | -----    |
| (In Thousands)                           |          |          |
| Change in benefit obligation:            |          |          |
| Projected benefit obligation - beginning | \$ 1,561 | \$ 1,487 |
| Service cost                             | 86       | 78       |
| Interest cost                            | 99       | 83       |
| Actuarial loss                           | 157      | 2        |
| Annuity payments                         | (89)     | (89)     |
| Plan amendments                          | 335      | -        |
|  | -----    | -----    |
| Projected benefit obligation - ending    | \$ 2,149 | \$ 1,561 |
|  | =====    | =====    |
| Change in plan assets:                   |          |          |
| Fair value of assets - beginning         | \$ -     | \$ -     |
| Actual return on plan assets             | -        | -        |
| Settlements                              | 89       | 89       |
| Contributions                            | (89)     | (89)     |
|  | -----    | -----    |
| Fair value of assets - ending            | \$ -     | \$ -     |
|  | =====    | =====    |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - BENEFIT PLANS (CONTINUED)

Directors' Consultation and Retirement Plan ("DCRP") (Continued)

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|  | June 30,               |                        |
|--|------------------------|------------------------|
|  | -----<br>2005<br>----- | -----<br>2004<br>----- |
|  | (In Thousands)         |                        |
| Reconciliation of funded status:           |                        |                        |
| Accumulated benefit obligation             | \$ (1,879)<br>=====    | \$ (1,361)<br>=====    |
| Projected benefit obligation               | \$ (2,149)             | \$ (1,561)             |
| Fair value of assets                       | -                      | -                      |
|  | -----                  | -----                  |
| Fund status                                | (2,149)                | (1,561)                |
| Unrecognized transition obligation         | 175                    | 219                    |
| Unrealized net actuarial (gain) loss       | 150                    | (7)                    |
| Unrecognized prior service cost            | 643                    | 341                    |
|  | -----                  | -----                  |
| Accrued cost included in other liabilities | \$ (1,181)<br>=====    | \$ (1,008)<br>=====    |
| Value assumptions:                         |                        |                        |
| Discount rate                              | 5.63%                  | 6.63%                  |
| Fee increase rate                          | 3.00%                  | 4.00%                  |

|   | Years Ended June 30,   |                        |                        |
|---|------------------------|------------------------|------------------------|
|   | -----<br>2005<br>----- | -----<br>2004<br>----- | -----<br>2003<br>----- |
|   | (In Thousands)         |                        |                        |
| Net periodic plan cost:                             |                        |                        |                        |
| Service cost  | \$ 86                  | \$ 78                  | \$ 56                  |
| Interest cost                                       | 99                     | 83                     | 78                     |
| Amortization of unrecognized transition obligation  | 44                     | 44                     | 44                     |
| Amortization of unrecognized net actuarial gain     | -                      | -                      | (2)                    |
| Amortization of unrecognized past service liability | 33                     | 33                     | 24                     |
|   | -----                  | -----                  | -----                  |
|   | \$ 262<br>=====        | \$ 238<br>=====        | \$ 200<br>=====        |
| Valuation assumptions:                              |                        |                        |                        |
| Discount rate                                       | 6.63%                  | 5.75%                  | 7.00%                  |
| Fee increase rate                                   | 4.00%                  | 3.25%                  | 4.25%                  |

It is estimated that contributions of approximately \$157,000 will be made during the year ending June 30, 2006.

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 KEARNY FINANCIAL CORP. AND SUBSIDIARIES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - BENEFIT PLANS (CONTINUED)

Directors' Consultation and Retirement Plan ("DCRP") (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

|           |           |
|-----------|-----------|
| 2006      | \$157,000 |
| 2007      | 168,000   |
| 2008      | 178,000   |
| 2009      | 187,000   |
| 2010      | 194,000   |
| 2011-2015 | 976,000   |

NOTE 14 - STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL

The Office of Thrift Supervision (the "OTS") 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 OTS at least thirty days before making a capital distribution. 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 OTS; (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 OTS or applicable regulations. As a result of the dividend paid by the Bank to the Company in connection with the acquisition of West Essex and its subsidiaries, it is likely that the Bank will be required to file an application, rather than a notice, for any planned capital distributions.

