

Kearny Financial Corp.
Form 10-Q
May 10, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended

March 31, 2011

OR

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

For the transition to
period from

Commission File Number 000-51093

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

UNITED STATES
(State or other jurisdiction of
incorporation or organization)

22-3803741
(I.R.S. Employer
Identification Number)

120 Passaic Ave., Fairfield, New Jersey
(Address of principal executive offices)

07004-3510
(Zip Code)

Registrant's telephone number,
including area code

973-244-4500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: May 6, 2011.

\$0.10 par value common stock - 67,975,477 shares outstanding

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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

	March 31, 2011	June 30, 2010
Assets		
Cash and amounts due from depository institutions	\$59,752	\$3,286
Interest-bearing deposits in other banks	148,504	178,136
Cash and Cash Equivalents	208,256	181,422
Securities available for sale (amortized cost \$101,483 and \$30,960)	100,457	29,497
Securities held to maturity (estimated fair value \$157,639 and \$256,914)	157,733	255,000
Loans receivable, including unamortized yield adjustments of \$(1,371) and \$564	1,289,277	1,013,713
Less allowance for loan losses	(10,661)	(8,561)
Net Loans Receivable	1,278,616	1,005,152
Mortgage-backed securities available for sale (amortized cost \$919,416 and \$673,414)	936,228	703,455
Mortgage-backed securities held to maturity (estimated fair value \$1,457 and \$1,754)	1,398	1,700
Premises and equipment	39,499	34,989
Federal Home Loan Bank of New York ("FHLB") stock	13,611	12,867
Interest receivable	9,730	8,338
Goodwill	108,543	82,263
Bank owned life insurance	24,290	19,833
Deferred income tax assets, net	4,625	-
Other assets	10,942	5,297
Total Assets	\$2,893,928	\$2,339,813
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	\$133,106	\$53,709
Interest-bearing	2,007,822	1,569,853
Total Deposits	2,140,928	1,623,562
Borrowings	254,930	210,000
Advance payments by borrowers for taxes	5,478	5,699
Deferred income tax liabilities, net	-	4,391
Other liabilities	13,325	10,235
Total Liabilities	2,414,661	1,853,887

Stockholders' Equity

Preferred stock \$0.10 par value, 25,000,000 shares authorized; none issued and outstanding	-	-
Common stock \$0.10 par value, 75,000,000 shares authorized; 72,737,500 shares issued; 67,975,477 and 68,344,277 shares outstanding, respectively	7,274	7,274
Paid-in capital	215,191	213,529
Retained earnings	314,322	312,844
Unearned Employee Stock Ownership Plan shares; 860,727 shares and 969,828 shares, respectively	(8,607)	(9,698)
Treasury stock, at cost; 4,762,023 shares and 4,393,223 shares, respectively	(58,054)	(54,738)
Accumulated other comprehensive income	9,141	16,715
 Total Stockholders' Equity	 479,267	 485,926
 Total Liabilities and Stockholders' Equity	 \$2,893,928	 \$2,339,813
See notes to consolidated financial statements.		

KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Interest Income:				
Loans	\$17,416	\$14,450	\$46,095	\$44,068
Mortgage-backed securities	7,114	7,475	21,809	23,393
Securities:				
Taxable	1,230	985	4,017	1,499
Tax-exempt	392	158	787	474
Other interest-earning assets	275	216	695	661
Total Interest Income	26,427	23,284	73,403	70,095
Interest Expense:				
Deposits	5,882	6,488	18,220	21,504
Borrowings	2,056	2,030	6,277	6,180
Total Interest Expense	7,938	8,518	24,497	27,684
Net Interest Income	18,489	14,766	48,906	42,411
Provision for Loan Losses	1,391	891	3,518	2,354
Net Interest Income after Provision for Loan Losses	17,098	13,875	45,388	40,057
Non-Interest Income:				
Fees and service charges	613	344	1,382	1,072
Loss on sale of securities	(28)	-	(28)	-
Other-than-temporary security impairment:				
Total	-	(86)	-	(446)
Less: Portion recognized in other comprehensive income	-	33	-	240
Portion recognized in earnings	-	(53)	-	(206)
Miscellaneous	472	219	1,108	679
Total Non-Interest Income	1,057	510	2,462	1,545
Non-Interest Expenses:				
Salaries and employee benefits	8,082	6,777	22,432	20,121
Net occupancy expense of premises	1,836	1,165	4,037	3,170
Equipment and systems	1,693	1,094	4,255	3,283

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Advertising and marketing	252	211	768	651
Federal deposit insurance premium	861	367	1,825	917
Directors' compensation	174	559	982	1,655
Merger-related expenses	225	-	3,415	-
Miscellaneous	1,346	1,024	3,801	3,588
Total Non-Interest Expenses	\$14,469	\$11,197	\$41,515	\$33,385

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Income Before Income Taxes	\$3,686	\$3,188	\$6,335	\$8,217
Income Taxes	998	1,324	2,317	3,417
Net Income	\$2,688	\$1,864	\$4,018	\$4,800
Net Income per Common Share (EPS):				
Basic	\$0.04	\$0.03	\$0.06	\$0.07
Diluted	0.04	0.03	0.06	0.07
Weighted Average Number of Common Shares Outstanding:				
Basic	67,054	67,875	67,105	67,989
Diluted	67,054	67,875	67,105	67,989
Dividends Declared Per Common Share (Excluding dividends waived by Kearny MHC)	\$0.05	\$0.05	\$0.15	\$0.15

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended March 31, 2010

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance - June 30, 2009	69,242	\$ 7,274	\$ 208,577	\$ 309,687	\$ (11,153)	\$ (45,985)	\$ 8,320	\$ 476,720
Comprehensive income:								
Net income	-	-	-	4,800	-	-	-	4,800
Unrealized gain on securities available for sale, net of deferred income tax expense of \$1,874	-	-	-	-	-	-	2,713	2,713
Non-credit related other-than- temporary impairment losses on securities held to maturity, net of deferred income tax benefit of \$43	-	-	-	-	-	-	(64)	(64)
Benefit plans, net of deferred income tax expense of \$23	-	-	-	-	-	-	32	32
Total Comprehensive income								7,481
ESOP shares committed to be released (108 shares)	-	-	38	-	1,091	-	-	1,129

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Dividends contributed for payment of ESOP loan	-	-	75	-	-	-	-	75
Stock option expense	-	-	1,430	-	-	-	-	1,430
Treasury stock purchases	(403)	-	-	-	-	(4,124)	-	(4,124)
Restricted stock plan shares earned (189 shares)	-	-	2,313	-	-	-	-	2,313

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 Nine Months Ended March 31, 2010

	Common Stock		Paid-In	Retained	Unearned	Treasury	Accumulated	
	Shares	Amount	Capital	Earnings	ESOP	Stock	Other	Total
					Shares		Comprehensive	
							Income	
Tax effect from stock based compensation	-	-	(181)	-	-	-	-	(181)
Cash dividends declared (\$0.15/public share)	-	-	-	(2,538)	-	-	-	(2,538)
Cash dividend to Kearny MHC	-	-	-	(300)	-	-	-	(300)
Balance - March 31, 2010	68,839	\$ 7,274	\$ 212,252	\$ 311,649	\$ (10,062)	\$ (50,109)	\$ 11,001	\$ 482,005

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended March 31, 2011

	Common Shares	Stock Amount	Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance - June 30, 2010	68,344	\$ 7,274	\$ 213,529	\$ 312,844	\$ (9,698)	\$ (54,738)	\$ 16,715	\$ 485,926
Comprehensive loss:								
Net income	-	-	-	4,018	-	-	-	4,018
Unrealized loss on securities available for sale, net of deferred income tax benefit of \$5,213	-	-	-	-	-	-	(7,579)	(7,579)
Benefit plans, net of deferred income tax expense of \$4	-	-	-	-	-	-	5	5
Total comprehensive loss								(3,556)
ESOP shares committed to be released (108 shares)	-	-	(108)	-	1,091	-	-	983
Dividends contributed for payment of ESOP loan	-	-	104	-	-	-	-	104
Stock option expense	-	-	708	-	-	-	-	708
Treasury stock purchases	(369)	-	-	-	-	(3,316)	-	(3,316)
Restricted stock plan shares earned (111 shares)	-	-	1,198	-	-	-	-	1,198

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Tax effect from stock based compensation	-	-	(240)	(124)	-	-	-	(364)
Cash dividends declared (\$0.15/public share)	-	-	-	(2,416)	-	-	-	(2,416)
Balance - March 31, 2011	67,975	\$ 7,274	\$ 215,191	\$ 314,322	\$ (8,607)	\$ (58,054)	\$ 9,141	\$ 479,267

See notes to consolidated financial statements.

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

	Nine Months Ended March 31,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$4,018	\$4,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,577	1,309
Net amortization of premiums, discounts and loan fees and costs	2,606	709
Deferred income taxes	80	132
Amortization of intangible assets	-	21
Amortization of benefit plans' unrecognized net loss	51	108
Provision for loan losses	3,518	2,354
Realized loss on sale of mortgage-backed securities held to maturity	28	-
Realized gain on sale of loans	(45)	-
Proceeds from sale of loans	1,967	-
Realized loss on disposition of premises and equipment	-	19
Loss on other-than-temporary impairment of securities	-	206
Increase in cash surrender value of bank owned life insurance	(528)	(416)
ESOP, stock option plan and restricted stock plan expenses	2,889	4,872
Loss on sale of real estate owned	13	-
Decrease (increase) in interest receivable	695	(614)
Decrease (increase) in other assets	68	(4,323)
Decrease in interest payable	(200)	(41)
Decrease in other liabilities	(240)	(1,079)
 Net Cash Provided by Operating Activities	 16,497	 8,057
Cash Flows from Investing Activities:		
Proceeds from calls and maturities of securities held for sale	25,610	-
Proceeds from repayments of securities available for sale	921	623
Purchase of securities held to maturity	(68,733)	(265,000)
Proceeds from calls and maturities of securities held to maturity	197,170	-
Proceeds from repayments of securities held to maturity	480	-
Purchase of loans	(1,437)	(23,104)
Net decrease in loans receivable	69,382	58,420
Proceeds from sale of real estate owned	531	243
Purchases of mortgage-backed securities available for sale	(379,306)	(117,573)
Principal repayments on mortgage-backed securities available for sale	164,688	118,797
Principal repayments on mortgage-backed securities held to maturity	259	648
Proceeds from sale of mortgage-backed securities held to maturity	34	-
Purchase of Federal Home Loan Bank ("FHLB") stock	(2,250)	-
Redemption of FHLB stock	2,701	-

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Cash paid in merger, net of cash acquired	(24,529)	-
Proceeds from insurance claim on REO	82	-
Additions to premises and equipment	(936)	(1,055)
Net Cash Used in Investing Activities	\$(15,333)	\$(228,001)

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

	Nine Months Ended March 31,	
	2011	2010
Cash Flows from Financing Activities:		
Net increase in deposits	\$41,143	\$122,346
Repayment of long-term FHLB advances	(10,026)	-
Increase in other short-term borrowings	775	-
Decrease in advance payments by borrowers for taxes	(221)	(163)
Dividends paid to stockholders of Kearny Financial Corp.	(2,425)	(2,849)
Purchase of common stock of Kearny Financial Corp. for treasury	(3,316)	(4,124)
Dividends contributed for payment of ESOP loan	104	75
Tax effect from stock based compensation	(364)	(181)
Net Cash Provided by Financing Activities	25,670	115,104
Net Increase (Decrease) in Cash and Cash Equivalents	26,834	(104,840)
Cash and Cash Equivalents – Beginning	181,422	211,525
Cash and Cash Equivalents – Ending	\$208,256	\$106,685
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	\$3,603	\$2,606
Interest	\$24,697	\$27,725
Non-cash investing and financing activities:		
Acquisition of real estate owned in settlement of loans	\$871	\$543
Fair value of assets acquired, net of cash and cash equivalents acquired	\$559,113	\$-
Fair value of liabilities assumed	\$534,584	\$-

See notes to consolidated financial statements.

KEARNY FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. PRINCIPLES OF CONSOLIDATION

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

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, income, changes in stockholders’ equity and cash flows in conformity with generally accepted accounting principles (“GAAP”). However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and nine month periods ended March 31, 2011, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated statements of financial condition for June 30, 2010 was derived from the Company’s annual report on Form 10-K. That data, along with the interim financial information presented in the consolidated statements of financial condition, operations, changes in stockholders’ equity and cash flows should be read in conjunction with the 2010 consolidated financial statements, including the notes thereto included in the Company’s annual report on Form 10-K.

3. NET INCOME PER COMMON SHARE (“EPS”)

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

The Financial Accounting Standards Board (“FASB”) has issued guidance on determining whether instruments granted in share-based payment transactions are participating securities. This guidance clarifies that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied.

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

	Three Months Ended March 31, 2011			Nine Months Ended March 31, 2011		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Numerator) (In Thousands, Except Per Share Data)	(Denominator)	Amount	(Numerator) (In Thousands, Except Per Share Data)	(Denominator)	Amount
Net income	\$2,688			\$4,018		
Basic earnings per share, income available to common stockholders	\$2,688	67,054	\$0.04	\$4,018	67,105	\$0.06
Effect of dilutive securities: Stock options	-	-		-	-	
	\$2,688	67,054	\$0.04	\$4,018	67,105	\$0.06

	Three Months Ended March 31, 2010			Nine Months Ended March 31, 2010		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Numerator) (In Thousands, Except Per Share Data)	(Denominator)	Amount	(Numerator) (In Thousands, Except Per Share Data)	(Denominator)	Amount
Net income	\$1,864			\$4,800		
Basic earnings per share, income available to common stockholders	\$1,864	67,875	\$0.03	\$4,800	67,989	\$0.07
Effect of dilutive securities: Stock options	-	-		-	-	
	\$1,864	67,875	\$0.03	\$4,800	67,989	\$0.07

4. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of March 31, 2011, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date this document was filed.

5. ACQUISITION OF CENTRAL JERSEY BANCORP

On November 30, 2010, the Company completed its acquisition of Central Jersey Bancorp (“Central Jersey”) and its wholly owned subsidiary, Central Jersey Bank, National Association (“Central Jersey Bank”). The transaction qualified as a tax-free reorganization for federal income tax purposes. The final consideration paid in the transaction totaled \$82.1 million which included \$70.5 million paid to stockholders of Central Jersey at a price of \$7.50 per outstanding share and \$11.6 million paid to the U.S. Department of Treasury (“U.S. Treasury”) for the redemption of the 11,300 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and related warrant originally issued by Central Jersey to the U.S. Treasury under the TARP Capital Purchase Plan.

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The Company accounted for the transaction using applicable accounting guidance regarding business combinations resulting in the recognition of pre-tax merger-related expenses totaling \$3.4 million during the nine months ended March 31, 2011. Additionally, the Company recorded the assets acquired and liabilities assumed through the merger at fair value as summarized in the following table (in thousands).

Consideration Paid:	
Cash for outstanding shares paid to Central Jersey shareholders	\$70,455
Cash paid to U.S. Department of Treasury for redemption of Central Jersey preferred shares and related warrant	11,620
Total consideration paid	\$82,075
Recognized amounts of identifiable assets acquired and liabilities assumed, at fair value	
Cash and cash equivalents	\$57,546
Investment securities	128,948
Net loans receivable	347,721
Mortgage-backed securities	34,447
Premises and equipment	5,151
Federal Home Loan Bank ("FHLB") stock	1,195
Interest receivable	2,087
Bank owned life insurance	3,929
Deferred income tax assets, net	3,887
Other assets	5,468
Fair value of assets acquired	590,379
Deposits	476,791
Federal Home Loan Bank advances	11,593
Subordinated debentures	5,155
Other borrowings	37,482
Other liabilities	3,563
Fair value of liabilities assumed	534,584
Total identifiable net assets	55,795
Goodwill	26,280
Total	\$82,075

The fair value amounts included in the table above are preliminary estimates and are subject to adjustment but are not expected to be materially different than those shown. None of the goodwill is deductible for income tax purposes.

The Company estimated the fair value of non-impaired loans acquired from Central Jersey by utilizing a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity, and repricing terms. Cash flows for each pool were projected using an estimate of future credit losses and rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. The portion of the fair valuation attributable to expected future credit losses on non-impaired loans totaled approximately \$3.5 million or 1.05% of their outstanding balances.

To estimate the fair value of impaired loans, the Company analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans are derived from the eventual sale of the collateral. The value of the collateral was generally based on recently completed appraisals. The

Company discounted these values using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. The portion of the fair valuation attributable to expected future credit losses on impaired loans totaled approximately \$7.6 million.

There was no carryover of Central Jersey's allowance for loan losses associated with the loans acquired as the loans were initially recorded at fair value. Information about the loans acquired from Central Jersey as of November 30, 2010 is as follows (in thousands):

Contractually required principal and interest at acquisition	\$468,977
Contractual cash flows not expected to be collected	(8,005)
Expected cash flows at acquisition	460,972
Interest component of expected cash flows	(113,251)
 Fair value of acquired loans	 \$347,721

The fair values of investment securities, including mortgage-backed and non-mortgage backed securities, were primarily determined by obtaining matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

The fair value of savings and transaction deposit accounts acquired from Central Jersey was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair valuation of these deposits included a core deposit analysis which considered several factors in estimating the value of the intangible associated with such accounts. Such factors included an assumption for an initial run off rate of five percent coupled with an annual attrition rate thereafter based upon the weighted average age of the products by deposit category. Other factors considered included assumptions for the ongoing non-interest income and non-interest expenses relating to the applicable accounts which were based upon historical information. Based upon these factors, the Company projected cash flows which were present valued using applicable market interest rates for discounting. These cash flows were then compared to those applicable to alternative funding sources assumed to the borrowings from the Federal Home Loan Bank of New York.

Based upon this analysis, no core deposit intangible was ascribed to the value of non-maturity deposits due to the comparatively low cost of alternative funding sources available in the marketplace at acquisition in relation to the ongoing branch-related and transaction-related expenses associated with such accounts.

Certificates of deposit accounts were valued utilizing a discounted cash flow analysis based upon the underlying accounts' contractual maturities and interest rates. The present value of the projected cash flows was then determined using discount rates based upon certificate of deposit interest rates available in the marketplace for accounts with similar terms.

The acquired borrowings were valued utilizing a discounted cash flow analysis based upon the underlying contractual maturities, interest rates and, where applicable, repricing and amortization terms applicable to each borrowing. The present value of the projected cash flow for each borrowing was then determined using discount rates based upon interest rates available in the marketplace for borrowings with similar terms.

Direct costs related to the merger were expensed as incurred. During the nine months ended March 31, 2011, the Company incurred \$3.4 million in merger-related expenses attributable to the acquisition of Central Jersey. Such costs included legal expenses of \$199,000, investment banking and other professional service fees totaling \$842,000, employment severance charges totaling \$360,000, service provider severance and conversion-related charges totaling \$2.0 million, respectively, and other merger-related expenses of \$8,000.

The following table presents unaudited pro forma information as if the acquisition of Central Jersey had occurred on July 1, 2009. This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments and the related income tax effects. The pro forma information does not necessarily reflect the results of operations that would have occurred had the Company merged with Central Jersey at the beginning of fiscal 2010. In particular, expected cost savings and acquisition integration costs are not fully reflected in the unaudited pro forma amounts.

	Pro Forma	
	March 31, 2011 (In Thousands, Except Per Share Data)	March 31, 2010 (In Thousands, Except Per Share Data)
Net interest income	\$56,865	\$56,757
Non-interest income	3,346	3,935
Non-interest expense	53,297	45,937
Net income	1,873	5,624
Net income per common shares (EPS)		
Basic and diluted	0.03	0.08

The amounts of revenue, expense and net income attributable to Central Jersey since the acquisition date included in the consolidated statement of operations for the nine months ended March 31, 2011 are not separately disclosed. The Companies' financial records have been integrated in a manner that does not allow for the accurate or efficient bifurcation of the Company's ongoing statement of operations between the components attributable to Central Jersey and those attributable to the remainder of the Company.

6. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued guidance concerning accounting for transfers of financial assets, an amendment to previous guidance on the topic. This statement prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. Specifically, among other aspects, this guidance amends previous guidance concerning accounting for transfers and servicing of financial assets and extinguishments of liabilities by removing the concept of a qualifying special-purpose entity from previous guidance on transfers and servicing and removes the exception from applying previous guidance on transfers and servicing to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in previous guidance. This guidance is effective for fiscal years beginning after November 15, 2009. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued guidance concerning consolidation of variable interest entities to require an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly

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impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. This guidance also amends previous guidance to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This guidance is effective for fiscal years beginning after November 15, 2009. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

In October 2009, the FASB issued guidance concerning accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. The guidance amends earlier guidance and provides direction for accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. At the date of issuance, a share-lending arrangement entered into on an entity's own shares should be measured at fair value in accordance with the guidance on fair value measurements and disclosures and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement. The effective dates of the amendments are dependent upon the date the share-lending arrangement was entered into and include retrospective application for arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

In January 2010, the FASB issued guidance concerning fair value measurement and disclosures. The guidance mandates additional disclosure requiring that a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers while also requiring that in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The guidance clarifies existing fair value disclosure requirements such that a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. Moreover, a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. This guidance also includes conforming amendments regarding employers' disclosures about postretirement benefit plan assets. The conforming amendments change the terminology from "major categories" of assets to "classes" of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The implementation of the new pronouncement during the quarter ended March 31, 2010 did not have a material impact on the Company's consolidated financial position or results of operations. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements for those disclosures that go into effect during fiscal 2012.

In April 2010, the FASB issued amended guidance that codifies the consensus reached regarding the effect of a loan modification when the loan is part of a pool that is accounted for as a single asset. The amendments to the Codification provide that modifications of loans that are accounted for within a pool

under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amended guidance does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The amended guidance is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Upon initial adoption of ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

In July 2010, the FASB issued guidance concerning disclosures about the credit quality of financing receivables and the allowance for credit losses that will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. This guidance requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The implementation of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

In December 2010, the FASB issued amended guidance concerning goodwill impairment testing. The amended guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and related examples, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

These amendments eliminate an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. As a result, goodwill impairments may be reported sooner than under current practice.

For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted.

Upon adoption of the amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or

more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings as required by existing guidance. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In December 2010, the FASB issued guidance to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations.

Current guidance requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period.

In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period.

The amendments in this Update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only.

The amendments in this Update also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted which enabled the Company to adopt the amendment during the quarter ended December 31, 2010 and apply the guidance for the pro forma operating data included in Note 5 above.

In January 2011, the FASB issued amendments that temporarily delay the effective date of the disclosures about troubled debt restructurings that are required in conjunction with a prior update relating to public entities. Under the existing effective date in that prior update, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay was intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring.

In April 2011, the FASB has issued an Update to clarify the accounting principles applied to loan modifications. The Update clarifies guidance on a creditor's evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than a focus on

specific criteria, such as the effective interest rate test, to determine a concession. The Update goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor's evaluation of whether or not a debtor is experiencing financial difficulties. For public entities, the amendments in the Update are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The Company is evaluating the potential impact the new pronouncement will have on its consolidated financial statements when implemented during the quarter ended June 30, 2011.

7. STOCK REPURCHASE PLANS

On May 26, 2010, the Company announced that the Board of Directors authorized a stock repurchase plan to acquire up to 889,506 shares, or 5% of the Company's outstanding stock held by persons other than Kearny MHC. Through March 31, 2011 the Company has repurchased a total of 730,900 shares in accordance with this repurchase plan at a total cost of \$6,600,000 and at an average cost per share of \$9.03 all of which were repurchased during prior quarters with no additional shares repurchased during the three months ended March 31, 2011.

8. DIVIDEND WAIVER

During the nine months ended March 31, 2011, Kearny MHC, the federally chartered mutual holding company of the Company waived its right, in accordance with the non-objection previously granted by the Office of Thrift Supervision ("OTS"), to receive cash dividends of approximately \$7.6 million declared on the 50,916,250 shares of Company common stock it owns.

9. SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses and estimated fair values of securities at March 31, 2011 and June 30, 2010 and stratification by contractual maturity of securities at March 31, 2011 are presented below:

	Amortized Cost	At March 31, 2011		Carrying Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Securities:				
Debt securities:				
Trust preferred securities	\$8,861	\$-	\$1,510	\$7,351
U.S. agency securities	6,956	-	157	6,799
Obligations of state and political subdivisions	85,666	668	27	86,307
Total securities	101,483	668	1,694	100,457
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	3,688	-	5	3,683
Total collateralized mortgage obligations	3,688	-	5	3,683
Mortgage pass-through securities:				
Government National Mortgage Association	13,284	1,026	28	14,282
Federal Home Loan Mortgage Corporation	317,682	6,951	677	323,956
Federal National Mortgage Association	584,762	12,793	3,248	594,307
Total mortgage pass-through securities	915,728	20,770	3,953	932,545
Total mortgage-backed securities	919,416	20,770	3,958	936,228
Total securities available for sale	\$1,020,899	\$21,438	\$5,652	\$1,036,685

	At March 31, 2011	
	Amortized Cost	Carrying Value
(In Thousands)		
Debt securities:		
Due in one year or less	\$ 59,969	\$ 59,976
Due after one year through five years	9,265	9,624
Due after five years through ten years	14,125	14,395

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Due after ten years	18,124	16,462
Total	\$ 101,483	\$ 100,457

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		At June 30, 2010		
	Amortized	Gross	Gross	Carrying
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In Thousands)		
Securities:				
Debt securities:				
Trust preferred securities	\$8,855	\$-	\$2,255	\$6,600
U.S. agency securities	3,980	1	39	3,942
Obligations of state and political subdivisions	18,125	830	-	18,955
Total securities	30,960	831	2,294	29,497
Mortgage-backed securities:				
Mortgage pass-through securities:				
Government National Mortgage Association	14,660	999	31	15,628
Federal Home Loan Mortgage Corporation	263,481	10,267	44	273,704
Federal National Mortgage Association	395,273	18,884	34	414,123
Total mortgage-backed securities	673,414	30,150	109	703,455
Total securities available for sale	\$704,374	\$30,981	\$2,403	\$732,952

There were no sales of securities from the available for sale portfolio during the nine months ended March 31, 2011 and March 31, 2010.

At March 31, 2011 and June 30, 2010, securities available for sale with carrying value of approximately \$328.2 million and \$243.7 million, respectively, were utilized as collateral for borrowings through the FHLB of New York. As of those same dates, securities available for sale with carrying values of approximately \$11.3 million and \$1.4 million, respectively, were pledged to secure public funds on deposit.

The Company's available for sale mortgage-backed securities are generally secured by residential mortgage loans with original contractual maturities of ten to thirty years. However, the effective lives of those securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

10. SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses and estimated fair values of securities at March 31, 2011 and June 30, 2010 and stratification by contractual maturity of securities at March 31, 2011 are presented below:

	Carrying Value	At March 31, 2011 Gross Unrealized Gains / Gross Unrealized Losses (In Thousands)		Fair Value
Securities:				
Debt securities:				
U.S. agency securities	\$ 154,576	\$ 491	\$ 585	\$ 154,482
Obligations of state and political subdivisions	3,157	-	-	3,157
Total securities	157,733	491	585	157,639
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	69	5	-	74
Federal National Mortgage Association Non-agency securities	649	60	-	709
	208	-	20	188
Total collateralized mortgage obligations	926	65	20	971
Mortgage pass-through securities:				
Federal Home Loan Mortgage Corporation	150	5	-	155
Federal National Mortgage Association	322	9	-	331
Total mortgage pass-through securities	472	14	-	486
Total mortgage-backed securities	1,398	79	20	1,457
Total securities held to maturity	\$ 159,131	\$ 570	\$ 605	\$ 159,096

	At March 31, 2011 Carrying Value / Fair Value (In Thousands)	
Debt securities:		
Due in one year or less	\$ 3,048	\$ 3,048
Due after one year through five years	84,705	85,030

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Due after five years through ten years	20,000	19,884
Due after ten years	49,980	49,677
Total	\$ 157,733	\$ 157,639

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		At June 30, 2010		
	Carrying	Gross	Gross	Fair
	Value	Unrealized	Unrealized	Value
		Gains	Losses	
		(In Thousands)		
Securities:				
Debt securities:				
U.S. agency securities	\$255,000	\$1,914	\$-	\$256,914
Total securities	255,000	1,914	-	256,914
Mortgage-backed securities:				
Collateralized mortgage obligations:				
Federal Home Loan Mortgage Corporation	99	12	-	111
Federal National Mortgage Association Non-agency securities	767	71	1	837
	310	2	43	269
Total collateralized mortgage obligations	1,176	85	44	1,217
Mortgage pass-through securities:				
Federal Home Loan Mortgage Corporation	168	5	-	173
Federal National Mortgage Association	356	9	1	364
Total mortgage pass-through securities	524	14	1	537
Total mortgage-backed securities	1,700	99	45	1,754
Total securities held to maturity	\$256,700	\$2,013	\$45	\$258,668

During the quarter ended March 31, 2011, proceeds from sales of securities held to maturity totaled \$34,000, and resulted in gross losses of \$28,000. The proceeds and losses were fully attributable to the sale of the Company's non-investment grade, non-agency collateralized mortgage obligations. These securities were originally acquired as investment grade securities upon the in-kind redemption of the Bank's interest in the AMF Ultra Short Mortgage Fund during the first quarter of fiscal 2009. The ratings of these securities subsequently declined below investment grade resulting in their eligibility for sale from the held-to-maturity portfolio during quarter ended March 31, 2011.

Other than those noted above, there were no sales of securities from the held to maturity portfolio during the nine months ended March 31, 2011 and March 31, 2010. At March 31, 2011, securities held to maturity with carrying value of approximately \$13.7 million were utilized as collateral for borrowings through the FHLB of New York. No held to maturity securities were utilized as collateral for borrowings at June 30, 2010. As of those same dates, held to maturity securities were not pledged to secure public funds on deposit.

The Company's held to maturity mortgage-backed securities are generally secured by residential mortgage loans with original contractual maturities of ten to thirty years. However, the effective lives of those securities are generally shorter than their contractual maturities due to principal amortization and prepayment of the mortgage loans comprised within those securities. Investors in mortgage pass-through securities generally share in the receipt of principal repayments on a pro-rata basis as paid by the borrowers. By comparison, collateralized mortgage obligations generally represent individual tranches within a larger investment vehicle that is designed to distribute cash flows received on securitized mortgage loans to investors in a manner determined by the overall terms and structure of the investment vehicle and those applying to the individual tranches within that structure.

11. IMPAIRMENT OF SECURITIES

The following two tables summarize the fair values and gross unrealized losses within the available for sale and held to maturity portfolios at March 31, 2011 and June 30, 2010. The gross unrealized losses, presented by security type, represent temporary impairments of value within each portfolio as of the dates presented. Temporary impairments within the available for sale portfolio have been recognized through other comprehensive income as reductions in stockholders' equity on a tax-effected basis.

The tables are followed by a discussion that summarizes the Company's rationale for recognizing the reported impairments as "temporary" versus "other-than-temporary". Such rationale is presented by investment type and generally applies consistently to both the available for sale and held to maturity portfolios, except where specifically noted.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
Securities Available for Sale:						
At March 31, 2011:						
Trust preferred securities	\$-	\$-	\$6,350	\$1,510	\$6,350	\$1,510
U.S. agency securities	3,752	148	2,981	9	6,733	157
Obligations of state and political subdivisions	7,634	27	-	-	7,634	27
Collateralized mortgage obligations	3,683	5	-	-	3,683	5
Mortgage pass-through securities	295,714	3,867	1,250	86	296,964	3,953
Total	\$310,783	\$4,047	\$10,581	\$1,605	\$321,364	\$5,652
At June 30, 2010:						
Trust preferred securities	\$-	\$-	\$5,600	\$2,255	\$5,600	\$2,255
U.S. agency securities	-	-	3,667	39	3,667	39
Mortgage pass-through securities	559	4	906	105	1,465	109
Total	\$559	\$4	\$10,173	\$2,399	\$10,732	\$2,403

The number of available for sale securities with unrealized losses at March 31, 2011 totaled 86 comprising four single-issuer trust preferred securities, six U.S. agency securities, 14 municipal obligations, one collateralized mortgage obligation and 61 mortgage pass-through securities. The number of available for sale securities with unrealized losses at June 30, 2010 totaled 28 comprising four single-issuer trust preferred securities, six U.S. agency securities and 18 mortgage pass-through securities.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
Securities Held to Maturity:						
At March 31, 2011:						
U.S. agency securities	\$83,067	\$585	\$-	\$-	\$83,067	\$585
Collateralized mortgage obligations	39	1	149	19	188	20
Total	\$83,106	\$586	\$149	\$19	\$83,255	\$605
At June 30, 2010:						
Collateralized mortgage obligations	\$76	\$3	\$218	\$41	\$294	\$44
Mortgage pass-through securities	66	1	-	-	66	1
Total	\$142	\$4	\$218	\$41	\$360	\$45

The number of held to maturity securities with unrealized losses at March 31, 2011 totaled 21 comprising 12 collateralized mortgage obligations and nine U.S. agency securities. The number of held to maturity securities with unrealized losses at June 30, 2010 totaled 23 comprising 22 collateralized mortgage obligations and one mortgage pass-through security.

Mortgage-backed Securities. The carrying value of the Company's mortgage-backed securities totaled \$937.6 million at March 31, 2011 and comprised 78.4% of total investments and 32.4% of total assets as of that date. This category of securities primarily includes mortgage pass-through securities and collateralized mortgage obligations issued by U.S. government-sponsored entities such as Ginnie Mae, Fannie Mae and Freddie Mac who guarantee the contractual cash flows associated with those securities. Those guarantees were strengthened during the 2008-2009 financial crisis during which time Fannie Mae and Freddie Mac were placed into receivership by the federal government. Through those actions, the U.S. government effectively reinforced the guarantees of their agencies thereby assuring the creditworthiness of the mortgage-backed securities issued by those agencies.

With credit risk being reduced to negligible levels due primarily to the U.S. government's support of most of these agencies, the unrealized losses on the Company's investment in U.S. agency mortgage-backed securities are due largely to the combined effects of several market-related factors. First, movements in market interest rates significantly impact the average lives of mortgage-backed securities by influencing the rate of principal prepayment attributable to refinancing activity. Changes in the expected average lives of such securities significantly impact their fair values due to the extension or contraction of the cash flows that an investor expects to receive over the life of the security.

Generally, lower market interest rates prompt greater refinancing activity thereby shortening the average lives of mortgage-backed securities and vice-versa. The historically low mortgage rates currently

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prevalent in the marketplace have created significant refinancing incentive for qualified borrowers. However, prepayment rates are also influenced by fluctuating real estate values and the overall availability of credit in the marketplace which significantly impacts the ability of borrowers to qualify for refinancing. The deteriorating real estate market values and reduced availability of credit that have characterized the residential real estate marketplace in recent years have stifled demand for residential real estate while reducing the ability of certain borrowers to qualify for the refinancing of existing loans. To some extent, these factors have offset the effects of historically low interest rates on mortgage-backed security prepayment rates.

The market price of mortgage-backed securities, being the key measure of the fair value to an investor in such securities, is also influenced by the overall supply and demand for such securities in the marketplace. Absent other factors, an increase in the demand for, or a decrease in the supply of a security increases its price. Conversely, a decrease in the demand for, or an increase in the supply of a security decreases its price. During fiscal 2008 and fiscal 2009, the volatility and uncertainty in the marketplace had reduced the overall level of demand for mortgage-backed securities which generally had an adverse impact on their prices in the open market. This was further exacerbated by many larger institutions shedding mortgage-related assets to shrink their balance sheets for capital adequacy purposes thereby increasing the supply of such securities.

During fiscal 2010, however, institutional demand for mortgage-backed securities increased reflecting greater stability and liquidity in the financial markets coupled with the intervention of the Federal Reserve as a buyer/holder of such securities. Moreover, many financial institutions, including the Bank, are experiencing the concurrent effects of strong deposit growth and diminished loan origination volume resulting in increased institutional demand for mortgage-backed securities as investment alternatives to loans. These factors have continued into fiscal 2011 with market prices of agency mortgage-backed securities generally reflecting the increased institutional demand for such securities.

In sum, the factors influencing the fair value of the Company's U.S. agency mortgage-backed securities, as described above, generally result from movements in market interest rates and changing real estate and financial market conditions which affect the supply and demand for such securities. Inasmuch as such market conditions fluctuate over time, the impairments of value arising from these changing market conditions are both "noncredit-related" and "temporary" in nature.

The Company has the stated ability and intent to "hold to maturity" those securities so designated. Moreover, the Company has both the ability and intent, as of the periods presented, to hold the temporarily impaired available for sale securities until the fair value of the securities recovers to a level equal to or greater than the Company's amortized cost. As such, the Company has not decided to sell the securities as of March 31, 2011 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Moreover, the Company purchased these securities at either par or nominal premiums. Accordingly, the Company expects that the securities will not be settled for a price less than its amortized cost.

In light of the factors noted above, the Company does not consider its U.S. agency mortgage-backed securities with unrealized losses at March 31, 2011 to be "other-than-temporarily" impaired as of that date.

In addition to those mortgage-backed securities issued by U.S. agencies, the Company also maintains a nominal balance of non-agency mortgage-backed securities at March 31, 2011. Unlike agency mortgage-backed securities, non-agency collateralized mortgage obligations are not explicitly guaranteed by a U.S. government sponsored entity. Rather, such securities generally utilize the structure

of the larger investment vehicle to reallocate credit risk among the individual tranches comprised within that vehicle. Through this process, investors in different tranches are subject to varying degrees of risk that the cash flows of their tranche will be adversely impacted by borrowers defaulting on the underlying mortgage loans. The creditworthiness of certain tranches may also be further enhanced by additional credit insurance protection embedded within the terms of the total investment vehicle.