The Bank is subject to various regulatory capital requirements administered by Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as accumulated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

The OTS 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

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prohibition contained in any statute, regulation or agreement. The capital distributions by Kearny Financial Corp., as a savings and loan holding company, will not be subject to the OTS capital distribution rules.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted total assets (as defined). The following tables present a reconciliation of capital per accepted principles generally accepted in the United States of America ("GAAP") and regulatory capital and information as to the Bank's capital levels at the dates presented:

GAAP capital:  
 Consolidated capital  
 Less: Unconsolidated capital of the Company

Bank capital

Less: Unrealized gain on securities  
 Goodwill  
 Intangible assets

Core and tangible capital  
 Add: General valuation allowance  
 Unrealized gain on equity securities

Total regulatory capital

| Actual |       | For Capital Adequacy Purposes |       |
|--------|-------|-------------------------------|-------|
| Amount | Ratio | Amount                        | Ratio |

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|  | -----     | -----  | -----                  | -----   |
|--|-----------|--------|------------------------|---------|
|  |           |        | (Dollars in Thousands) |         |
| As of June 30, 2005:                             |           |        |                        |         |
| Total capital (to risk-weighted assets)          | \$315,400 | 45.19% | \$=>55,833             | =>8.00% |
| Tier 1 capital (to risk-weighted assets)         | 306,517   | 43.92  | -                      | -       |
| Core (Tier 1) capital (to adjusted total assets) | 306,517   | 15.94  | =>57,672               | =>3.00  |
| Tangible capital (to adjusted total assets)      | 306,517   | 15.94  | =>28,836               | =>1.50  |
| As of June 30, 2004:                             |           |        |                        |         |
| Total capital (to risk-weighted assets)          | \$209,569 | 32.56% | \$=>51,490             | =>8.00% |
| Tier 1 capital (to risk-weighted assets)         | 197,514   | 30.69  | -                      | -       |
| Core (Tier 1) capital (to adjusted total assets) | 197,514   | 10.76  | =>55,068               | =>3.00  |
| Tangible capital (to adjusted total assets)      | 197,514   | 10.76  | =>27,534               | =>1.50  |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL (CONTINUED)

On January 3, 2005, the most recent notification from the OTS, the Bank was categorized as well capitalized as of September 30, 2004, under the regulatory framework for prompt corrective action. There are no conditions existing or events which have occurred since notification that management believes have changed the Bank's category.

NOTE 15 - INCOME TAXES

The Bank qualifies as a savings institution under the provisions of the Internal Revenue Code (the "IRC"). Retained earnings at June 30, 2005, includes approximately \$30.5 million of bad debt allowance, pursuant to the IRC, for which income taxes have not been provided. If such amount is used for purposes other than or to absorb bad debts, including distributions in liquidation, it will be subject to income tax at the then current rate.

The components of income taxes are as follows:

| Years Ended June 30, |       |       |
|----------------------|-------|-------|
| -----                | ----- | ----- |
| 2005                 | 2004  | 2003  |
| -----                | ----- | ----- |
| (In Thousands)       |       |       |



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|                         |          |          |          |
|-------------------------|----------|----------|----------|
| Current tax expense:    |          |          |          |
| Federal income          | \$ 6,125 | \$ 3,600 | \$ 3,319 |
| State income            | 1,226    | 1,589    | 2,652    |
|                         | -----    | -----    | -----    |
|                         | 7,351    | 5,189    | 5,971    |
|                         | -----    | -----    | -----    |
| Deferred tax (benefit): |          |          |          |
| Federal income          | 325      | 470      | (72)     |
| State income            | 18       | 86       | (662)    |
|                         | -----    | -----    | -----    |
|                         | 343      | 556      | (734)    |
|                         | -----    | -----    | -----    |
|                         | \$ 7,694 | \$ 5,745 | \$ 5,237 |
|                         | =====    | =====    | =====    |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - INCOME TAXES (CONTINUED)