The fair values of the non-agency mortgage-backed securities are subject to many of the factors applicable to the agency securities that may result in “temporary” impairments in value. However, due to the lack of agency guaranty, the Company also monitors the general level of credit risk for each of its non-agency mortgage-backed securities based upon the ratings assigned to its specific tranches by one or more credit rating agencies. The level of such ratings, and changes thereto, is one of several factors considered by the Company in identifying those securities that may be other-than-temporarily impaired.

The classification of impairment as “temporary” is generally reinforced by the Company’s stated intent and ability to “hold to maturity” all of its non-agency mortgage-backed securities which allows for an adequate timeframe during which the fair values of the impaired securities are expected to recover to the level of their amortized cost. However, in the event of a severe deterioration of a security’s credit characteristics – including, but not limited to, a reduction in credit rating from investment grade to below investment grade and/or the recognition of credit-related impairment resulting from actual or expected deterioration of cash flows - the Company may re-evaluate and restate its intent to hold an impaired security until the expected recovery of its amortized cost.

For example, during the current quarter ended March 31, 2011, the Company re-evaluated its intent regarding the retention or sale of its impaired, non-agency collateralized mortgage obligations whose credit-ratings had fallen below investment grade. The Company considered the combined effects of the severe deterioration of the securities’ credit-ratings since their acquisition as investment grade securities and the actual and anticipated cash flow losses that characterized most of the securities. Based on these factors, the Company modified its intent regarding these impaired securities during the current quarter from “hold to recovery of amortized cost” to “sell” and sold such securities prior to the end of that same quarter.

At March 31, 2011, the Company's remaining portfolio of non-agency CMOs included 12 held-to-maturity securities totaling \$208,000 all of which are rated as investment grade as of that date. The Company has not decided to sell the securities as of March 31, 2011 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date.

In light of the factors noted above, the Company does not consider its balance of non-agency mortgage-backed securities with unrealized losses at March 31, 2011 to be “other-than-temporarily” impaired as of that date.

U.S. Agency Securities. The carrying value of the Company’s U.S. agency debt securities totaled \$161.4 million at March 31, 2011 and comprised 13.5% of total investments and 5.6% of total assets as of that date. Such securities are comprised of \$154.6 million of U.S. agency debentures and \$6.8 million of securitized pools of loans issued and fully guaranteed by the Small Business Administration (“SBA”), a U.S. government sponsored entity.

With credit risk being reduced to negligible levels due to the issuer’s guarantee, the unrealized losses on the Company’s investment in U.S. agency debt securities are due largely to the combined effects of several market-related factors including movements in market interest rates and general level of liquidity of such securities in the marketplace based on supply and demand.

With regard to interest rates, the Company's SBA securities are variable rate investments whose interest coupons are generally based on the Prime index minus a margin. Based upon the historically low level of short term market interest rates, of which the Prime index is one measure, the current yields on these securities are comparatively low. Consequently, the fair value of the SBA securities, as determined based upon the market price of these securities, reflects the adverse effects of the historically low short term, market interest rates at March 31, 2011.

Like the mortgage-backed securities described earlier, the currently diminished fair value of the Company's SBA securities also reflects the extended average lives of the underlying loans resulting from loan prepayment prohibitions that may be embedded in the underlying loans coupled with the generally reduced availability of credit in the marketplace reducing borrower refinancing opportunities. Such influences extend the timeframe over which an investor would anticipate holding the security at a "below market" yield. Similarly, the price of securitized SBA loan pools also reflects fluctuating supply and demand in the marketplace attributable to similar factors as those applying to mortgage-backed securities, as presented above.

Unlike its SBA securities, the Company's U.S. agency debentures are fixed rate investments whose fair values over time reflect movements in comparatively longer term market interest rates. At March 31, 2011, the unrealized losses applicable to those securities portfolio are generally attributable to movements in longer term market interest rates since their acquisition by the Company.

In sum, the factors influencing the fair value of the Company's U.S. agency securities, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Inasmuch as such market conditions fluctuate over time, the "noncredit-related" impairments of value arising from these changing market conditions are "temporary" in nature.

The Company has the stated ability and intent to "hold to maturity" those securities so designated. Moreover, the Company has both the ability and intent, as of the periods presented, to hold the temporarily impaired available for sale securities until the fair value of the securities recovers to a level equal to or greater than the Company's amortized cost. As such, the Company has not decided to sell the securities as of March 31, 2011 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Moreover, the Company purchased these securities at either par or nominal premiums. Accordingly, the Company expects that the securities will not be settled for a price less than its amortized cost.

In light of the factors noted above, the Company does not consider its balance of U.S. agency securities with unrealized losses at March 31, 2011 to be "other-than-temporarily" impaired as of that date.

Obligations of States and Political Subdivisions. The outstanding balance of the Company's securities representing obligations of state and political subdivisions totaled \$89.5 million at March 31, 2011 and comprised 7.5% of total investments and 3.1% of total assets as of that date. Such securities are generally comprised of bank qualified securities issued by New Jersey and Pennsylvania municipalities or the obligations of their related entities such as boards of education or utility authorities. The municipal obligations of New Jersey and Pennsylvania municipalities and their related entities total \$85.4 million and \$4.1 million, respectively.

The portfolio includes \$82.3 million of general obligations of the municipalities and their related entities while \$4.0 million represent revenue obligations funding specific projects. An additional

\$3.2 million represent short term obligations negotiated directly with local New Jersey municipalities that are also depository customers of the Bank.

The Company generally evaluates the level of credit risk for the securities within this category based upon ratings assigned by one or more credit rating agencies where such ratings are available. All rated securities within this category totaled \$26.8 million at March 31, 2011 and maintained investment grade ratings of A1 or higher by Moody's Investors Service ("Moody's").

The larger portion of the portfolio totaling \$62.6 million comprises municipal securities for which credit ratings are not available from Moody's or other rating services utilized by the Company. The non-rated municipal securities, all of which were added to the portfolio through the acquisition of Central Jersey Bank during the second quarter of fiscal 2011, generally represent comparatively shorter duration municipal obligations, the large majority of which have remaining average lives of less than one year.

In light of their strong credit ratings, where available, and consistent payment histories, the unrealized losses on the Company's investment in municipal obligations are due largely to the combined effects of several market-related factors including movements in market interest rates and general level of liquidity of such securities in the marketplace based on overall supply and demand. Notwithstanding the generally strong credit ratings of the Company's specific municipal securities, where applicable, the market prices of bank-qualified municipal obligations, in general, currently reflect the effect of reduced demand for such securities. Such reduced demand is attributable, in part, to the overall increased level of credit risk-aversion currently characterizing many financial institutions in the marketplace. More specifically, however, the reduced demand specifically reflects the state and local economic strains which have adversely affected the financial condition of many municipalities. As noted above, each of the Company's rated municipal obligations retained their investment grade status at March 31, 2011. However, the financial challenges facing certain issuers of the Company's municipal obligations have been evidenced through credit rating downgrades within the investment grade tier. In addition to the affects of reduced demand, municipal obligation prices also reflect the effects of increased supply generally arising from financial institutions selling investments and reducing assets for capital adequacy purposes, as noted earlier.

In sum, the factors influencing the fair value of the Company's municipal obligations, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Inasmuch as such market conditions fluctuate over time, the "noncredit-related" impairments of value arising from these changing market conditions are "temporary" in nature.

While most of its municipal obligations are classified as "available-for-sale", the Company has both the ability and intent to hold temporarily impaired securities until the fair value of the securities recover to a level equal to or greater than the Company's amortized cost. As of March 31, 2011, the Company has not decided to sell the securities. Additionally, the Company has concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Moreover, the Company purchased these securities at either par or nominal premiums. Call provisions, where applicable, require full repayment of principal at par by the issuer. Accordingly, the Company expects that the securities will not be settled for a price less than its amortized cost.

In light of the factors noted above, the Company does not consider any of its investments in municipal obligations to be "other-than-temporarily" impaired as of March 31, 2011.

Trust Preferred Securities. The outstanding balance of the Company's trust preferred securities totaled \$7.4 million at March 31, 2011 and comprised less than one percent of total investments and total assets as of that date. The category comprises a total of five "single-issuer" (i.e. non-pooled) trust preferred securities, four of which are impaired as of March 31, 2011, that were originally issued by four separate financial institutions. As a result of bank mergers involving the issuers of these securities, the Company's five trust preferred securities currently represent the de-facto obligations of three separate financial institutions.

The Company generally evaluates the level of credit risk for each of its trust preferred securities based upon ratings assigned by one or more credit rating agencies where such ratings are available. For those trust preferred securities that are impaired, the Company uses such ratings as a practical expedient to identify those securities whose impairments are potentially "credit-related" versus "noncredit-related".

Specifically, impairments associated with investment-grade trust preferred securities are generally categorized as "noncredit-related" given the nominal level of credit losses that would be expected based upon such ratings. At March 31, 2011, the Company owned two securities at an amortized cost of \$2.9 million that were consistently rated as investment grade by Moody's and Standard & Poor's Financial Services ("S&P"). The securities were originally issued through Chase Capital II and currently represent de-facto obligations of JPMorgan Chase & Co.

The Company has attributed the unrealized losses on these securities to the combined effects of several market-related factors including movements in market interest rates and general level of liquidity of such securities in the marketplace based on overall supply and demand.

With regard to interest rates, the Company's impaired trust preferred securities are variable rate securities whose interest rates generally float with three month Libor plus a margin. Based upon the historically low level of short term market interest rates, the current yield on these securities is comparatively low. Consequently, the fair value of the securities, as determined based upon their market price, reflects the adverse effects of the historically low market interest rates at March 31, 2011.

More significantly, the market prices of the impaired trust preferred securities also currently reflect the effect of reduced demand for such securities given the increasingly credit risk-averse nature of financial institutions in the current marketplace. Additionally, such prices reflect the effects of increased supply arising from financial institutions selling such investments and reducing assets for capital adequacy purposes, as noted earlier.

In sum, the factors influencing the fair value of the Company's investment-grade trust preferred securities, as described above, generally result from movements in market interest rates and changing market conditions which affect the supply and demand for such securities. Inasmuch as such market conditions fluctuate over time, the "noncredit-related" impairments of value arising from these changing market conditions are "temporary" in nature.

The impairments of the Company's trust preferred securities with one or more non-investment grade ratings are further evaluated to determine if such impairments are "credit-related". Factors considered in this evaluation include, but may not be limited to, the financial strength and viability of the issuer and its parent company, the security's historical performance through prior business and economic cycles, rating consistency or variability among rating companies, the security's current and anticipated status regarding payment default or deferral of contractual payments to investors and the impact of these factors on the present value of the security's expected future cash flows in relation to its amortized cost basis.

At March 31, 2011, the Company owned two securities at an amortized cost of \$4.9 million that were rated as investment grade by Moody's, but below investment grade by S&P. The securities were originally issued through BankBoston Capital Trust IV and MBNA Capital B and currently represent de-facto obligations of Bank of America Corporation.

In evaluating the impairment associated with these securities, the Company noted the overall financial strength and continuing expected viability of the issuing entity's parent, particularly given their systemically critical role in the marketplace. The Company noted the security's absence of historical defaults or payment deferrals throughout prior business cycles including the recent fiscal crisis that triggered the current economic weaknesses prevalent in the marketplace. The Company also noted the disparity between investment-grade and non-investment grade ratings for the securities among rating companies which demonstrates the current level of uncertainty regarding credit-risk in the marketplace. Given these factors, the Company had no basis upon which to estimate an adverse change in the expected cash flows over the securities' remaining terms to maturity.

While all of its trust preferred securities are classified as available for sale, the Company has both the ability and intent, as of the periods presented, to hold the impaired securities until their fair values recover to a level equal to or greater than the Company's amortized cost. As such, the Company has not decided to sell the securities as of March 31, 2011 and has further concluded that the possibility of being required to sell the securities prior to their anticipated recovery is unlikely based upon its strong liquidity, asset quality and capital position as of that date. Moreover, the Company purchased these securities at nominal discounts. Accordingly, the Company expects that the securities will not be settled for a price less than its amortized cost.

In light of the factors noted above, the Company does not consider its investments in trust preferred securities with unrealized losses at March 31, 2011 to be "other-than-temporarily" impaired as of that date.

The following table presents roll forwards of OTTI recognized in earnings due to credit-related losses on securities still held at the end of each reporting period.

Activity in credit-related other-than-temporary impairment ("OTTI") recognized through earnings							
Cumulative balance of credit- related OTTI recognized in earnings - beginning	Additions for newly identified credit- related OTTI	Additions to existing OTTI for		Reductions in credit- related OTTI for security sale	Reductions in credit- related OTTI due to accretion of impairment into interest income	Cumulative balance of credit- related OTTI recognized in earnings - ending	
		further credit- related declines in fair value	Reductions in credit- related OTTI for				
(In Thousands)							
Collateralized mortgage obligations: Non-agency securities: Three months ended	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

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2011	March 31,							
	Nine months							
	ended							
2011	March 31,	\$	- \$	- \$	- \$	- \$	- \$	-
	Three months ended							
	March 31, 2010	\$	587 \$	9 \$	44 \$	- \$	1 \$	639
	Nine months ended							
	March 31, 2010	\$	434 \$	17 \$	189 \$	- \$	1 \$	639

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12. LOAN QUALITY AND ALLOWANCE FOR LOAN LOSSES

Loan Review System. The Company maintains a loan review system consisting of several related functions including, but not limited to, classification of assets, calculation of the allowance for loan losses, independent credit file review as well as internal audit and lending compliance reviews. The Company utilizes both internal and external resources, where appropriate, to perform the various loan review functions. For example, the Company has engaged the services of a third party firm specializing in loan review and analysis to perform several loan review functions. This firm reviews the loan portfolio in accordance with the scope and frequency determined by senior management and the Asset Quality Committee of the Board of Directors. The third party loan review firm assists senior management and the board of directors in identifying potential credit weaknesses; in appropriately grading or adversely classifying loans; in identifying relevant trends that affect the collectability of the portfolio and identify segments of the portfolio that are potential problem areas; in verifying the appropriateness of the allowance for loan losses; in evaluating the activities of lending personnel including compliance with lending policies and the quality of their loan approval, monitoring and risk assessment; and by providing an objective assessment of the overall quality of the loan portfolio. Currently, independent loan reviews are being conducted quarterly and include non-performing loans as well as samples of performing loans of varying types within the Company's portfolio.

The Company's loan review system also includes the internal audit and compliance functions, which operate in accordance with a scope determined by the Audit and Compliance Committee of the Board of Directors. Internal audit resources assess the adequacy of, and adherence to, internal credit policies and loan administration procedures. Similarly, the Company's compliance resources monitor adherence to relevant lending-related and consumer protection-related laws and regulations. The loan review system is structured in such a way that the internal audit function maintains the ability to independently audit other risk monitoring functions without impairing its independence with respect to these other functions.

As noted, the loan review system also comprises the Company's policies and procedures relating to the regulatory classification of assets and the allowance for loan loss functions each of which are described in greater detail below.

Classification of Assets. In compliance with the regulatory guidelines, management maintains an internal loan review program, whereby certain loans exhibiting adverse credit quality characteristics are classified "Special Mention", "Substandard", "Doubtful" or "Loss". It is our policy to review the loan portfolio in accordance with regulatory classification procedures, generally on a monthly basis. Management evaluates loans classified as substandard or doubtful for impairment in accordance with applicable accounting requirements. Management classifies the impaired portion of a loan as "Loss" through which a specific valuation allowance equal to 100% of the impairment is established.

An asset is classified as "Substandard" if it is inadequately protected by the paying capacity and net worth of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as "Doubtful" have all of the weaknesses inherent in those classified as "Substandard", with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. Assets, or portions thereof, classified as "Loss" are considered uncollectible or of so little value that their continuance as assets is not warranted. Assets classified as "Loss" are either charged off directly against the allowance for loan loss or a specific valuation allowance equal to 100% of the loss is established as noted above.

Assets which do not currently expose the Company to a sufficient degree of risk to warrant an adverse classification but have some credit deficiencies or other potential weaknesses are designated as “Special Mention” by management. Adversely classified assets, together with those rated as “Special Mention”, are generally referred to as “Classified Assets”. Non-classified assets are internally rated as either “Pass” or “Watch” with the latter denoting a potential deficiency or concern that warrants increased oversight or tracking by management until remediated.

Management performs a classification of assets review, including the regulatory classification of assets, generally on a monthly basis. The results of the classification of assets review are validated by the Company’s third party loan review firm during their quarterly, independent review. In the event of a difference in rating or classification between those assigned by the internal and external resources, the Company will generally utilize the more critical or conservative rating or classification. Final loan ratings and regulatory classifications are presented monthly to the Board of Directors and are reviewed by regulators during the examination process.

Past Due Loans. A loan’s “past due” status is generally determined based upon its “P&I delinquency” status in conjunction with its “past maturity” status, where applicable. A loan’s “P&I delinquency” status is based upon the number of calendar days between the date of the earliest P&I payment due and the “as of” measurement date. A loan’s “past maturity” status, where applicable, is based upon the number of calendar days between a loan’s contractual maturity date and the “as of” measurement date. Based upon the larger of these criteria, loans are categorized into the following “past due” tiers for financial statement reporting and disclosure purposes: Current (including 1-29 days past due), 30-59 days past due, 60-89 days and 90 or more days.

Nonaccrual Loans. Loans are generally placed on nonaccrual status when contractual payments become 90 days or more past due, and are otherwise placed on nonaccrual when the Company does not expect to receive all P&I payments owed substantially in accordance with the terms of the loan agreement. Loans that become 90 days past maturity, but remain non-delinquent with regard to ongoing P&I payments may remain on accrual status if: (1) the Company expects to receive all P&I payments owed substantially in accordance with the terms of the loan agreement, past maturity status notwithstanding, and (2) the borrower is working actively and cooperatively with the Company to remedy the past maturity status through an expected refinance, payoff or modification of the loan agreement that is not expected to result in a troubled debt restructuring (“TDR”) classification. All TDRs are placed on nonaccrual status for a period of no less than six months after restructuring, irrespective of past due status.

Payments received in cash on nonaccrual loans – including both the principal and interest portions of those payments – are generally applied to reduce the carrying value of the loan for financial statement purposes.

Loans that are not considered to be TDRs are generally returned to accrual status when payments due are brought current and the Company expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement. Non-TDR loans may also be returned to accrual status when a loan’s payment status falls below 90 days past due and the Company: (1) expects receipt of the remaining past due amounts within a reasonable timeframe, and (2) expects to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement. TDRs may be returned to accrual status if (1) the borrower has paid timely P&I payments in accordance with the terms of the restructured loan agreement for no less than six consecutive months after restructuring, and (2) the Company expects to receive all P&I payments owed substantially in accordance with the terms of the restructured loan agreement.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects the Company's estimation of the losses in its loan portfolio to the extent they are both probable and reasonable to estimate. The balance of the allowance is generally maintained through provisions for loan losses that are charged to income in the period that estimated losses on loans are identified by the Company's loan review system. The Company charges losses on loans against the allowance as such losses are actually incurred. Recoveries on loans previously charged-off are added back to the allowance.

The Company's allowance for loan loss calculation methodology utilizes a "two-tier" loss measurement process that is performed monthly. Based upon the results of the classification of assets and credit file review processes described earlier, the Company first identifies the loans that must be reviewed individually for impairment. Factors considered in identifying individual loans to be reviewed include, but may not be limited to, classification status, past due and/or nonaccrual status, size of loan, type and condition of collateral and the financial condition of the borrower.

Traditionally, the loans considered by the Company to be eligible for individual impairment review have generally represented its larger and/or more complex loans including its commercial mortgage loans, comprising multi-family and nonresidential real estate loans, as well as its construction loans and commercial business loans. Residential mortgage loans were generally considered "homogeneous" loan types and were only selectively evaluated for impairment based upon certain risk factors. For example, the risk characteristics of certain residential mortgage loan portfolios purchased from other loan originators were considered sufficient to warrant individual impairment analysis of the nonperforming loans within those portfolios.

During the quarter ended March 31, 2011, the Company expanded the scope of loans that it considers eligible for individual impairment review to now include all one-to-four family mortgage loans as well as its home equity loans and home equity lines of credit. Expanding the scope of loans individually evaluated for impairment in this manner did not have a material impact on the Company's allowance for loan loss calculations nor the reported level of its impaired loans.

A reviewed loan is deemed to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, management measures the amount of impairment associated with that loan.

In measuring the impairment associated with collateral dependent loans, the fair value of the real estate collateralizing the loan is generally used as a measurement proxy for that of the impaired loan itself as a practical expedient. Such values are generally determined based upon a discounted market value obtained through an automated valuation module or prepared by a qualified, independent real estate appraiser.

As supported by accounting and regulatory guidance, the Company has traditionally reduced the fair value of the collateral by estimated selling costs, such as real estate brokerage commissions, to measure impairment when such costs are expected to reduce the cash flows available to repay the loan. During the current quarter, the Company expanded the scope of such costs to also include, where applicable, estimated foreclosure and repossession costs, collateral carrying costs such as real estate taxes and insurance, and various title transfer and insurance fees.

The Company estimates that consideration of these additional estimated costs in its allowance for loan loss calculation methodology increased the provision for loan losses recognized during the quarter ended March 31, 2011 by approximately \$1.1 million. While the revised methodology was applied to all impaired, collateral dependent loans, the increases in estimated impairments and resulting additions to

specific valuation allowances were largely attributable to the impaired residential mortgage loans originally acquired from Countrywide Home Loans, Inc. Such loans continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP where the collections and foreclosure processes have been subjected to extended delays.

The Company establishes specific valuation allowances in the fiscal period during which the loan impairments are identified. The results of management's specific loan impairment evaluation are validated by the Company's third party loan review firm during their quarterly, independent review. Such valuation allowances are adjusted in subsequent fiscal periods, where appropriate, to reflect any changes in carrying value or fair value identified during subsequent impairment evaluations which are updated monthly by management.

The second tier of the loss measurement process involves estimating the probable and estimable losses which addresses loans not otherwise reviewed individually for impairment. Such loans generally comprise large groups of smaller-balance homogeneous loans, such as one-to-four family mortgage loans, home equity loans and home equity lines of credit and other consumer loans, that may generally be excluded from individual impairment analysis and instead collectively evaluated for impairment. Such loans also include the remaining non-impaired loans of the larger and/or more complex types, such as the Company's commercial mortgage, construction and business loans, which were not individually reviewed for impairment.

Valuation allowances established through the second tier of the loss measurement process utilize historical and environmental loss factors to collectively estimate the level of probable losses within defined segments of the Company's loan portfolio. These segments aggregate homogeneous subsets of loans with similar risk characteristics based upon loan type. For allowance for loan loss calculation and reporting purposes, the Company currently stratifies its loan portfolio into five primary categories: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans and consumer loans. Within the consumer loan category, the Company distinguishes between home equity loans, home equity lines of credit and other consumer loans. Beyond these primary categories, the Company further delineates commercial business loans into secured and unsecured loans while loans may also be identified and grouped based on origination source to distinguish those with unique risk characteristics associated with certain purchased loans and participations.

In regard to historical loss factors, the Company's allowance for loan loss calculation calls for an analysis of historical charge-offs and recoveries for each of the defined segments within the loan portfolio. The Company currently utilizes a two-year moving average of annual net charge-off rates (charge-offs net of recoveries) by loan segment, where available, to calculate its actual, historical loss experience. The Company utilizes a two-year "look-back" period to determine the average charge-off history used in the calculation of historical loss. The outstanding principal balance of each loan segment is multiplied by the applicable historical loss factor to estimate the level of probable losses based upon the Company's historical loss experience.

As noted, the Company's allowance for loan loss calculation also utilizes environmental loss factors to estimate the probable losses within the loan portfolio. Environmental loss factors are based upon specific qualitative criteria representing key sources of risk within the loan portfolio. Such risk criteria includes the level of and trends in delinquencies and non-accrual loans; the effects of changes in credit policy; the experience, ability and depth of the lending function's management and staff; national and local economic trends and conditions; credit risk concentrations and changes in local and regional real estate values. For each segment of the loan portfolio, a level of risk, developed from a number of internal and external resources, is assigned to each of the qualitative criteria utilizing a scale ranging from zero (negligible risk) to 15 (high risk). The sum of the risk values, expressed as a whole number, is

multiplied by .01% to arrive at an overall environmental loss factor, expressed in basis points, for each segment. The outstanding principal balance of each loan segment is multiplied by the applicable environmental loss factor to estimate the level of probable losses based upon the qualitative risk criteria.

The sum of the probable and estimable loan losses calculated through the first and second tiers of the loss measurement processes as described above, represents the total targeted balance for the Company's allowance for loan losses at the end of a fiscal period. As noted earlier, the Company establishes all additional specific valuation allowances in the fiscal period during which additional loan impairments are identified. This step is generally performed by transferring the required additions to specific valuation allowances on impaired loans from the balance of Company's general valuation allowances. After establishing all specific valuation allowances relating to impaired loans, the Company then compares the remaining actual balance of its general valuation allowance to the targeted balance calculated at the end of the fiscal period. The Company adjusts its balance of general valuation allowances through the provision for loan losses as required to ensure that the balance of the allowance for loan losses reflects all probable and estimable loans losses at the close of the fiscal period. Any balance of general valuation allowances in excess of the targeted balance is reported as unallocated with such balances attributable to probable losses within the loan portfolio relating to environmental factors within one or more non-specified loan segments. Notwithstanding calculation methodology and the noted distinction between specific and general valuation allowances, the Company's entire allowance for loan losses is available to cover all charge-offs that arise from the loan portfolio.

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.

The following table presents the balance of the allowance for loan losses based upon the calculation methodology described above. The table identifies the specific valuation allowances attributable to identified impairments on individually evaluated loans, including those acquired with deteriorated credit quality, and the general valuation allowances for impairments on loans evaluated collectively. The underlying balance of loans receivable applicable to each category is also presented. The balance of loans receivable reported in the tables below excludes yield adjustments and the allowance for loan loss.

Allowance for Loan Losses and Loans Receivable
at March 31, 2011

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Balance of allowance for loan losses:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$4,340	\$ 1,522	\$ 138	\$ -	\$-	\$-	\$ -	\$6,000
Loans collectively evaluated for impairment	2,019	1,664	248	149	264	30	10	4,384
Total allocated allowance for loan losses	6,359	3,186	386	149	264	30	10	10,384
Unallocated allowance	-	-	-	-	-	-	-	231
Allowance for loan losses on originated and purchased loans	6,359	3,186	386	149	264	30	10	10,615
Loans acquired at fair value								
Loans individually evaluated for impairment	-	-	-	42	-	-	-	42
Loans collectively evaluated for impairment	-	-	-	-	-	-	4	4
Allowance for loan losses on loans acquired at fair value	-	-	-	42	-	-	4	46
Total allowance for loan losses	\$6,359	\$ 3,186	\$ 386	\$ 191	\$264	\$30	\$ 14	\$10,661
Changes in the allowance for loan losses:								

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At December 31,
2010:

Allocated	\$5,179	\$ 3,406	\$ 691	\$ 111	\$271	\$30	\$ 12	\$9,700
Unallocated	-	-	-	-	-	-	-	231
Total allowance for loan losses	5,179	3,406	691	111	271	30	12	9,931
Charge offs	(170)	-	(492)	-	(7)	-	(5)	(674)
Recoveries	1	1	-	10	-	-	1	13
Provisions	1,349	(221)	187	70	-	-	6	1,391

At March 31, 2011:

Allocated	6,359	3,186	386	191	264	30	14	10,661
Unallocated	-	-	-	-	-	-	-	231
Total allowance for loan losses	\$6,359	\$ 3,186	\$ 386	\$ 191	\$264	\$30	\$ 14	\$10,661

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Allowance for Loan Losses and Loans Receivable
at March 31, 2011 (continued)

	Residential Mortgage	Commercial Mortgage	Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Balance of loans receivable:								
Originated and purchased loans								
Loans individually evaluated for impairment	\$16,836	\$ 7,706	\$ 982	\$ 2,292	\$57	\$96	\$-	\$27,969
Loans collectively evaluated for impairment	596,132	209,985	5,509	17,628	84,822	10,022	4,395	928,493
Total originated and purchased loans	612,968	217,691	6,491	19,920	84,879	10,118	4,395	956,462
Loans acquired at fair value								
Loans individually evaluated for impairment	-	4,087	1,799	8,739	191	183	-	14,999
Loans collectively evaluated for impairment	2,678	166,894	18,906	75,978	31,682	22,147	902	319,187
Total loans acquired at fair value	2,678	170,981	20,705	84,717	31,873	22,330	902	334,186
Total loans	\$615,646	\$ 388,672	\$ 27,196	\$ 104,637	\$116,752	\$32,448	\$ 5,297	\$1,290,648

The following tables present key indicators of credit quality regarding the Company's loan portfolio based upon loan classification and contractual payment status at March 31, 2011.

Credit-Rating Classification of Loans Receivable
at March 31, 2011

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Loan classification								
Originated and purchased loans								
Non-classified	\$ 592,190	\$ 205,826	\$ 5,509	\$ 16,901	\$ 84,622	\$ 10,022	\$ 4,393	\$ 919,463
Classified:								
Special mention	1,519	1,361	-	727	180	-	1	3,788
Substandard	14,919	8,982	844	2,292	77	96	1	27,211
Doubtful	-	-	-	-	-	-	-	-
Loss	4,340	1,522	138	-	-	-	-	6,000
Total classified loans	20,778	11,865	982	3,019	257	96	2	36,999
Total originated and purchased loans	612,968	217,691	6,491	19,920	84,879	10,118	4,395	956,462
Loans acquired at fair value								
Non-classified	2,678	164,214	17,926	64,633	31,472	21,502	902	303,327
Classified:								
Special mention	-	1,662	980	10,359	210	645	-	13,856
Substandard	-	5,105	1,799	9,123	191	183	-	16,401
Doubtful	-	-	-	560	-	-	-	560
Loss	-	-	-	42	-	-	-	42
Total classified loans	-	6,767	2,779	20,084	401	828	-	30,859
Total loans acquired at fair value	2,678	170,981	20,705	84,717	31,873	22,330	902	334,186
Total loans	\$ 615,646	\$ 388,672	\$ 27,196	\$ 104,637	\$ 116,752	\$ 32,448	\$ 5,297	\$ 1,290,648

Contractual Payment Status of Loans Receivable
March 31, 2011

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Contractual payment status:								
Originated and purchased loans								
Current	\$ 591,387	\$ 210,173	\$ 5,188	\$ 16,934	\$ 84,475	\$ 10,022	\$ 4,313	\$ 922,492
Past due:								
30-59 days	3,278	851	321	60	347	-	81	4,938
60-89 days	2,331	-	-	-	-	-	-	2,331
90+ days	15,972	6,667	982	2,926	57	96	1	26,701
Total past due	21,581	7,518	1,303	2,986	404	96	82	33,970
Total originated and purchased loans	612,968	217,691	6,491	19,920	84,879	10,118	4,395	956,462
Loans acquired at fair value								
Current	2,678	167,560	14,509	73,383	31,162	21,725	900	311,917
Past due:								
30-59 days	-	1,748	4,313	2,565	414	422	1	9,463
60-89 days	-	-	400	2,488	260	-	1	3,149
90+ days	-	1,673	1,483	6,281	37	183	-	9,657
Total past due	-	3,421	6,196	11,334	711	605	2	22,269
Total loans acquired at fair value	2,678	170,981	20,705	84,717	31,873	22,330	902	334,186
Total loans	\$ 615,646	\$ 388,672	\$ 27,196	\$ 104,637	\$ 116,752	\$ 32,448	\$ 5,297	\$ 1,290,648

The following tables present information relating to the Company's nonperforming and impaired loans at March 31, 2011. Loans reported as "90+ days past due and accruing" in the table immediately below are also reported in the preceding contractual payment status table under the heading "90+ days past due".

Performance Status of Loans Receivable
at March 31, 2011

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Performance status:								
Originated and purchased loans								
Performing	\$ 595,759	\$ 209,985	\$ 5,509	\$ 16,901	\$ 84,822	\$ 10,022	\$ 4,394	\$ 927,392
Nonperforming:								
90+ days past due accruing	13,427	-	-	727	-	-	-	14,154
Nonaccrual	3,782	7,706	982	2,292	57	96	1	14,916
Total nonperforming	17,209	7,706	982	3,019	57	96	1	29,070
Total originated and purchased loans	612,968	217,691	6,491	19,920	84,879	10,118	4,395	956,462
Loans acquired at fair value								
Performing	2,678	167,457	18,906	78,014	31,682	22,147	902	321,786
Nonperforming:								
90+ days past due accruing	-	-	-	4,520	-	-	-	4,520
Nonaccrual	-	3,524	1,799	2,183	191	183	-	7,880
Total nonperforming	-	3,524	1,799	6,703	191	183	-	12,400
Total loans acquired at fair value	2,678	170,981	20,705	84,717	31,873	22,330	902	334,186
Total loans	\$ 615,646	\$ 388,672	\$ 27,196	\$ 104,637	\$ 116,752	\$ 32,448	\$ 5,297	\$ 1,290,648

Impairment Status of Loans Receivable
at March 31, 2011

	Residential Mortgage	Commercial Mortgage	Commercial Construction	Commercial Business	Home Equity Loans	Home Equity Lines of Credit	Other Consumer	Total
	(in Thousands)							
Impairment status:								
Originated and purchased loans								
Non-impaired loans	\$596,132	\$ 209,985	\$ 5,509	\$ 17,628	\$84,822	\$10,022	\$ 4,395	\$928,493
Impaired loans:								
Impaired loans with no impairment	2,248	6,184	362	2,292	57	96	-	11,239
Impaired loans with impairment:								
Unpaid principal balance	14,588	1,522	620	-	-	-	-	16,730
Specific allowance for impairment	(4,340)	(1,522)	(138)	-	-	-	-	(6,000)
Balance of impaired loans net of allowance for impairment	10,248	-	482	-	-	-	-	10,730
Total impaired loans, excluding allowance	16,836	7,706	982	2,292	57	96	-	27,969
Total originated and purchased loans	612,968	217,691	6,491	19,920	84,879	10,118	4,395	956,462
Loans acquired at fair value								
Non-impaired loans								
Non-impaired loans	2,678	166,894	18,906	75,978	31,682	22,147	902	319,187
Impaired loans:								
Impaired loans with no impairment	-	4,087	1,799	8,657	191	183	-	14,917
Impaired loans with impairment:								
Unpaid principal balance	-	-	-	82	-	-	-	82
Specific allowance for impairment	-	-	-	(42)	-	-	-	(42)

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Balance of impaired loans net of allowance for impairment	-	-	-	41	-	-	-	41
Total impaired loans, excluding allowance	-	4,087	1,799	8,739	191	183	-	14,999
Total loans acquired at fair value	2,678	170,981	20,705	84,717	31,873	22,330	902	334,186
Total loans	\$615,646	\$ 388,672	\$ 27,196	\$ 104,637	\$116,752	\$32,448	\$ 5,297	\$1,290,648
For the three months ended March 31, 2011								
Average balance of impaired loans	\$14,229	\$ 13,083	\$ 3,261	\$ 11,284	\$124	\$139	\$-	\$42,120
Interest earned on impaired loans	\$217	\$ 8	\$ -	\$ 28	\$-	\$-	\$-	\$253

All impaired loans are reviewed individually for impairment in accordance with the Company's allowance for loan loss calculation methodology described earlier. The Company has identified a total of \$26.2 million of impaired loans for which no impairment was recognized at March 31, 2011. As highlighted in the table above, approximately \$14.9 million of these loans were acquired from Central Jersey. Any impairment identified at the time of acquisition relating to these loans was reflected as an adjustment to their fair value at that time.

The remaining \$11.2 million of loans reported as impaired with no impairment represent those originated or purchased in the secondary market by the Company. These loans generally reflect the Company's practice of identifying all "non-homogeneous" loans on nonaccrual status as impaired in acknowledgment of the probable non-receipt of interest accrued in accordance with the loans contractual terms. Despite the nonaccrual and impaired statuses, however, the individual analyses performed on these loans preclude the recognition of impairment.

The Company's loans reported above as impaired with no impairment are primarily secured by real estate and, to a lesser degree, other forms of collateral. As noted earlier, the impairment analyses performed on these loans generally utilize the fair value of the securing collateral, less certain estimated costs, as a measurement proxy for the fair value of the loan as a practical expedient. Based upon that assumption, at March 31, 2011 the Company would expect to recover the carrying value of its loans identified as impaired without impairment through the liquidation of the collateral. However, continued deterioration in real estate values could result in the identification of impairment in the future attributable to these loans resulting in additional provisions to the allowance for loan losses.

13. BENEFIT PLANS – COMPONENTS OF NET PERIODIC EXPENSE

The following table sets forth the aggregate net periodic benefit expense for the Bank's Benefit Equalization Plan, Postretirement Welfare Plan and Directors' Consultation and Retirement Plan:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(In Thousands)		(In Thousands)	
Service cost	\$40	\$38	\$120	\$114
Interest cost	82	90	247	270
Amortization of unrecognized past service liability	18	17	53	51
Amortization of unrecognized net actuarial (gain) loss	-	18	(1)	54
Net periodic benefit expense	\$140	\$163	\$419	\$489

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The guidance on fair value measurement establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In addition, the guidance requires the Company to disclose the fair value for assets and liabilities on both a recurring and non-recurring basis.