The following table presents reconciliation between the reported income taxes and the income taxes which would be computed by applying the normal federal income tax rate of 35% to income before income taxes:

|  | Years Ended June 30, |          |          |
|--|----------------------|----------|----------|
|  | 2005                 | 2004     | 2003     |
|  | (In Thousands)       |          |          |
| Federal income tax expense                             | \$ 9,307             | \$ 6,525 | \$ 3,252 |
| Increases (reductions) in income taxes resulting from: |                      |          |          |
| Tax exempt interest                                    | (2,223)              | (1,780)  | (1,301)  |
| New Jersey state tax, net of federal income tax effect | 809                  | 1,106    | 1,314    |
| Compensation in excess of limit                        | -                    | -        | 1,548    |
| Nondeductible merger expenses                          | -                    | 207      | 934      |
| Tax benefit on disqualified distribution               | -                    | -        | (610)    |
| Other items, net                                       | (199)                | (313)    | 100      |
|  | -----                | -----    | -----    |
| Total income tax expense                               | \$ 7,694             | \$ 5,745 | \$ 5,237 |
|  | =====                | =====    | =====    |
| Effective income tax rate                              | 28.93%               | 30.82%   | 56.36%   |
|  | =====                | =====    | =====    |

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The effective income tax rate represents total income tax expense divided by income before income taxes.

The tax effects of existing temporary differences that give rise to deferred income tax assets and liabilities are as follows:

|  | June 30,       |           |
|--|----------------|-----------|
|  | 2005           | 2004      |
|  | (In Thousands) |           |
| Deferred income tax assets:                      |                |           |
| Allowance for loan losses                        | \$ 2,212       | \$ 2,108  |
| Goodwill   | 453            | 998       |
| Benefit plans                                    | 1,184          | 1,069     |
| Compensation                                     | 167            | -         |
| Other  | 61             | 71        |
|  | 4,077          | 4,246     |
| Deferred income tax liabilities:                 |                |           |
| Unrealized gain on available for sale securities | 2,953          | 5,410     |
| Depreciation                                     | 541            | 377       |
| Other  | 89             | 79        |
|  | 3,583          | 5,866     |
| Net deferred income tax (liabilities) assets     | \$ 494         | \$(1,620) |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 16 - COMMITMENTS

The Bank has non-cancellable operating leases for branch offices. Rental expenses paid during the years ended June 30, 2005, 2004 and 2003, were approximately \$327,000, \$343,000, and \$352,000, respectively. Future minimum rental commitments are as follows:

|                     |            |
|---------------------|------------|
| Year Ended June 30: |            |
| 2006                | \$ 314,000 |
| 2007                | 271,000    |
| 2008                | 240,000    |
| 2009                | 203,000    |
| 2010                | 187,000    |
| Thereafter          | 825,000    |
|                     | -----      |

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\$2,040,000  
 =====

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The outstanding loan commitments are as follows:

|   | June 30,               |                        |
|---|------------------------|------------------------|
|   | -----<br>2005<br>----- | -----<br>2004<br>----- |
|   | (In Thousands)         |                        |
| Mortgage loans                                  | \$30,594               | \$23,678               |
| Home equity loans                               | 3,089                  | 4,027                  |
| Commercial lines of credit                      | -                      | 265                    |
| Construction loans                              | 2,300                  | 4,483                  |
| Purchase of participations                      | -                      | 607                    |
| Construction loans in process                   | 6,489                  | 5,278                  |
| Undisbursed funds from approved lines of credit | 27,707                 | 23,817                 |
|   | -----                  | -----                  |
|   | \$70,179               | \$62,155               |
|   | =====                  | =====                  |

At June 30, 2005, the outstanding mortgage loan commitments include \$23,673,000 for fixed rate loans with interest rates ranging from 4.50% to 6.75% and \$6,921,000 for adjustable rate loans with an initial rate ranging from 4.00% to 6.13%. Home equity loan commitments include \$2,979,000 of fixed rate loans with interest rates ranging from 4.38% to 7.00% and \$110,000 for adjustable rate loans with an initial rate of 5.50%. Construction loan commitments are for loans with interest rates ranging from 1.00% to 1.50% above the prime rate published in the Wall Street Journal. Undisbursed funds from approved lines of credit are adjustable rate loans with interest rates ranging from 1.00% below to 2.00% above the prime rate published in the Wall Street Journal.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - COMMITMENTS (CONTINUED)

At June 30, 2004, the outstanding mortgage loan commitments include \$22,980,000 for fixed rate loans with interest rates ranging from 4.38% to 6.50% and \$1,698,000 for adjustable rate loans with an initial rate ranging from 3.88% to 6.38%. Home equity loan commitments include \$3,019,000 for fixed rate loans with interest rates ranging from 4.63% to 6.25% and \$949,000 for adjustable rate

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loans with an initial rate of 4.00%. Commercial lines of credit commitments are for loans with interest rates ranging from 0.50% to 1.00% above the prime rate published in the Wall Street Journal. Construction loan commitments are for loans with interest rates ranging from 1.00% to 1.50% above the prime rate published in the Wall Street Journal. Commitments to purchase participations are for loans at a fixed rate, set at the funding date, ranging from 1.35% to 1.36% above the Federal Home Loan Bank of New York CIP advance rate for ten year or 15 year advances. Undisbursed funds from approved lines of credit are adjustable rate loans with interest rates ranging from 1.00% below to 2.00% above the prime rate published in the Wall Street Journal.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the counterparty.