Those assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			
	Quoted			
	Prices in			
	Active			
	Markets	Significant		
	for	Other	Significant	
	Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3)	Balance
	(In Thousands)			
At March 31, 2011:				
Debt securities available for sale:				
Trust preferred securities	\$-	\$6,351	\$ 1,000	\$7,351
U.S. agency securities	-	6,799	-	6,799
Obligations of political subdivisions	-	86,307	-	86,307
Total debt securities	-	99,457	1,000	100,457
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations:				
Federal National Mortgage Association	-	3,683	-	3,683
Mortgage pass-through securities:				
Government National Mortgage Association	-	14,282	-	14,282
Federal Home Loan Mortgage Corporation	-	323,956	-	323,956
Federal National Mortgage Association	-	594,307	-	594,307
Total mortgage-backed securities	-	936,228	-	936,228
Total securities available for sale	\$-	\$1,035,685	\$ 1,000	\$1,036,685

Fair Value Measurements Using
Quoted
Prices in
Active
Markets
for
Identical
Assets
(Level 1)
(In Thousands)

Significant
Other
Observable
Inputs
(Level 2)

Significant
Unobservable
Inputs
(Level 3)

Balance

At June 30, 2010:

Debt securities available for sale:

Trust preferred securities	\$-	\$5,600	\$ 1,000	\$6,600
U.S. agency securities	-	3,942	-	3,942
Obligations of political subdivisions	-	18,955	-	18,955
Total debt securities	-	28,497	1,000	29,497

Mortgage-backed securities available for sale:

Mortgage pass-through securities:

Government National Mortgage Association	-	15,628	-	15,628
Federal Home Loan Mortgage Corporation	-	273,704	-	273,704
Federal National Mortgage Association	-	414,123	-	414,123
Total mortgage-backed securities	-	703,455	-	703,455

Total securities available for sale	\$-	\$731,952	\$ 1,000	\$732,952
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The fair values of securities available for sale (carried at fair value) or held to maturity (carried at amortized cost) are primarily determined by obtaining matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Company holds a trust preferred security with a par value of \$1.0 million, a de-facto obligation of Mercantile Commercebank Florida Bancorp, Inc., whose fair value has been determined by using Level 3 inputs. It is a part of a \$40.0 million private placement with a coupon of 8.90% issued in 1998 and maturing in 2028. Generally management has been unable to obtain a market quote due to a lack of trading activity for this security. Consequently, the security's fair value as reported at March 31, 2011 and June 30, 2010 is based upon the present value of its expected future cash flows assuming the security continues to meet all its payment obligations and utilizing a discount rate based upon the security's contractual interest rate. For the nine months ended March 31, 2011, there were no purchases, sales, issuances, or settlements of assets or liabilities whose fair values are determined based upon Level 3 inputs on a recurring basis.

Those assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements Using			Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
At March 31, 2011				
Impaired loans	\$-	\$-	\$ 10,771	\$10,771
Real estate owned	-	-	95	95
At June 30, 2010				
Impaired loans	\$-	\$-	\$ 9,781	\$9,781
Real estate owned	-	-	37	37

An impaired loan is evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Market value is measured based on the value of the collateral securing the loan and is classified at a Level 3 in the fair value hierarchy. Once a loan is identified as individually impaired, management measures impairment in accordance with the FASB's guidance on accounting by creditors for impairment of a loan with the fair value estimated using the market value of the collateral reduced by estimated disposal costs. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

At March 31, 2011, impaired loans valued using Level 3 inputs comprised 45 loans with principal balances totaling \$16,813,000 and valuation allowances of \$6,042,000 reflecting fair values of \$10,771,000. By comparison, at June 30, 2010, impaired loans valued using Level 3 inputs comprised 29 loans with principal balances totaling \$14,096,000 and valuation allowances of \$4,315,000 reflecting fair values of \$9,781,000.

Once a loan is foreclosed, the fair value of the real estate owned continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan. At March 31, 2011, real estate owned whose carrying value was written down utilizing Level 3 inputs comprised one property with a fair value totaling \$95,000. By comparison, at June 30, 2010 real estate owned whose carrying value was written down utilizing Level 3 inputs included one property totaling \$37,000.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at March 31, 2011 and June 30, 2010:

Cash and Cash Equivalents, Interest Receivable and Interest Payable. The carrying amounts for cash and cash equivalents, interest receivable and interest payable approximate fair value because they mature in three months or less.

Securities. See the discussion presented on Page 44 concerning assets measured at fair value on a recurring basis.

Loans Receivable. Except for certain impaired loans as previously discussed, 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.

Borrowings. Fair value is estimated using rates currently offered for borrowings 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 loan 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, is not considered material for disclosure. The contractual amounts of unfunded commitments are presented on Page 65.

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

	At March 31, 2011		At June 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	\$208,256	\$208,256	\$181,422	\$181,422
Securities available for sale	100,457	100,457	29,497	29,497
Securities held to maturity	157,733	157,639	255,000	256,914
Loans receivable	1,278,616	1,295,188	1,005,152	1,022,873
Mortgage-backed securities available for sale	936,228	936,228	703,455	703,455
Mortgage-backed securities held to maturity	1,398	1,457	1,700	1,754
Interest receivable	9,730	9,730	8,338	8,338
Financial liabilities:				
Deposits (A)	2,140,928	2,150,996	1,623,562	1,632,209
Borrowings	254,930	288,560	210,000	245,491
Interest payable on borrowings	989	989	1,054	1,054

(A) Includes accrued interest payable on deposits of \$105,000 and \$142,000, respectively, at March 31, 2011 and June 30, 2010.

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-off balance sheet financial instruments without attempting to value 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.

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

Forward-Looking Statements

This Form 10-Q may include certain forward-looking statements based on current management expectations. Such forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar variations on those terms, or the negative of those terms. The actual results of the Company could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities. Additional potential factors include changes in interest rates, deposit flows, cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of loan and investment portfolios of the Bank. Other factors that could cause future results to vary from current management expectations include changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in the Company's other filings with the Securities and Exchange Commission.

Acquisition of Central Jersey

On November 30, 2010, the Company completed its acquisition of Central Jersey Bancorp ("Central Jersey") and its wholly owned subsidiary, Central Jersey Bank, National Association ("Central Jersey Bank") as contemplated by the Agreement and Plan of Merger, dated as of May 25, 2010, by and among the Company, Kearny Federal Savings Bank, Central Jersey and Central Jersey Bank (the "Agreement") in a tax-free reorganization. The aggregate consideration for the acquisition was \$82.1 million which included \$70.5 million paid to the shareholders of Central Jersey to acquire all the outstanding shares of Central Jersey at \$7.50 per share and \$11.6 million paid to the U.S. Department of the Treasury for the redemption of 11,300 shares of Fixed Rate Cumulative Preferred Stock, Series A and the related warrant issued to the U.S. Treasury under the Troubled Asset Relief Program Capital Purchase Program.

As a result of the merger, the Company now has a total of 40 branches located in Bergen, Hudson, Passaic, Morris, Middlesex, Monmouth, Essex, Union and Ocean Counties. The former Central Jersey Bank branches are initially being operated under the name "Central Jersey Bank, A Division of Kearny Federal Savings Bank" ("CJB Division"). At September 30, 2010, Central Jersey had total assets of \$589.4 million, deposits of \$473.3 million and shareholders' equity of \$58.7 million (prior to the redemption of Central Jersey's outstanding preferred stock).

Comparison of Financial Condition at March 31, 2011 and June 30, 2010

General. Total assets increased \$554.1 million to \$2.89 billion at March 31, 2011 from \$2.34 billion at June 30, 2010. The increase in total assets was due primarily to the acquisition of Central Jersey during the quarter ended December 31, 2010 which resulted in an increase in the balances of most interest-earning and non-interest-earning assets. The balances of most interest-bearing and non-interest-

bearing liabilities also increased as a result of the acquisition. These increases were partially offset by a decline in stockholders' equity that was not the direct result of the acquisition.

Cash and Cash Equivalents. Cash and cash equivalents, which consist of interest-earning and noninterest-earning deposits in other banks, increased \$26.9 million to \$208.3 million at March 31, 2011 from \$181.4 million at June 30, 2010. The increase in short term, liquid assets partly reflects the net cash flows resulting from the Company's loan and investment originations, purchases and repayments during the nine months ended March 31, 2011 offset by the net cash flows arising from the Company's deposit, borrowing and capital management activities. The change in cash and equivalents also reflects the cash flows relating to the acquisition of Central Jersey. As discussed in greater detail in Note 5 to the consolidated financial statements, the final consideration paid in the transaction totaled \$82.1 million which included \$70.5 million paid to stockholders of Central Jersey at a price of \$7.50 per outstanding share and \$11.6 million paid to the U.S. Department of Treasury ("U.S. Treasury") for the redemption of the 11,300 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and related warrant originally issued by Central Jersey to the U.S. Treasury under the TARP Capital Purchase Plan. This distribution of cash was partially offset by the acquisition of Central Jersey's cash and cash equivalents which totaled approximately \$57.5 million at the time of acquisition.

In accordance with the overall goals of its strategic business plan, the Company may, at times, defer the reinvestment of excess liquidity into the investment portfolio in favor of retaining comparatively higher average balances of short term, liquid assets as a funding source for future loan originations. Toward that end, the Bank's pipeline of "in process" loans has generally increased compared to one year earlier due to the combined effects of the acquisition of Central Jersey and the continued organic expansion of the Bank's commercial loan origination staff. Management will continue to balance the opportunity cost to near term earnings resulting from maintaining short term, liquid assets in relation to the need for such liquidity to fund the Company's strategic initiatives including the anticipated increase in commercial loan origination volume resulting from acquisition of Central Jersey. The Company may continue to redeploy a portion of its liquidity into higher yielding investments based upon the timing and relative success of those initiatives.

Securities Available for Sale. Non-mortgage-backed securities classified as available for sale increased by \$71.0 million to \$100.5 million at March 31, 2011 from \$29.5 million at June 30, 2010. As discussed in greater detail in Note 5 to the consolidated financial statements, the increase in the portfolio was largely attributable to securities acquired from Central Jersey with fair values of \$97.2 million. These securities included municipal obligations and SBA securities with fair values of \$93.3 million and \$3.9 million, respectively, at the time of acquisition. The increase in the portfolio attributable to the acquisition of these securities was partially offset by security repayments during the period.

At March 31, 2011, non-mortgage-backed securities available for sale consisted of \$86.3 million of municipal obligations, \$6.8 million of SBA pass-through certificates and \$7.4 million of single issuer trust preferred securities with amortized costs of \$85.7 million, \$7.0 million and \$8.9 million, respectively. As discussed in Note 11 to the consolidated financial statements, the issuer's represented in the Company's portfolio of municipal securities are limited to New Jersey and Pennsylvania municipalities and their related entities. The portfolio consists primarily of the general obligations of those municipalities with revenue obligations funding specific projects comprising a significantly smaller portion of the portfolio.

The net unrealized loss for this portfolio decreased to \$1.0 million at March 31, 2011 from \$1.5 million at June 30, 2010. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at March 31, 2011. (For additional information refer to Note 9 and Note 11 to consolidated financial statements.)

Securities Held to Maturity. Non-mortgage-backed securities classified as held to maturity decreased to \$157.7 million at March 31, 2011 from \$255.0 million at June 30, 2010. The net decrease in the portfolio during the period was attributable, in part, to the full repayment at par of several fixed rate, agency debentures that were called by the issuer prior to maturity and the reinvestment of a portion of those proceeds into similar securities. As discussed in greater detail in Note 5 to the consolidated financial statements, the net decrease in the portfolio was partially offset by securities acquired from Central Jersey with fair values of \$31.7 million. These securities included U.S. agency securities and municipal obligations with fair values of \$30.1 million and \$1.6 million, respectively, at the time of acquisition.

At March 31, 2011, non-mortgage-backed securities held to maturity consisted of \$154.6 million of U.S. agency debentures and \$3.2 million of municipal obligations. The agency debentures held to maturity are comprised primarily of securities with provisions allowing the issuer to call the security at par prior to maturity. Municipal obligations held to maturity are primarily comprised of non-rated, short term obligations negotiated directly with local New Jersey municipalities that are also depository customers of the Bank.

The net unrealized loss on this portfolio was \$94,000 at March 31, 2011 as compared to an unrealized gain of \$1.9 million at June 30, 2010. Based on its evaluation, management has concluded that no other-than-temporary impairment is present within this segment of the investment portfolio at March 31, 2011. (For additional information refer to Note 10 and Note 11 to consolidated financial statements.)

Loans Receivable and Real Estate Owned. Loans receivable, net of unamortized premiums, deferred costs and the allowance for loan losses, increased \$273.5 million to \$1.28 billion at March 31, 2011 from \$1.01 billion at June 30, 2010. As discussed in greater detail in Note 5 to the consolidated financial statements, the increase in the portfolio was primarily attributable to the loans acquired from Central Jersey whose fair values totaled \$347.7 million at the time of acquisition. The increase in the portfolio attributable to the acquisition of these loans was partially offset by repayments which outpaced the Company's other loan originations during the period.

Total residential mortgage loans, including one-to-four family first mortgage loans as well as home equity loans and home equity lines of credit, decreased by \$12.0 million to \$764.8 million at March 31, 2011 from \$776.8 million at June 30, 2010. The components of the aggregate decrease between comparative periods reflected increases in the balance of both home equity loans and home equity lines of credit which were the predominant form of residential mortgage loans acquired from Central Jersey. Home equity loans increased by \$15.1 million to \$116.8 million at March 31, 2011 while home equity lines of credit increased \$21.1 million to \$32.5 million at that same date.

Partially offsetting these increases was a net reduction in the balance of one-to-four family first mortgage loans which declined by \$48.2 million to \$615.6 million between the same comparative periods. The reduction in the balance of one-to-four family, first mortgage loans continues to reflect the effects of diminished demand for such loans in the marketplace arising from challenging economic conditions and declining real estate values which have adversely impacted residential real estate purchase and refinancing activity.

Commercial loans, including mortgage loans on multi-family and nonresidential properties as well as commercial business loans, increased by \$275.9 million to \$493.3 million at March 31, 2011 from \$217.4 million at June 30, 2010. The growth in commercial loans was largely attributable to the acquisition of Central Jersey whose commercial loans comprised a large majority of its loan portfolio at the time of acquisition. Similarly, the Company's balance of construction loans increased by \$12.5

million to \$27.2 million primarily reflecting the acquisition of such loans from Central Jersey, less applicable loan repayments.

Finally, other loans, primarily comprising account loans and deposit account overdraft lines of credit, increased by \$1.0 million to \$5.3 million at March 31, 2011. As above, the growth in other loans primarily reflected the acquisition of consumer loans from Central Jersey which include both secured and unsecured consumer loans.

At March 31, 2011, non-performing assets totaled \$43.0 million or 1.49% of total assets and comprised nonperforming loans totaling \$41.5 million, or 3.22% of total loans, plus five REO properties totaling \$1.5 million. The balance of nonperforming assets at March 31, 2011 included loans with outstanding balances of \$12.4 million, net of fair value adjustments, and three REO properties totaling \$1.2 million that were acquired from Central Jersey. By comparison, at June 30, 2010 non-performing assets totaled \$21.7 million or 0.93% of total assets and comprised nonperforming loans totaling \$21.6 million, or 2.13% of total loans, plus two REO properties totaling \$146,000.

The reported increase in nonperforming loans between periods included the addition of one \$4.0 million secured interest-only commercial business loan originally acquired from Central Jersey that was 90 days past maturity at March 31, 2011. The loan continued to make interest payments at the contractual rate from its original maturity date of January 1, 2011 through March 31, 2011 and was refinanced into a fully amortizing loan at current market terms effective April 1, 2011 at which time the loan returned to performing status.

Note 12 to the consolidated financial statements presents a tabular overview of the metrics used by the Company to measure, monitor and report on the quality of its loan portfolios including the loans originated and purchased by the Company and those separately acquired at fair value. For each portfolio, the presentation summarizes the outstanding balance of the applicable loans by classification, contractual payment status, performance status and impairment status. Each of the tables presents outstanding loan balances grouped into the primary categories used by the Company to evaluate credit risk including: residential mortgage loans, commercial mortgage loans, construction loans, commercial business loans, home equity loans, home equity lines of credit and other consumer loans. The presentation includes a narrative overview of the Company's allowance for loan loss calculation methodology coupled with a tabular presentation of the Company's allowance for loan loss and related outstanding loan balances by risk category at March 31, 2011.

Mortgage-backed Securities Available for Sale. Mortgage-backed securities available for sale, all of which are government agency pass-through certificates and collateralized mortgage obligations ("CMOs"), increased \$232.7 million to \$936.2 million at March 31, 2011 from \$703.5 million at June 30, 2010. The net increase reflected, in part, the addition of mortgage-backed securities with fair values of \$34.4 million acquired from Central Jersey. The remainder of the increase in the portfolio primarily reflected the Company's purchases of mortgage-backed securities separate from the acquisition, net of repayments, during the nine months ended March 31, 2011. The change in the portfolio between comparative periods also reflected a decline in the unrealized gain within the portfolio of \$13.2 million to \$16.8 million at March 31, 2011 from \$30.0 million at June 30, 2010.

Securities purchased for the portfolio were predominantly fixed rate securities with original maturities of 10 and 15 years. Additionally, the Bank purchased \$16.2 million of 30 year, fixed rate issues during the nine months ended March 31, 2011 that are eligible to meet the Community Reinvestment Act investment test. Based on its evaluation, management concluded that no other-than temporary impairment was present within this segment of the investment portfolio at March 31, 2011. (For additional information refer to Note 9 and Note 11 to consolidated financial statements.)

Mortgage-backed Securities Held to Maturity. Mortgage-backed securities held to maturity decreased \$302,000 to \$1.4 million at March 31, 2011 from \$1.7 million at June 30, 2010 attributable to principal repayments and security sales during the period. At March 31, 2011, the balance of mortgage-backed securities held to maturity includes both pass-through certificates and CMOs.

As noted earlier, during the quarter ended March 31, 2011 the Company sold its impaired, non-agency collateralized mortgage obligations whose credit-ratings had fallen below investment grade thereby recognizing sale proceeds and losses totaling \$34,000 and \$28,000, respectively. These securities were originally acquired as investment grade securities upon the in-kind redemption of the Bank's interest in the AMF Ultra Short Mortgage Fund during the first quarter of fiscal 2009. The ratings of these securities subsequently declined below investment grade resulting in their eligibility for sale from the held-to-maturity portfolio during quarter ended March 31, 2011.

As of March 31, 2011, the Company's remaining portfolio of non-agency CMOs totaled 12 securities with a total book value of approximately \$208,000 while the remainder of the held to maturity mortgage-backed securities portfolio was comprised of government agency mortgage pass-through securities and collateralized mortgage obligations. Based on its evaluation, management concluded that no other-than-temporary impairment was present within this segment of the investment portfolio at March 31, 2011. (For additional information refer to Notes 10 and 11 to consolidated financial statements.)

Other Assets. The increase in the balances of the Company's remaining asset categories from June 30, 2010 to March 31, 2011 largely reflected additions resulting from the acquisition of Central Jersey. The additions to premises and equipment, Federal Home Loan Bank stock, accrued interest receivable, goodwill, bank owned life insurance, net deferred income tax assets, where applicable, and other assets resulting from the acquisition are summarized in Note 5 to the consolidated financial statements.