The Bank has established an overnight line of credit and companion (DRA) commitment, each in the amount of \$50,000,000, with the Federal Home Loan Bank of New York, which expire on December 15, 2005. As of June 30, 2005, no funds were drawn against these credit lines.

At June 30, 2005, the Bank has commitments for building improvements in the amount of \$927,000. In addition, the Bank also has, in the normal course of business, commitments for servicers and supplies. Management does not anticipate losses on any of these transactions.

The Company and subsidiaries are also party to litigation which arises primarily in the ordinary course of business. In the opinion of management, the ultimate disposition of such litigation should not have a material adverse effect on the consolidated financial position of the Company.

### NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

#### Cash and Cash Equivalents and Interest Receivable

The carrying amounts for cash and cash equivalents and interest receivable approximate fair value because they mature in three months or less.

#### Securities Available for Sale, Investment Securities Held to Maturity and Mortgage-Backed Securities Held to Maturity

The fair values for securities available for sale, investment securities held to maturity and mortgage-backed securities held to maturity are based on quoted market prices when available. If quoted market prices are not available, fair value is estimated using quoted market prices for similar securities.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Loans Receivable

The fair value of loans receivable is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, of such loans.

Deposits

The fair value of demand, savings and club accounts is equal to the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.

Advances from FHLB

Fair value is estimated using rates currently offered for advances of similar remaining maturities.

Commitments

The fair value of commitments to fund credit lines and originate or participate in loans is estimated using fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loans commitments, fair value also considers the difference between current levels of interest and the committed rates. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 16.

The carrying amounts and estimated fair values of financial instruments are as follows:

|                           |                    |                            |
|---------------------------|--------------------|----------------------------|
|                           | June 30            |                            |
|                           | -----              |                            |
|                           | 2005               |                            |
|                           | -----              |                            |
|                           | Carrying<br>Amount | Estimated<br>Fair<br>Value |
|                           | -----              | -----                      |
|                           | (In Thousand)      |                            |
| Financial assets:         |                    |                            |
| Cash and cash equivalents | \$ 139,865         | \$ 139,865                 |

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|   |           |           |
|---|-----------|-----------|
| Securities available for sale               | 33,591    | 33,591    |
| Investment securities held to maturity      | 470,098   | 469,221   |
| Loans receivable                            | 558,018   | 550,655   |
| Mortgage-backed securities held to maturity | 758,121   | 762,730   |
| Interest receivable                         | 10,430    | 10,430    |
| <br>  |           |           |
| Financial liabilities:                      |           |           |
| Deposits                                    | 1,528,777 | 1,528,203 |
| Advances from FHLB                          | 61,687    | 63,814    |

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### Limitations

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instrument, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instrument and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value estimates are based on existing on-and-of balance sheet financial instruments without attempting the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment, and advances from borrowers for taxes and insurance. In addition, the ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Finally, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies introduces a greater degree of subjectivity to these estimated fair values.

#### NOTE 18 - PARENT ONLY FINANCIAL INFORMATION

Kearny Financial Corp. operates its wholly owned subsidiaries, Kearny Financial Securities, Inc. and Kearny Federal Savings Bank and its wholly-owned subsidiaries. The consolidated earnings of the subsidiaries are recognized by

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the Company using equity method of accounting. Accordingly, the consolidated earnings of the subsidiaries are recorded as increase in the Company's investment in the subsidiaries. The following are the condensed financial statements for Kearny Financial Corp. (Parent Company only) as June 30, 2005 and 2004, and for each of the years in the three-year period ended June 30, 2005.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

|   | June 30,       |           |
|---|----------------|-----------|
|   | 2005           | 2004      |
|   | -----          | -----     |
|   | (In Thousands) |           |
| ASSETS  |                |           |
| Cash and amounts due from depository institutions | \$ 92,305      | \$ 1,234  |
| Securities available for sale                     | -              | 1,104     |
| ESOP loan receivable                              | 17,198         | -         |
| Accrued interest receivable                       | 79             | 3         |
| Investment in subsidiaries                        | 395,831        | 291,985   |
| Other assets                                      | 241            | 283       |
|   | -----          | -----     |
|   | \$505,654      | \$294,609 |
|   | =====          | =====     |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - PARENT ONLY FINANCIAL INFORMATION (CONTINUED)

CONDENSED STATEMENTS OF FINANCIAL CONDITION

LIABILITIES AND STOCKHOLDERS' EQUITY

|                          |    |
|--------------------------|----|
| Due to subsidiaries      | \$ |
| Other liabilities        |    |
| Stockholders' equity (A) |    |

(A) At June 30, 2005, the Company was 70% owned by Kearny MHC, a Mutual Holding Company. At June 30, 2004, the Company was wholly-owned by Kearny MHC.

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## CONDENSED STATEMENTS OF INCOME

|  | Years Ended June 30, |           |          |
|--|----------------------|-----------|----------|
|  | 2005                 | 2004      | 2003     |
|  | (In Thousands)       |           |          |
| Net interest income                              | \$ 1,723             | \$ 110    | \$ 86    |
| Gain on sale of available for sale securities    | 71                   | -         | -        |
| Equity in undistributed earnings of subsidiaries | 17,988               | 13,442    | 5,256    |
|  | -----                | -----     | -----    |
|  | 19,782               | 13,552    | 5,342    |
|  | -----                | -----     | -----    |
| Directors' fees                                  | 125                  | 67        | 32       |
| Merger expense                                   | -                    | 592       | 1,176    |
| Other expenses                                   | 126                  | -         | 74       |
|  | -----                | -----     | -----    |
|  | 251                  | 659       | 1,282    |
|  | -----                | -----     | -----    |
| Income before Income Taxes                       | 19,531               | 12,893    | 4,060    |
| Income Tax Expense (Benefit)                     | 633                  | (4)       | 5        |
|  | -----                | -----     | -----    |
| Net income                                       | \$ 18,898            | \$ 12,897 | \$ 4,055 |
|  | =====                | =====     | =====    |

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 18 - PARENT ONLY FINANCIAL INFORMATION (CONTINUED)

#### CONDENSED STATEMENTS OF CASH FLOWS

|                                      | Years Ended June 30, |           |          |
|--------------------------------------|----------------------|-----------|----------|
|                                      | 2005                 | 2004      | 2003     |
|                                      | (In Thousands)       |           |          |
| CASH FLOWS FROM OPERATING ACTIVITIES |                      |           |          |
| Net income                           | \$ 18,898            | \$ 12,897 | \$ 4,055 |



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|   |           |          |          |
|---|-----------|----------|----------|
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |           |          |          |
| Equity in undistributed earnings of the subsidiaries  | (17,988)  | (13,442) | 89,030   |
| Amortization of premiums  | -         | 2        | 4        |
| Realized gain on sale of securities available for sale                                      | (71)      | -        | -        |
| (Increase) decrease in accrued interest receivable  | (76)      | -        | 40       |
| Decrease in intercompany receivable   | -         | -        | 961      |
| Other assets  | 63        | 394      | (79)     |
| Other liabilities   | (932)     | 16       | 953      |
| Minority interest in consolidated subsidiaries  | -         | -        | 789      |
|   | -----     | -----    | -----    |
| Net Cash Provided by (Used in) Operating Activities   | (106)     | (133)    | 95,753   |
|   | -----     | -----    | -----    |
| CASH FLOWS FROM INVESTING ACTIVITIES  |           |          |          |
| Purchase of Pulaski minority interest   | -         | -        | (26,433) |
| Deposit for acquisition of West Essex minority interest                                     | -         | -        | (67,853) |
| Proceeds from sale of securities available for sale   | 1,115     | -        | -        |
| Loan to ESOP  | (17,457)  | -        | -        |
| Repayment of loan to ESOP   | 259       | -        | -        |
| Capital contributions to subsidiaries   | (107,307) | -        | -        |
|   | -----     | -----    | -----    |
| Net Cash Used in Investing Activities   | (123,390) | -        | (94,286) |
|   | -----     | -----    | -----    |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - PARENT ONLY FINANCIAL INFORMATION (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS

|  | Years Ended June 30, |      |        |
|--|----------------------|------|--------|
|  | 2005                 | 2004 | 2003   |
|  | -----                |      |        |
|  | (In Thousands)       |      |        |
| CASH FLOWS FROM FINANCING ACTIVITIES                               |                      |      |        |
| Proceeds from issuance of common stock of West Essex Bancorp, Inc. | \$ -                 | \$ - | \$ 345 |
| Proceeds from issuance of common stock of Kearny Financial Corp.   | 214,567              | -    | -      |
| Dividends paid to minority stockholders o                          |                      |      |        |

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|  |           |             |          |
|--|-----------|-------------|----------|
| West Essex Bancorp, Inc. and Pulaski Bancorp, Inc.   | -         | -           | (1,054)  |
|  |           |             |          |
| Net Cash Provided by (Used in) Financing Activities  | 214,567   | -           | (709)    |
|  |           |             |          |
| Net Increase (Decrease) in Cash and Cash Equivalents | 91,071    | (133)       | 758      |
| CASH AND CASH EQUIVALENTS - BEGINNING                | 1,234     | 1,367       | 609      |
|  |           |             |          |
| CASH AND CASH EQUIVALENTS - ENDING                   | \$ 92,305 | \$ 1,234    | \$ 1,367 |
|  |           |             |          |
| SUPPLEMENTARY DISCLOSURE OF NONCASH TRANSACTIONS     |           |             |          |
| Minority interest in consolidated subsidiaries       | -         | \$ 17,336   | \$ -     |
|  |           |             |          |
| Goodwill - West Essex acquisition                    | \$ -      | \$ 50,517   | \$ -     |
|  |           |             |          |
| Deposit for acquisition of West Essex                | \$ -      | \$ (67,853) | \$ -     |
|  |           |             |          |

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### KEARNY FINANCIAL CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### NOTE 19 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Stock-Based Payments: In December 2004, the FASB issued SFAS No. 123 (revised), "Share-Based Payment." SFAS No. 123 (revised) replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123 (revised) requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. Public companies are required to adopt the new standard using a modified prospective method and may elect to restate prior periods using the modified retrospective method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method. Under the modified retrospective method, companies record compensation costs for prior periods retroactively through restatement of such periods using the exact pro forma amounts disclosed in the companies' footnotes. Also, in the period of adoption and after, companies record compensation cost based on the modified prospective method.

On April 14, 2005, the Securities and Exchange Commission (the "SEC") adopted a

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new rule that amends the compliance dates for SFAS No. 123 (revised). Under the new rule, we are required to adopt SFAS No. 123 (revised) in the first annual period beginning after June 15, 2005. Early application of SFAS No. 123 (revised) is encouraged, but not required. Accordingly, we are required to record compensation expense for all new awards granted and any awards modified after July 1, 2006. In addition, the transition rules under SFAS No. 123 (revised) will require that, for all awards outstanding at July 1, 2006, for which the requisite service has not yet been rendered, compensation cost be recorded as such service is rendered after July 1, 2006.

The pronouncement related to stock-based payments will not have any effect on our existing historical consolidated financial statements as we do not presently have stock-based compensation plans and as restatements of previously reported periods will not be required.

**Accounting For Variable Interest Entities:** In December 2003, the FASB issued a revision to Interpretation 46, "Consolidation of Variable Interest Entities," which established standards for identifying a variable interest entity ("VIE") and for determining under what circumstances a VIE should be consolidated with its primary beneficiary. Application of this interpretation is required in financial statements of public entities that have interests in special-purpose entities for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of VIE is required in financial statements for periods ending after March 15, 2004. Small business issuers must apply this interpretation to all other types of VIE at the end of the first reporting period ending after December 15, 2004. The adoption of this interpretation has not had and is not expected to have a material effect on our financial position or results of operations.

**Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity:** In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity as well as their classification in the company's statement of financial position. It requires that the company classify a financial instrument that is within its scope as a liability when that instrument embodies an obligation of the issuer. SFAS No. 150 did not have any impact on our consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

**Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities:** On April 30, 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. With a number of exemptions, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on our consolidated financial statements.

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Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others: In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. In addition, FIN 45 elaborates on previously existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. We do not have any financial letters of credit at June 30, 2005 or at December 31, 2004.