Deposits. Deposits increased \$517.4 million to \$2.14 billion at March 31, 2011 from \$1.62 billion at June 30, 2010. Growth was reported across all categories of deposits and was attributable to organic growth in deposits as well as increases attributable to the acquisition of Central Jersey. The fair value of deposits acquired from Central Jersey totaled \$476.8 million at the time of acquisition.

For the nine months ended March 31, 2011, non-interest-bearing demand deposits increased \$79.4 million to \$133.1 million, interest-bearing demand deposits increased \$190.7 million to \$446.8 million, savings deposits increased \$64.4 million to \$398.6 million and certificates of deposit increased \$182.9 million to \$1.16 billion.

The growth in interest-bearing checking accounts continues to reflect the promotion of the Bank's "High Yield Checking" product which is designed to attract core deposits in the form of customers' primary checking accounts through interest rate and fee reimbursement incentives to qualifying customers. The explicit increase in interest expense associated with the "High Yield Checking" product is expected to be partially offset by an associated increase in transaction fee income.

Borrowings. The outstanding balance of the Company's borrowings increased by \$44.9 million to \$254.9 million at March 31, 2011 from \$210.0 million at June 30, 2010. The reported increase reflected the acquisition of borrowings from Central Jersey with total fair values of \$54.2 million at the time of acquisition. The borrowings acquired, including fair value adjustments, included advances from the Federal Home Loan Bank of New York totaling \$11.6 million and outstanding overnight "sweep account" balances linked to customer demand deposits totaling \$37.5 million at the time of acquisition. Overnight sweep account balances increased to \$38.3 million at March 31, 2011.

Acquired borrowings also included outstanding subordinated debt totaling \$5.2 million relating to the Central Jersey's prior issuance of trust preferred securities which remained outstanding at March 31, 2011. In April 2011, the Company paid off the subordinated debt at par by calling the trust preferred securities in accordance with the terms of the securities agreements.

The increase in borrowings attributable to the factors noted above was partially offset by the repayment of a \$10.0 million advance during the quarter ended March 31, 2011.

Stockholders' Equity. During the nine months ended March 31, 2011, stockholders' equity decreased \$6.6 million to \$479.3 million from \$485.9 million at June 30, 2010. The decrease was largely attributable to a decline in the unrealized gain in the available for sale securities portfolios which was the largest contributor to the \$7.6 million decline in accumulated other comprehensive income. The decline in stockholders' equity also reflected a \$3.3 million increase in treasury stock resulting from the repurchase of 368,800 shares of the Company's common stock during the first three months of fiscal 2011 as well as a \$2.4 million cash dividend to minority shareholders. Partially offsetting these factors was net income for the period of \$4.0 million as well as other increases to stockholders' equity attributable to benefit plan related adjustments and ESOP shares earned.

Comparison of Operating Results for the Three Months Ended March 31, 2011 and March 31, 2010

General. The Company reported net income of \$2.7 million for the three months ended March 31, 2011 or \$0.04 per diluted share; an increase of \$824,000 compared to net income of \$1.9 million, or \$0.03 per diluted share for the three months ended March 31, 2010. The increase in net income between comparative quarters was primarily attributable to the Company's acquisition of Central Jersey which was completed on November 30, 2010 and resulted in increases to net interest income and non-interest income that were partially offset by an increase in non-interest expense. The aggregate increase in net income attributable to these factors was partially offset by an increase in the provision for loan losses. In total, these factors resulted in an overall increase in pre-tax income and the provision for income taxes.

Net Interest Income. Net interest income for the three months ended March 31, 2011 was \$18.5 million, an increase of \$3.7 million from \$14.8 million for the three months ended March 31, 2010. The increase in net interest income between the comparative periods resulted from an increase in interest income coupled with a concurrent decrease in interest expense. In general, the increase in interest income was primarily attributable to comparative increases in the overall average balance of interest-earning assets that were partially offset by an overall decrease in their yield between comparative periods. The decrease in interest expense reflected a continued decline in the cost of deposits. Such declines resulted from the downward re-pricing of certificates of deposit as well as reductions in the rates paid on non-maturity deposits. The decline in the rates paid more than offset the additional interest expense resulting from an increase in the average balance of interest-bearing deposits.

As a result of these factors, the Company's net interest rate spread increased five basis points to 2.60% for the three months ended March 31, 2011 from 2.55% for the three months ended March 31, 2010. The increase in the net interest rate spread reflected a 64 basis point decrease in the cost of interest-bearing liabilities to 1.41% from 2.05% that was partially offset by a decline in the yield on earning assets of 59 basis points to 4.01% from 4.60% for the same comparative periods. A discussion of the factors contributing to the overall change in yield on earning assets and cost of interest-bearing liabilities is presented in the separate discussion and analysis of interest income and interest expense below.

The factors contributing to the increase in net interest rate spread were also reflected in the Company's net interest margin. However, their effects were more than offset by other factors resulting in

an 11 basis points decline in the Company's net interest margin to 2.81% for the three months ended March 31, 2011 from 2.92% for the three months ended March 31, 2010. The offsetting factors resulting in the decline in net interest margin include the foregone interest income associated with use of earning assets to fund the Company's share repurchase programs and an overall increase in non-interest earning assets such as goodwill. For the three months ended March 31, 2011, the average balance of treasury stock increased \$8.7 million to \$58.1 million from \$49.4 million for the three months ended March 31, 2010. For those same comparative periods, the Company's average balance of goodwill increased by \$26.2 million to \$108.5 million from \$82.3 million. The reported increase in the average balance of goodwill resulted from the acquisition of Central Jersey.

Interest Income. Total interest income increased \$3.1 million to \$26.4 million for the three months ended March 31, 2011 from \$23.3 million for the three months ended March 31, 2010. As noted above, the increase in interest income reflected a \$611.3 million increase in the average balance of interest-earning assets to \$2.63 billion for the three months ended March 31, 2011 from \$2.02 billion for the three months ended March 31, 2010. The increase to interest income resulting from the higher average balance of interest-earning assets was partially offset by a 59 basis point decline in their average yield to 4.01% from 4.60% for those same comparative periods.

Interest income from loans increased \$3.0 million to \$17.4 million for the three months ended March 31, 2011 from \$14.4 million for the three months ended March 31, 2010. The increase in interest income on loans was attributable to an increase in their average balance that was partially offset by a decline in their average yield.

The average balance of loans increased by \$285.3 million to \$1.30 billion for the three months ended March 31, 2011 from \$1.02 billion for the three months ended March 31, 2010. The reported increase in the average balance of loans included a \$734,000 increase in the average balance of residential mortgage loans to \$777.8 million for the three months ended March 31, 2011 from \$777.1 million for the three months ended March 31, 2010. The Company's residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit. The modest increase in the average balance of residential mortgage loans reflected the addition of loans acquired from Central Jersey. However, that growth was largely offset by other net reductions in the portfolio resulting from diminished residential loan demand by qualified borrowers coupled with the Company's disciplined pricing for such loans in the face of aggressive pricing in the marketplace for certain loan products.

By contrast, the Company reported a net increase of \$288.1 million in the average aggregate balance of commercial loans to \$509.4 million from \$221.3 million for those same comparative periods. The Company's commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans. The increase largely reflects the Company's acquisition of Central Jersey and, to a lesser degree, the organic growth resulting from its long-term expanded strategic emphasis in commercial lending.

The increase in interest income on loans attributable to the increase in their average balances was partially offset by a decrease in their average yields which declined 33 basis points to 5.34% for the three months ended March 31, 2011 from 5.67% for the three months ended March 31, 2010. The reduction in the overall yield on the Company's loan portfolio generally reflects the effect of lower market interest rates which provides "rate reduction" refinancing incentive to borrowers while also contributing to the downward re-pricing of adjustable rate loans.

In general, because the Company's commercial loans comprise comparatively higher yielding multi-family mortgages, nonresidential mortgage loans and business loans, the continued reallocation within the loan portfolio from residential mortgages into commercial loans partially offset the adverse

impact of lower market interest rates on the overall yield of the loan portfolio between the comparative periods. However, the incremental impact on the average yield of the loan portfolio resulting specifically from the Central Jersey acquisition reflects loans being acquired at their fair value and the ongoing recognition of interest income on those acquired loans at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from mortgage-backed securities decreased \$361,000 to \$7.1 million for the three months ended March 31, 2011 from \$7.5 million for the three months ended March 31, 2010. The decrease in interest income reflected a decrease in the average yield on mortgage-backed securities that was partially offset by an increase in their average balance. The average yield on mortgage-backed securities declined 98 basis points to 3.36% for the three months ended March 31, 2011 from 4.34% for the three months ended March 31, 2010. For those same comparative periods, the average balance of the securities increased \$157.8 million to \$846.9 million from \$689.1 million.

The increase in the average balance of mortgage-backed securities reflects, in part, security purchases that have outpaced the level of principal repayments and security sales. However, the increase in the average balance of mortgage-backed securities also reflects the addition of securities resulting from the acquisition of Central Jersey.

The reduction in the overall yield of the mortgage-backed securities portfolio is attributable to many of the same factors affecting the yield on the Company's loan portfolio. That is, lower market interest rates have continued to provide a "rate reduction" refinancing incentive to mortgagors resulting in the pay off of comparatively higher rate mortgage loans underlying the Company's mortgage-backed securities which have been replaced by lower yield securities. Additionally, the yields on mortgage-backed securities acquired from Central Jersey reflect their acquisition at fair value and the ongoing recognition of interest income at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from non-mortgage-backed securities increased \$479,000 to \$1.6 million for the three months ended March 31, 2011 from \$1.1 million for the three months ended March 31, 2010. The increase in interest income reflected an increase in the average balance of non-mortgage-backed securities partially offset by a decline in their average yield. The average balance of these securities increased \$176.7 million to \$336.8 million for the three months ended March 31, 2011 from \$160.1 million for the three months ended March 31, 2010. For those same comparative periods, the average yield on non-mortgage-backed securities decreased by 93 basis points to 1.93% from 2.86%.

The increase in the average balance of non-mortgage backed securities was partly attributable to a \$90.2 million increase in the average balance of taxable securities to \$232.1 million during the three months ended March 31, 2011 from \$141.9 million for the three months ended March 31, 2010. For those same comparative periods, the average balance of tax-exempt securities increased by \$86.6 million to \$104.7 million from \$18.1 million. The net change in the average yield on non-mortgage backed securities reflected a decrease of 66 basis points in the yield of taxable securities to 2.12% during the three months ended March 31, 2011 from 2.78% during the three months ended March 31, 2010 while the average yield on tax-exempt securities declined 197 basis points to 1.50% from 3.47%.

The reduction in the overall yield of the non-mortgage-backed securities portfolio is also attributable to many of the same factors affecting the yield on the Company's loan and mortgage-backed securities portfolios. These factors include the effects of lower market interest rates on the portfolio as funds are reinvested at lower market interest rates. Similarly, the yields on non-mortgage-backed securities acquired from Central Jersey reflect their acquisition at fair value and the ongoing recognition

of interest income at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from other interest-earning assets increased \$59,000 to \$275,000 for the three months ended March 31, 2011 from \$216,000 for the three months ended March 31, 2010. The increase in interest income was primarily attributable to an increase in the average yield of other interest-earning assets that was partially offset by a decline in their average balance. The average yield on other interest-earning assets increased 19 basis points to 0.75% for the three months ended March 31, 2011 from 0.56% for the three months ended March 31, 2010. For those same comparative periods, the average balance of other interest-earning assets decreased by \$8.6 million to \$146.4 million from \$155.0 million.

Interest Expense. Total interest expense decreased \$580,000 to \$7.9 million for the three months ended March 31, 2011 from \$8.5 million for the three months ended March 31, 2010. As noted earlier, the decrease in interest expense reflected a decrease in the average cost of interest-bearing liabilities which declined 64 basis points to 1.41% for the three months ended March 31, 2011 from 2.05% for the three months ended March 31, 2010. The decrease in the average cost was partially offset by an increase in the average balance of interest-bearing liabilities of \$590.1 million to \$2.3 billion from \$1.7 billion for the same comparative period.

Interest expense attributed to deposits decreased \$608,000 to \$5.9 million for the three months ended March 31, 2011 from \$6.5 million for the three months ended March 31, 2010. The decrease in interest expense was attributable to a decline in the average cost of deposits that was partially offset by an increase in their average balance.

The cost of interest-bearing deposits declined by 61 basis points to 1.17% for the three months ended March 31, 2011 from 1.78% for the three months ended March 31, 2010. The reported decrease in the average cost was reflected across all categories of interest-bearing deposits and was primarily attributable to the overall declines in market interest rates. For those comparative periods, average cost of interest-bearing checking accounts decreased by 28 basis points to 0.85% from 1.13%, the average cost of savings accounts decreased 53 basis points to 0.48% from 1.01% while the average cost of certificates of deposit declined 66 basis points to 1.53% from 2.19%.

The decrease in the average cost was partially offset by a \$548.2 million increase in the average balance of interest-bearing deposits to \$2.00 billion for the three months ended March 31, 2011 from \$1.46 billion for the three months ended March 31, 2010. The reported increase in the average balance was represented across all categories of interest-bearing deposits and reflected the Company's acquisition of Central Jersey coupled with its strategic efforts to increase its organic deposit base. For those same comparative periods, the average balance of interest-bearing checking accounts increased \$248.5 million to \$449.1 million from \$200.6 million, the average balance of savings accounts increased \$75.2 million to \$394.4 million from \$319.2 million and the average balance of certificates of deposit increased \$224.4 million to \$1.16 billion from \$935.7 million.

Interest expense attributed to borrowings increased by \$26,000 to \$2.1 million for the three months ended March 31, 2011 from \$2.0 million for the three months ended March 31, 2010. The increase in interest expense on borrowings reflected a \$42.0 million increase in the average balance of borrowings to \$252.0 million for the three months ended March 31, 2011 from \$210.0 million for the three months ended March 31, 2010. The increase in interest expense attributable to the increase in average balance was partially offset by a decline in their average cost. For those same comparative periods, the cost of borrowings declined 61 basis points to 3.26% from 3.87%.

The components of the increase in the average balance of borrowings includes a \$2.8 million increase in the average balance of FHLB advances to \$212.8 million for the three months ended March 31, 2011 from \$210.0 million for the three months ended March 31, 2010. The increase in the average balance of borrowings also reflects the average balances of other borrowings totaling \$39.2 million during the three months ended March 31, 2011. Other borrowings include depositor sweep accounts and subordinated debt assumed from Central Jersey for which no comparable balances were maintained by the Company during the earlier comparative period.

Provision for Loan Losses. The provision for loan losses increased \$500,000 to \$1.4 million for the three months ended March 31, 2011 from \$891,000 for the three months ended March 31, 2010. The provision in the current period reflected changes in the Company's methodology for measuring the impairment associated with collateral dependent loans. In measuring the impairment associated with such loans, the fair value of the real estate collateralizing the loan is generally used as a measurement proxy for that of the impaired loan itself as a practical expedient. Such values are generally determined based upon a discounted market value obtained through an automated valuation module or prepared by a qualified, independent real estate appraiser.

As supported by accounting and regulatory guidance, the Company has traditionally reduced the fair value of the collateral by estimated selling costs, such as real estate brokerage commissions, to measure impairment when such costs are expected to reduce the cash flows available to repay the loan. During the current quarter, the Company expanded the scope of such costs to also include, where applicable, estimated foreclosure and repossession costs, collateral carrying costs such as real estate taxes and insurance, and various title transfer and insurance fees.

The Company estimates that consideration of these additional estimated costs in its allowance for loan loss calculation methodology increased the provision for loan losses recognized during the quarter ended March 31, 2011 by approximately \$1.1 million. While the revised methodology was applied to all impaired, collateral dependent loans, the increases in estimated impairments and resulting additions to specific valuation allowances were largely attributable to the impaired residential mortgage loans originally acquired from Countrywide Home Loans, Inc. Such loans continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP where the collections and foreclosure processes have been subjected to extended delays.

In addition to the increases noted above, the provision also reflected net increases to balances of general valuation allowances attributable to the application of historical and environmental loss factors to the remaining non-impaired portion of the loan portfolio in accordance with the Company's allowance for loan loss calculation methodology.

Non-Interest Income. Total non-interest income increased \$547,000 to \$1.1 million for the three months ended March 31, 2011 from \$510,000 for the three months ended March 31, 2010. The increase in noninterest income included increases in loan-related, deposit-related and branch/ATM-related fees and charges totaling \$414,000, coupled with an increase in income from bank owned life insurance totaling \$54,000, that were largely attributable to the acquisition of Central Jersey and the recognition of non-interest income originating through the CJB Division. These increases were augmented by the recognition of \$35,000 in gain on sale of loans originated through the CJB Division during the quarter ended March 31, 2011 for which no such income was recognized during the earlier comparative quarter.

The net increase in noninterest income noted above was further augmented by the absence in the current period of other-than-temporary impairment charges as compared to \$53,000 of such charges relating to non-investment grade, non-agency CMOs that were recorded during the earlier comparative quarter. However, the Company did recognize a \$28,000 loss on sale of securities during the quarter

ended March 31, 2011 attributable to the sale of a small portion of non-agency collateralized mortgage obligations whose credit ratings had deteriorated below investment grade.

Non-Interest Expenses. Non-interest expenses increased \$3.3 million to \$14.5 million for the three months ended March 31, 2011 from \$11.2 million for the three months ended March 31, 2010. The increase in non-interest expense included the recognition of \$225,000 in merger-related expenses during the quarter ended March 31, 2011 for which no such expenses were recognized during the earlier comparative period. The residual merger-related costs recognized during the current period included legal, audit and accounting and other professional and service provider fees.

In addition to the increase in merger-related expenses, the increase in operating expenses between these comparative periods also reflected increases in other non-interest expenses that were attributable, in varying degrees, to the integration and ongoing operation of the CJB Division for the full quarter ended March 31, 2011.

Salaries and employee benefits increased by \$1.3 million to \$8.1 million from \$6.8 million reflecting increases in salaries, benefits and payroll tax expenses. These increases were largely attributable to the staffing additions resulting from the acquisition of Central Jersey coupled with other increases in compensation and health care costs. These increases were partially offset by reductions in ESOP expense resulting from declines in the Company's stock price and a reduction in stock benefit plan expenses resulting from the completed vesting and related expensing of such benefits for officers during the quarter ended December 31, 2010.

Net occupancy expense of premises increased by \$671,000 to \$1.8 million for the three months ended March 31, 2011 from \$1.2 million for the three months ended March 31, 2010 while equipment and system expense increased \$599,000 to \$1.7 million from \$1.1 million for those same comparative periods. The increase in these expenses largely reflects the Company's additional facilities, equipment and systems-related costs of integrating and operating the CJB Division for the full quarter ended March 31, 2011.

For the comparative periods noted, advertising and marketing expenses increased by \$41,000 to \$252,000 from \$211,000. The increases reflected advertising costs associated with the CJB Division as well as increases in other advertising and marketing expenditures for the period.

Federal deposit insurance premium expense increased by \$494,000 to \$861,000 from \$367,000 reflecting the combined effects of several factors including the additional insurance costs relating to the deposits acquired from Central Jersey and the continued organic growth in the Bank's balance of insurable deposits coupled with a comparative increase in the premium rates charged by the FDIC per dollar of insurable deposit.

Finally, miscellaneous expenses increased by \$322,000 to \$1.3 million from \$1.0 million for the comparative periods noted reflecting net increases in general and administrative costs, a portion of which were attributable to the ongoing operation of the CJB Division.

Partially offsetting these increases was a \$385,000 reduction in director compensation expense to \$174,000 from \$559,000 primarily attributable to a decline in stock benefit plan expenses resulting from the completed vesting and related expensing of such benefits for directors during the quarter ended December 31, 2010.

Provision for Income Taxes. The provision for income taxes decreased \$326,000 to \$998,000 for the three months ended March 31, 2011 from \$1.3 million for the three months ended March 31, 2010.

The variance in income taxes between comparative quarters was attributable, in part, to underlying differences in pre-tax income coupled with an increase in tax favored sources of income from municipal obligations and bank owned life insurance attributable to the acquisition of Central Jersey. The variance also reflects other adjustments to estimated accruals including, but not limited to, a \$173,000 reduction of expense associated with finalizing the income tax returns for the prior year. The Company's effective tax rate during the three months ended March 31, 2011 was 27.1% in comparison to the 41.5% reported for the three months ended March 31, 2010.

Comparison of Operating Results for the Nine Months Ended March 31, 2011 and March 31, 2010

General. The Company reported net income of \$4.0 million for the nine months ended March 31, 2011 or \$0.06 per diluted share; a decrease of \$782,000 compared to \$4.8 million, or \$0.07 per diluted share for the nine months ended March 31, 2010. The decrease in net income between comparative periods was primarily attributable to an increase in noninterest expense, including merger-related expenses, attributable to the Company's acquisition of Central Jersey which was completed on November 30, 2010 and an increase in the provision for loan losses. These factors were partially offset by comparative increases in net interest income and non-interest income. In total, these factors resulted in an overall decrease in pre-tax income and the provision for income taxes.

Net Interest Income. Net interest income for the nine months ended March 31, 2011 was \$48.9 million, an increase of \$6.5 million from \$42.4 million for the nine months ended March 31, 2010. The increase in net interest income between the comparative periods resulted from a decrease in interest expense coupled with a concurrent increase in interest income. In general, the decrease in interest expense reflected a continued decline in the cost of deposits. Such declines resulted from the downward re-pricing of certificates of deposit as well as reductions in the rates paid on non-maturity deposits. The decline in the rates paid more than offset the additional interest expense resulting from an increase in the average balance of interest-bearing deposits. The increase in interest income was primarily attributable to comparative increases in the overall average balance of interest-earning assets coupled with reallocations within interest-earning assets from lower yielding categories, such as other interest-earning assets, to higher yielding categories, such as loans and mortgage-backed and non-mortgage-backed securities. These factors more than offset the reduction in interest income resulting from an overall decrease in the yield on interest-earning assets between comparative periods.

As a result of these factors, the Company's net interest rate spread increased five basis points to 2.51% for the nine months ended March 31, 2011 from 2.46% for the nine months ended March 31, 2010. The increase in the net interest rate spread reflected a 64 basis point decline in the cost of interest-bearing liabilities to 1.62% from 2.26% that was partially offset by a decrease in the yield on earning assets of 59 basis points to 4.13% from 4.72% for the same comparative periods. A discussion of the factors contributing to the overall change in yield on earning assets and cost of interest-bearing liabilities is presented in the separate discussion and analysis of interest income and interest expense below.

The factors contributing to the increase in net interest rate spread were also reflected in the Company's net interest margin. However, their effects were more than offset by other factors resulting in a 11 basis points decline in the Company's net interest margin to 2.75% for the nine months ended March 31, 2011 from 2.86% for the nine months ended March 31, 2010. The offsetting factors resulting in the decline in net interest margin include the foregone interest income associated with use of earning assets to fund the Company's share repurchase programs and an overall increase in non-interest earning assets such as goodwill. For the nine months ended March 31, 2011, the average balance of treasury stock increased \$9.6 million to \$57.5 million from \$47.9 million for the nine months ended March 31, 2010. For those same comparative periods, the Company's average balance of goodwill increased by \$11.6 million to \$93.9 million from \$82.3 million. The reported increase in the average balance of goodwill resulted from the acquisition of Central Jersey.

Interest Income. Total interest income increased \$3.3 million to \$73.4 million for the nine months ended March 31, 2011 from \$70.1 million for the nine months ended March 31, 2010. As noted above, the increase in interest income reflected a \$391.4 million increase in the average balance of interest-earning assets to \$2.37 billion for the nine months ended March 31, 2011 from \$1.98 billion for the nine months ended March 31, 2010. The increase to interest income resulting from the higher average balance of interest-earning assets was partially offset by a 59 basis point decline in their average yield to 4.13% from 4.72% for those same comparative periods.

Interest income from loans increased \$2.0 million to \$46.1 million for the nine months ended March 31, 2011 from \$44.1 million for the nine months ended March 31, 2010. The increase in interest income was attributable to a decline in the average yield on loans that was partially offset by an increase in their average balance.

The average yield on loans decreased by 26 basis points to 5.40% for the nine months ended March 31, 2011 from 5.66% for the nine months ended March 31, 2010. The reduction in the overall yield on the Company's loan portfolio generally reflects the effect of lower market interest rates which provides "rate reduction" refinancing incentive to borrowers while also contributing to the downward re-pricing of adjustable rate loans.

In general, because the Company's commercial loans comprise comparatively higher yielding multi-family mortgages, nonresidential mortgage loans and business loans, the continued reallocation within the loan portfolio from residential mortgages into commercial loans partially offset the adverse impact of lower market interest rates on the overall yield of the loan portfolio between the comparative periods. However, the incremental impact on the average yield of the loan portfolio resulting specifically from the Central Jersey acquisition reflects loans being acquired at their fair value and the ongoing recognition of interest income on those acquired loans at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

The impact on interest income resulting from the decline in average yield on loans was partially offset by an increase in their average balance. The average balance of loans increased by \$100.0 million to \$1.14 billion for the nine months ended March 31, 2011 from \$1.04 billion for the nine months ended March 31, 2010.

Within the reported increase in the average balance of loans, the Company reported a \$29.5 million reduction in the average balance of residential mortgage loans to \$768.7 million for the nine months ended March 31, 2011 from \$798.2 million for the nine months ended March 31, 2010. The Company's residential mortgages generally comprise one-to-four family first mortgage loans, home equity loans and home equity lines of credit. As noted earlier, the decline reflected the continued diminished residential loan demand by qualified borrowers coupled with the Company's disciplined pricing for such loans in the face of aggressive pricing in the marketplace for certain loan products.

By contrast, the Company reported a net increase of \$132.6 million in the average aggregate balance of commercial loans to \$352.5 million from \$219.9 million for those same comparative periods. The Company's commercial loans generally comprise commercial mortgage loans, including multi-family and nonresidential mortgage loans, as well as secured and unsecured commercial business loans. The increase largely reflects the Company's acquisition of Central Jersey and, to a lesser degree, the organic growth resulting from its long-term expanded strategic emphasis in commercial lending.

Interest income from mortgage-backed securities decreased \$1.6 million to \$21.8 million for the nine months ended March 31, 2011 from \$23.4 million for the nine months ended March 31, 2010. The decrease in interest income reflected a decrease in the average yield on mortgage-backed securities that

was partially offset by an increase in their average balance. The average yield on mortgage-backed securities declined 98 basis points to 3.58% for the nine months ended March 31, 2011 from 4.56% for the nine months ended March 31, 2010. For those same comparative periods, the average balance of the securities increased \$128.6 million to \$812.2 million from \$683.6 million.

The increase in the average balance of mortgage-backed securities reflects, in part, security purchases that have outpaced the level of principal repayments and security sales. However, the increase in the average balance of mortgage-backed securities also reflects the addition of securities resulting from the acquisition of Central Jersey.

The reduction in the overall yield of the mortgage-backed securities portfolio is attributable to many of the same factors affecting the yield on the Company's loan portfolio. That is, lower market interest rates have continued to provide a "rate reduction" refinancing incentive to mortgagors resulting in the pay off of comparatively higher rate mortgage loans underlying the Company's mortgage-backed securities. Simultaneously, lower market interest rates have resulted in the downward re-pricing of loans underlying the Company's adjustable rate mortgage-backed securities. Similarly, the yields on mortgage-backed securities acquired from Central Jersey reflect their acquisition at fair value and the ongoing recognition of interest income at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from non-mortgage-backed securities increased \$2.8 million to \$4.8 million for the nine months ended March 31, 2011 from \$2.0 million for the nine months ended March 31, 2010. The increase in interest income reflected an increase in the average balance of non-mortgage-backed securities partially offset by a decline in their average yield. The average balance of these securities increased \$217.6 million to \$305.0 million for the nine months ended March 31, 2011 from \$87.4 million for the nine months ended March 31, 2010. For those same comparative periods, the average yield on non-mortgage-backed securities decreased by 91 basis point to 2.10% from 3.01%.

The increase in the average balance of non-mortgage backed securities was partly attributable to a \$178.4 million increase in the average balance of taxable securities to \$247.7 million during the nine months ended March 31, 2011 from \$69.3 million for the nine months ended March 31, 2010. For those same comparative periods, the average balance of tax-exempt securities increased by \$39.2 million to \$57.3 million from \$18.1 million. The net change in the average yield on non-mortgage backed securities reflected a decrease of 73 basis points in the yield of taxable securities to 2.16% during the nine months ended March 31, 2011 from 2.89% during the nine months ended March 31, 2010 while the average yield on tax-exempt securities declined 165 basis points to 1.83% from 3.48%.

The reduction in the overall yield of the non-mortgage-backed securities portfolio is also attributable to many of the same factors affecting the yield on the Company's loan and mortgage-backed securities portfolios. These factors include the effects of lower market interest rates on the portfolio as funds are reinvested at lower market interest rates. Similarly, the yields on non-mortgage-backed securities acquired from Central Jersey reflect their acquisition at fair value and the ongoing recognition of interest income at yields that reflect the historically low interest rates prevalent in the marketplace at the time of acquisition.

Interest income from other interest-earning assets increased \$34,000 to \$695,000 for the nine months ended March 31, 2011 from \$661,000 for the nine months ended March 31, 2010. The increase in interest income was attributable to an increase in the average yield on other interest-earning assets that was partially offset by a decrease in their average balance. The average balance of other interest-earning assets decreased by \$54.9 million to \$115.8 million for the nine months ended March 31, 2011

from \$170.7 million for the nine months ended March 31, 2010. For those same comparative periods, the average yield on other interest-earning assets increased by 28 basis points to 0.80% from 0.52%.

Interest Expense. Total interest expense decreased \$3.2 million to \$24.5 million for the nine months ended March 31, 2011 from \$27.7 million for the nine months ended March 31, 2010. As noted earlier, the decrease in interest expense reflected a decrease in the average cost of interest-bearing liabilities which declined 64 basis points to 1.62% for the nine months ended March 31, 2011 from 2.26% for the nine months ended March 31, 2010. The decrease in the average cost was partially offset by an increase in the average balance of interest-bearing liabilities of \$384.2 million to \$2.02 billion from \$1.63 billion for the same comparative periods.

Interest expense attributed to deposits decreased \$3.3 million to \$18.2 million for the nine months ended March 31, 2011 from \$21.5 million for the nine months ended March 31, 2010. The decrease in interest expense was attributable to a decline in the average cost of deposits that was partially offset by an increase in their average balance.

The cost of interest-bearing deposits declined by 65 basis points to 1.36% for the nine months ended March 31, 2011 from 2.01% for the nine months ended March 31, 2010. The reported decrease in the average cost was reflected across all categories of interest-bearing deposits and was primarily attributable to the overall declines in market interest rates. For those comparative periods, average cost of interest-bearing checking accounts decreased by 19 basis points to 0.95% from 1.14%, the average cost of savings accounts decreased 40 basis points to 0.63% from 1.03% while the average cost of certificates of deposit declined 77 basis points to 1.75% from 2.52%.

The decrease in the average cost was partially offset by a \$357.7 million increase in the average balance of interest-bearing deposits to \$1.78 billion for the nine months ended March 31, 2011 from \$1.42 billion for the nine months ended March 31, 2010. The reported increase in the average balance was represented across all categories of interest-bearing deposits and reflected the Company's acquisition of Central Jersey coupled with its strategic efforts to increase its organic deposit base. For those same comparative periods, the average balance of interest-bearing checking accounts increased \$169.9 million to \$355.6 million from \$185.7 million, the average balance of savings accounts increased \$51.3 million to \$362.4 million from \$311.1 million and the average balance of certificates of deposit increased \$136.6 million to \$1.06 billion from \$926.3 million.

Interest expense attributed to borrowings increased by \$97,000 to \$6.3 million for the nine months ended March 31, 2011 from \$6.2 million for the nine months ended March 31, 2010. The increase in interest expense on borrowings reflected a \$26.5 million increase in the average balance of borrowings to \$236.5 million for the nine months ended March 31, 2011 from \$210.0 million for the nine months ended March 31, 2010. The increase in interest expense attributable to the increase in average balance was partially offset by a decline in their average cost. For those same comparative periods, the cost of borrowings declined 38 basis points to 3.54% from 3.92%.

The components of the increase in the average balance of borrowings includes a \$9.0 million increase in the average balance of FHLB advances to \$219.0 million for the nine months ended March 31, 2011 from \$210.0 million for the nine months ended March 31, 2010. The increase in the average balance of borrowings also reflects the average balances of other borrowings totaling \$17.5 million during the nine months ended March 31, 2011. Other borrowings include depositor sweep accounts and subordinated debt assumed from Central Jersey for which no comparable balances were maintained by the Company during the earlier comparative period.

Provision for Loan Losses. The provision for loan losses increased \$1.1 million to \$3.5 million for the nine months ended March 31, 2011 from \$2.4 million for the nine months ended March 31, 2010. In addition to provisions resulting from the overall increase in the level of impaired loans during the nine months ended March 31, 2011, the provision in the current period reflected changes in the Company's methodology for measuring the impairment associated with collateral dependent loans. In measuring the impairment associated with such loans, the fair value of the real estate collateralizing the loan is generally used as a measurement proxy for that of the impaired loan itself as a practical expedient. Such values are generally determined based upon a discounted market value obtained through an automated valuation module or prepared by a qualified, independent real estate appraiser.

As supported by accounting and regulatory guidance, the Company has traditionally reduced the fair value of the collateral by estimated selling costs, such as real estate brokerage commissions, to measure impairment when such costs are expected to reduce the cash flows available to repay the loan. During the current quarter, the Company expanded the scope of such costs to also include, where applicable, estimated foreclosure and repossession costs, collateral carrying costs such as real estate taxes and insurance, and various title transfer and insurance fees.

The Company estimates that consideration of these additional estimated costs in its allowance for loan loss calculation methodology increased the provision for loan losses recognized during the quarter ended March 31, 2011 by approximately \$1.1 million. While the revised methodology was applied to all impaired, collateral dependent loans, the increases in estimated impairments and resulting additions to specific valuation allowances were largely attributable to the impaired residential mortgage loans originally acquired from Countrywide Home Loans, Inc. Such loans continue to be serviced by their acquirer, Bank of America through its subsidiary, BAC Home Loans Servicing, LP where the collections and foreclosure processes have been subjected to extended delays.

In addition to the increases noted above, the provision also reflected net increases to balances of general valuation allowances attributable to the application of historical and environmental loss factors to the remaining non-impaired portion of the loan portfolio in accordance with the Company's allowance for loan loss calculation methodology.

Non-Interest Income. Total non-interest income increased \$917,000 to \$2.5 million for the nine months ended March 31, 2011 from \$1.5 million for the nine months ended March 31, 2010. The increase in noninterest income included increases in loan-related, deposit-related and branch/ATM-related fees, charges and miscellaneous income totaling \$598,000, coupled with an increase in income from bank owned life insurance totaling \$112,000, that were largely attributable to the acquisition of Central Jersey and the recognition of non-interest income originating through the CJB Division. These increases were augmented by the recognition of \$47,000 in gain on sale of loans originated through the CJB Division during the current period for which no such income was recognized during the earlier comparative period.

The net increase in noninterest income noted above was further augmented by the absence in the current period of other-than-temporary impairment charges compared to \$206,000 of such charges relating to non-investment grade, non-agency CMOs that were recorded during the earlier comparative period. However, the Company did recognize a \$28,000 loss on sale of securities during the current period attributable to the sale of a small portion of non-agency collateralized mortgage obligations whose credit ratings had deteriorated below investment grade. The noted increases in noninterest income were also partially offset by an increase in net expenses of \$32,000 relating to the operation and sale of real estate owned.

Non-Interest Expenses. Non-interest expenses increased \$8.1 million to \$41.5 million for the nine months ended March 31, 2011 from \$33.4 million for the nine months ended March 31, 2010. The

increase in non-interest expense was attributable, in part, to the acquisition of Central Jersey and the resulting recognition of \$3.4 million of non-recurring merger-related expenses during the nine months ended March 31, 2011 for which no such expenses were recognized during the earlier comparative period. Merger-related expenses included legal, investment banking and other professional service fees as well as employment and service provider severance charges.

In addition to the increase in merger-related expenses, the increase in operating expenses between the nine months ended March 31, 2011 compared to the nine months ended March 31, 2010 also reflected increases in other non-interest expenses that were attributable, in varying degrees, to the integration and ongoing operation of the CJB Division since the acquisition closing date of November 30, 2010.

Salaries and employee benefits increased by \$2.3 million to \$22.4 million from \$20.1 million reflecting increases in salaries, benefits and payroll tax expenses. These increases were partly attributable to the staffing additions resulting from the acquisition of Central Jersey coupled with other increases in compensation and health care costs. These increases were partially offset by reductions in ESOP expense resulting from declines in the Company's stock price and a reduction in employee stock benefit plan expenses resulting from the completed vesting and related expensing of such benefits for officers during the quarter ended December 31, 2010.

Net occupancy expense of premises increased by \$867,000 to \$4.0 million for the nine months ended March 31, 2011 from \$3.2 million for the nine months ended March 31, 2010 while equipment and system expense increased \$972,000 to \$4.3 million from \$3.3 million for those same comparative periods. The increase in these expenses reflects, in part, the Company's additional facilities, equipment and systems-related costs of integrating and operating the CJB Division since the acquisition closing date of November 30, 2010.

For the comparative periods noted, advertising and marketing expenses increased by \$117,000 to \$768,000 from \$651,000. The increases reflected advertising costs associated with the CJB Division as well as increases in other advertising and marketing expenditures for the period.