### NOTE 20 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a condensed summary of quarterly results of operations for the years ended June 30, 2005 and 2004:

|  | Year Ended June 30, 20        |                |     |
|--|-------------------------------|----------------|-----|
|  | First Quarter                 | Second Quarter | Thi |
|  | (In Thousands, Except Per Sha |                |     |
| Interest income  | \$19,907                      | \$19,832       |     |
| Interest expense                                       | 7,103                         | 7,174          |     |
|  | -----                         | -----          |     |
| Net Interest Income                                    | 12,804                        | 12,658         |     |
| Provision for loan losses                              | 151                           | (34)           |     |
|  | -----                         | -----          |     |
| Net Interest Income after Provision for<br>Loan Losses | 12,653                        | 12,692         |     |
| Noninterest income                                     | 494                           | 410            |     |
| Noninterest expenses                                   | 7,789                         | 8,767          |     |
|  | -----                         | -----          |     |
| Income before Income Taxes                             | 5,358                         | 4,335          |     |
| Income taxes   | 1,562                         | 1,143          |     |
|  | -----                         | -----          |     |
| Net Income   | \$ 3,796                      | \$ 3,192       |     |
|  | =====                         | =====          |     |
| Net income per common share:                           |                               |                |     |
| Basic (As restated)                                    | \$ 0.07                       | \$ 0.06        |     |
|  | =====                         | =====          |     |
| Diluted (As restated)                                  | \$ 0.07                       | \$ 0.06        |     |
|  | =====                         | =====          |     |

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) (CONTINUED)

|  | Year Ended June 30, 20           |                |               |
|--|----------------------------------|----------------|---------------|
|  | First Quarter                    | Second Quarter | Third Quarter |
|  | (In Thousands, Except Per Share) |                |               |
| Interest income  | \$19,656                         | \$19,664       |               |
| Interest expense                                       | 9,158                            | 8,198          |               |
|  | -----                            | -----          |               |
| Net Interest Income                                    | 10,498                           | 11,466         |               |
| Provision for loan losses                              | -                                | -              |               |
|  | -----                            | -----          |               |
| Net Interest Income after Provision for<br>Loan Losses | 10,498                           | 11,466         |               |
| Noninterest income                                     | 438                              | 355            |               |
| Noninterest expenses                                   | 7,743                            | 7,093          |               |
|  | -----                            | -----          |               |
| Income before Income Taxes                             | 3,193                            | 4,728          |               |
| Income taxes   | 958                              | 1,418          |               |
|  | -----                            | -----          |               |
| Net Income   | \$ 2,235                         | \$ 3,310       |               |
|  | =====                            | =====          |               |
| Net income per common share:                           |                                  |                |               |
| Basic (As restated)                                    | \$ 0.04                          | \$ 0.07        |               |
|  | =====                            | =====          |               |
| Diluted (As restated)                                  | \$ 0.04                          | \$ 0.07        |               |
|  | =====                            | =====          |               |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

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KEARNY FINANCIAL CORP.

Dated: May 15, 2006

By: /s/John N. Hopkins

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John N. Hopkins  
President and Chief Executive Officer  
(Duly Authorized Officer)

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on May 15, 2006 on behalf of the Registrant and in the capacities indicated.

By: /s/John N. Hopkins  
-----  
John N. Hopkins  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/Albert E. Gossweiler  
-----  
Albert E. Gossweiler  
Senior Vice President and  
Financial Officer  
(Principal Financial Officer)

By: /s/William C. Ledgerwood  
-----  
William C. Ledgerwood  
Senior Vice President, Treasurer and  
Chief Accounting Officer  
(Principal Accounting Officer)

By: /s/Theodore J. Aanensen  
-----  
Theodore J. Aanensen  
Director

By: /s/John J. Mazur Jr.  
-----  
John J. Mazur Jr.  
Chairman

By: /s/Joseph P. Mazza  
-----  
Joseph P. Mazza  
Director

By: /s/Matthew T. McClane  
-----  
Matthew T. McClane  
Director

By: /s/John F. McGovern  
-----  
John F. McGovern  
Director

By: /s/Leopold W. Montanaro  
-----  
Leopold W. Montanaro  
Director

By: /s/John F. Regan  
-----  
John F. Regan  
Director

By: /s/Henry S. Parow  
-----  
Henry S. Parow  
Director