Federal deposit insurance premium expense increased by \$908,000 to \$1.8 million from \$917,000 reflecting the combined effects of several factors including the additional insurance costs relating to the deposits acquired from Central Jersey and the continued organic growth in the Bank's balance of insurable deposits coupled with a comparative increase in the premium rates charged by the FDIC per dollar of insurable deposit. Additionally, the expense in the earlier comparative period reflected an adjustment resulting from actual deposit insurance premium rates being lower than the rates at which the expense had been accrued in earlier periods.

Finally, miscellaneous expenses increased by \$213,000 to \$3.8 million from \$3.6 million for the comparative periods noted reflecting net increases in general and administrative costs attributable to the ongoing operation of the CJB Division.

Partially offsetting these increases was a \$673,000 reduction in director compensation expense to \$982,000 from \$1.7 million primarily attributable to a decline in stock benefit plan expenses resulting from the completed vesting and related expensing of such benefits for directors during the quarter ended December 31, 2010.

Provision for Income Taxes. The provision for income taxes decreased \$1.1 million to \$2.3 million for the nine months ended March 31, 2011 from \$3.4 million for the nine months ended March 31, 2010. The variance in income taxes between comparative quarters was attributable, in part, to the underlying differences in pre-tax income and other adjustments to estimated accruals. Income tax

expense during the nine months ended March 31, 2011 also reflected the non-deductibility of certain merger-related expenses recognized during the period coupled with an increase in tax favored sources of income from municipal obligations and bank owned life insurance attributable to the acquisition of Central Jersey. The Company's effective tax rates for the nine month periods ended March 31, 2011 and March 31, 2010 were 36.6% and 41.6%, respectively.

Liquidity and Capital Resources

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

The Bank is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe operation. Management generally invests in cash and cash equivalents for this purpose. Investments that qualify as liquid assets are supplemented by those securities classified as available for sale at March 31, 2011, which included \$936.2 million of mortgage-backed securities and \$100.5 million of non-mortgage-backed securities that can readily be sold if necessary.

As noted earlier, the Company balance of the Company's cash and cash equivalents increased by \$26.9 million to \$208.3 million at March 31, 2011 from \$181.4 million at June 30, 2010. In accordance with the overall goals of its strategic business plan, the Company may, at times, defer the reinvestment of excess liquidity into the investment portfolio in favor of retaining comparatively higher average balances of short term, liquid assets as a funding source for future loan originations. Toward that end, the Bank's pipeline of "in process" loans has generally increased compared to one year earlier due to the combined effects of the acquisition of Central Jersey and the continued organic expansion of the Bank's commercial loan origination staff. Management will continue to balance the opportunity cost to near term earnings resulting from maintaining short term, liquid assets in relation to the need for such liquidity to fund the Company's strategic initiatives including the anticipated increase in commercial loan origination volume resulting from acquisition of Central Jersey. The Company may continue to redeploy a portion of its liquidity into higher yielding investments based upon the timing and relative success of those initiatives.

At March 31, 2011, the Bank had outstanding commitments to originate loans of \$19.7 million compared to \$28.0 million at June 30, 2010. Construction loans in process and unused lines of credit were \$27.7 million and \$70.2 million, respectively, at March 31, 2011 compared to \$4.7 million and \$25.9 million, respectively, at June 30, 2010. The Bank is also subject to the contingent liabilities resulting from letters of credit originally issued by Central Jersey whose outstanding balances totaled \$1.5 million at March 31, 2011. 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 by the customer. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

At March 31, 2011, the Bank had agreements to fund the purchase of loans on a flow basis of \$52,000 compared to \$1.0 million at June 30, 2010. The Bank periodically enters into purchase

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agreements with a limited number of smaller, local mortgage companies to supplement the Bank's loan origination pipeline. These agreements call for the purchase, on a flow basis, of mortgage loans with servicing released to the Bank.

As noted earlier, deposits increased \$517.4 million to \$2.14 billion at March 31, 2011, from \$1.62 billion at June 30, 2010 due primarily to the acquisition of Central Jersey. Certificates of deposit with maturities of greater than 12 months increased by \$83.0 million to \$346.2 million at March 31, 2011 from \$263.2 million at June 30, 2010 with such balances representing 29.8% and 26.9% of total certificates of deposit at the close of each period, respectively.

Borrowings from the FHLB of New York are available to supplement the Bank's liquidity position and, to the extent that maturing deposits do not remain with the Bank, management may replace such funds with advances. As of March 31, 2011, the Bank's outstanding balance of FHLB advances, excluding fair value adjustments, totaled \$211.0 million. Of these advances, \$1.0 million represents an amortizing advance maturing in 2021. The remaining \$210.0 million of advances represent fixed rate advances with maturity dates ranging from 2013 to 2017. Most of these advances have terms that enable the FHLB to call the borrowing at their option prior to maturity.

The Bank has the capacity to borrow additional funds from the FHLB, through a line of credit of \$200.0 million or by taking additional short-term or long-term advances. Such borrowings are an option available to management if funding needs change or to lengthen liabilities. Most of the Bank's mortgage-backed and non-mortgage-backed securities are held in safekeeping at the FHLB of New York and available as collateral if necessary.

In addition to the FHLB advances, the Bank has other borrowings totaling \$43.4 million at March 31, 2011. As of that date, other borrowings included the outstanding overnight "sweep account" balances linked to customer demand deposits totaling \$38.3 million and outstanding subordinated debt totaling \$5.2 million relating to the Central Jersey's prior issuance of trust preferred securities. In April 2011, the Company paid off the subordinated debt at par by calling the trust preferred securities in accordance with the terms of the securities agreements.

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business of investing in loans and securities as well as in the normal course of maintaining and improving the Bank's facilities. These financial instruments include significant purchase commitments, such as commitments related to capital expenditure plans and commitments to purchase securities or mortgage-backed securities and commitments to extend credit to meet the financing needs of our customers. At March 31, 2011, we had no significant off-balance sheet commitments to purchase securities or for capital expenditures.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of March 31, 2011, the Bank exceeded all capital requirements of the OTS.

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The following table sets forth the Bank's capital position at March 31, 2011, as compared to the minimum regulatory capital requirements:

	Actual		At March 31, 2011			
	Amount	Ratio	For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
			Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Total Capital (to risk-weighted assets)	\$337,286	25.08	% \$107,589	8.00	% \$134,486	10.00
Tier 1 Capital (to risk-weighted assets)	\$332,667	24.74	% \$53,795	4.00	% \$80,692	6.00
Core (Tier 1) Capital (to adjusted total assets)	\$332,667	12.09	% \$110,087	4.00	% \$137,608	5.00
Tangible Capital (to adjusted total assets)	\$332,667	12.09	% \$41,283	1.50	% \$-	-

Recent Accounting Pronouncements

For a discussion of the expected impact of recently issued accounting pronouncements that have yet to be adopted by the Company, please refer to Note 6 of the Notes to the Consolidated Financial Statements.

ITEM 3.
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Qualitative Analysis. The majority of our assets and liabilities are sensitive to changes in interest rates. Consequently, interest rate risk is a significant form of business risk that must be managed by the Company. Interest rate risk is generally defined in regulatory nomenclature as the risk to the Company's earnings or capital arising from the movement of interest rates. It arises from several risk factors including: the differences between the timing of rate changes and the timing of cash flows (re-pricing risk); the changing rate relationships among different yield curves that affect bank activities (basis risk); the changing rate relationships across the spectrum of maturities (yield curve risk); and the interest-rate-related options embedded in bank products (option risk).

Regarding the risk to the Company's earnings, movements in interest rates significantly influence the amount of net interest income recognized by the Company. Net interest income is the difference between:

- the interest income recorded on our earning assets, such as loans, securities and other interest-earning assets; and,
- the interest expense recorded on our costing liabilities, such as interest-bearing deposits and borrowings.

Net interest income is, by far, the Company's largest revenue source to which the Company adds its noninterest income and from which it deducts its provision for loan losses, noninterest expense and income taxes to calculate net income. Movements in market interest rates, and the effect of such movements on the risk factors noted above, significantly influence the "spread" between the interest earned by the Company on its loans, securities and other interest-earning assets and the interest paid on its deposits and borrowings. Movements in interest rates that increase, or "widen", that net interest spread enhance the Company's net income. Conversely, movements in interest rates that reduce, or "tighten", that net interest spread adversely impact the Company's net income.

For any given movement in interest rates, the resulting degree of movement in an institution's yield on interest earning assets compared with that of its cost of interest-bearing liabilities determines if an institution is deemed "asset sensitive" or "liability sensitive". An asset sensitive institution is one whose yield on interest-earning assets reacts more quickly to movements in interest rates than its cost of interest-bearing liabilities. In general, the earnings of asset sensitive institutions are enhanced by upward movements in interest rates through which the yield on its earning assets increases faster than its cost of interest-bearing liabilities resulting in a widening of its net interest spread. Conversely, the earnings of asset sensitive institutions are adversely impacted by downward movements in interest rates through which the yield on its earning assets decreases faster than its cost of interest-bearing liabilities resulting in a tightening of its net interest spread.

In contrast, a liability sensitive institution is one whose cost of interest-bearing liabilities reacts more quickly to movements in interest rates than its yield on interest-earning assets. In general, the earnings of liability sensitive institutions are enhanced by downward movements in interest rates through which the cost of interest-bearing liabilities decreases faster than its yield on its earning assets resulting in a widening of its net interest spread. Conversely, the earnings of liability sensitive institutions are adversely impacted by upward movements in interest rates through which the cost of interest-bearing liabilities increases faster than its yield on its earning assets resulting in a tightening of its net interest spread.

The degree of an institution's asset or liability sensitivity is traditionally represented by its "gap position". In general, gap is a measurement that describes the net mismatch between the balance of an institution's earning assets that are maturing and/or re-pricing over a selected period of time compared to that of its costing liabilities. Positive gaps represent the greater dollar amount of earning assets maturing or re-pricing over the selected period of time than costing liabilities. Conversely, negative gaps represent the greater dollar amount of costing liabilities maturing or re-pricing over the selected period of time than earning assets. The degree to which an institution is asset or liability sensitive is reported as a negative or positive percentage of assets, respectively. The industry commonly focuses on cumulative one-year and three-year gap percentages as fundamental indicators of interest rate risk sensitivity.

Based upon the findings of the Company's internal interest rate risk analysis, which are corroborated by the independent analysis performed by its primary regulator as described below, the Company is considered to be liability sensitive. Liability sensitivity characterizes the balance sheets of many thrift institutions and is generally attributable to the comparatively shorter contractual maturity and/or re-pricing characteristics of the institution's deposits and borrowings versus those of its loans and investment securities.

The Company retained its overall liability sensitivity during first nine months of fiscal 2011 while the degree of that sensitivity, as measured internally by the institution's one-year and three-year gap percentages, changed modestly during that period. Specifically, the Company's cumulative one-year gap percentage changed from +0.91% at June 30, 2010 to -1.29% at March 31, 2011 while its cumulative three-year gap changed from +9.00% to +1.21%. The changes in GAP noted indicate a modest decline in the proportion of earning assets repricing within the timeframes noted in relation to costing liabilities repricing within those same timeframes.

As a liability sensitive institution, the Company's net interest spread is generally expected to benefit from overall reductions in market interest rates. Conversely, its net interest spread is generally expected to be adversely impacted by overall increases in market interest rates. However, the general effects of movements in market interest rates can be diminished or exacerbated by "nonparallel" movements in interest rates across a yield curve. Nonparallel movements in interest rates generally occur when shorter term and longer term interest rates move disproportionately in a directionally consistent manner. For example, shorter term interest rates may decrease faster than longer term interest rates which would generally result in a "steeper" yield curve. Alternately, nonparallel movements in interest rates may also occur when shorter term and longer term interest rates move in a directionally inconsistent manner. For example, shorter term interest rates may rise while longer term interest rates remain steady or decline which would generally result in a "flatter" yield curve.

At its extreme, a yield curve may become "inverted" for a period of time during which shorter term interest rates exceed longer term interest rates. While inverted yield curves do occasionally occur, they are generally considered a "temporary" phenomenon portending a change in economic conditions that will restore the yield curve to its normal, positively sloped shape.

In general, the interest rates paid on the Company's deposits tend to be determined based upon the level of shorter term interest rates. By contrast, the interest rates earned on the Company's loans and investment securities tend to be based upon the level of longer term interest rates. As such, the overall "spread" between shorter term and longer term interest rates when earning assets and costing liabilities re-price greatly influences the Company's overall net interest spread over time. In general, a wider spread between shorter term and longer term interest rates, implying a "steeper" yield curve, is beneficial to the Company's net interest spread. By contrast, a narrower spread between shorter term and longer term interest rates, implying a "flatter" yield curve, or a negative spread between those measures, implying an inverted yield curve, adversely impacts the Company's net interest spread.

The effects of interest rate risk on the Company's earnings are best demonstrated through a review of changes in market interest rates over the past several years and their impact on the Company's net interest spread. Following a period of historically low interest rates, the Federal Reserve Board of Governors steadily increased its target federal funds rate by 425 basis points from 1.00% in June 2004 to 5.25% in June 2007. During that three-year period, federal funds rate and other shorter term market interest rates increased by a far greater degree than longer term market interest rates. For example, the market yield on the one-year U.S. Treasury increased 284 basis points from 2.07% at June 30, 2004 to 4.91% at June 30, 2007. By comparison, the market yield on the 10-year U.S. Treasury increased by only 41 basis points from 4.62% to 5.03% over those same time periods. The flattening yield curve during that three year period had an adverse impact on the Company's net interest spread which decreased 67 basis points from 2.37% for the year ended June 30, 2004 to 1.70% for the year ended June 30, 2007.

The upward trend in shorter term interest rates was reversed in September 2007 as the Federal Reserve began to lower the target rate for federal funds in reaction to the threat of a looming recession triggered by growing volatility and instability in the housing and credit markets. The effects of those isolated crises rapidly grew to threaten the viability of the domestic and international financial markets as a whole. In reaction to that larger threat, the Federal Reserve reduced the target federal funds rate by a total of over 500 basis points from 5.25% at June 2007 to a range between 0.00% and 0.25% which remained in effect at June 30, 2010. During that three-year period, federal funds rate and other shorter term market interest rates decreased by a far greater degree than longer term market interest rates. For example, the market yield on the one-year U.S. Treasury decreased 369 basis points from 4.01% at June 30, 2007 to 0.32% at June 30, 2010. By comparison, the market yield on the 10-year U.S. Treasury decreased by only 206 basis points from 5.03% to 2.97% over those same time periods. The steepening yield curve during that three year period had a beneficial impact on the Company's net interest spread which increased 75 basis points from 1.70% for the year ended June 30, 2007 to 2.45% for the year ended June 30, 2010.

During the nine months ended March 31, 2011, the yield curve steepened with the one-year U.S. Treasury decreasing two basis points to 0.30% from 0.32% at June 30, 2010 while the market yield on the 10-year U.S. Treasury increased by 50 basis points to 3.47% from 2.97% over those same time periods. The steepening of the yield curve during the first nine months of fiscal 2011 contributed to the widening of the Company's net interest spread which increased by six basis points to 2.51% during the first nine months of fiscal 2011 compared to 2.45% for all of fiscal 2010. Between the linked quarters ended March 31, 2011 and December 31, 2010, the Company's net interest spread increased by 13 basis points to 2.60% from 2.47%, respectively.

The Board of Directors has established an Interest Rate Risk Management Committee which is responsible for monitoring the Company's interest rate risk. At March 31, 2011, the membership of the committee included Directors Hopkins, Regan, Aanensen, Mazza and Leopold Montanaro while our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Investment Officer also participate as management's liaisons to the committee. The committee meets quarterly to address management of our assets and liabilities, including review of our short term liquidity position; loan and deposit pricing and production volumes and alternative funding sources; current investments; average lives, durations and re-pricing frequencies of loans and securities; and a variety of other asset and liability management topics. The results of the committee's quarterly review are reported to the full Board, which adjusts the investment policy and strategies, as it considers necessary and appropriate.

Quantitative Analysis. Management utilizes a combination of internal and external analyses to quantitatively model, measure and monitor the Company's exposure to interest rate risk. The external quantitative analysis is based upon the OTS interest rate risk model which utilizes data submitted on the

Bank's quarterly Thrift Financial Reports. The model estimates the change in the Bank's net portfolio value ("NPV") ratio throughout a series of interest rate scenarios. NPV, sometimes referred to as the economic value of equity, represents the present value of the expected cash flows from the Bank's assets less the present value of the expected cash flows arising from its liabilities adjusted for the value of off-balance sheet contracts. The NPV ratio represents the dollar amount of the Bank's NPV divided by the present value of its total assets for a given interest rate scenario. In essence, NPV attempts to quantify the economic value of the Bank using a discounted cash flow methodology while the NPV ratio reflects that value as a form of capital ratio. The degree to which the NPV ratio changes for any hypothetical interest rate scenario from its "base case" measurement is a reflection of an institution's sensitivity to interest rate risk.

The internal quantitative analysis utilized by management measures interest rate risk from both a capital and earnings perspective. Like the OTS model noted above, the Bank's internal interest rate risk analysis calculates sensitivity of the Bank's NPV ratio to movements in interest rates. Both the OTS and internal models measure the Bank's NPV ratio in a "base case" scenario that assumes no change in interest rates as of the measurement date. Both models measure the change in the NPV ratio throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve up and down 100, 200 and 300 basis points. Both models generally require that interest rates remain positive for all points along the yield curve for each rate scenario which may preclude the modeling of certain "down rate" scenarios during periods of lower market interest rates. The Bank's interest rate risk management policy establishes acceptable floors for the NPV ratio and caps for the maximum change in the NPV ratio throughout the scenarios modeled.

As illustrated in the tables below, the Bank's NPV would be negatively impacted by an increase in interest rates. This result is expected given the Bank's liability sensitivity noted earlier. Specifically, based upon the comparatively shorter maturity and/or re-pricing characteristics of its interest-bearing liabilities compared with that of the Bank's interest-earning assets, an upward movement in interest rates would have a disproportionately adverse impact on the present value of the Bank's assets compared to the beneficial impact arising from the reduced present value of its liabilities. Hence, the Bank's NPV and NPV ratio decline in the increasing interest rate scenarios. Historically low interest rates at March 31, 2011 preclude the reporting of certain modeled scenarios as parallel downward shifts in the yield curve of 100 basis points or more would result in negative interest rates for many points along that curve.

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The following tables present the results of the Bank's internal NPV analysis as of March 31, 2011 and June 30, 2010, respectively.

Changes in Rates (1)	Net Portfolio Value			At March 31, 2011			
	\$ Amount	\$ Change	% Change	Net Portfolio Value			Basis Point
				as % of Present Value of Assets			
	(In Thousands)			Net Portfolio Value Ratio			Change
+300 bps	240,643	-146,291	-38	% 9.44	%		-432 bps
+200 bps	304,001	-82,932	-21	% 11.50	%		-226 bps
+100 bps	354,642	-32,292	-8	% 12.97	%		-79 bps
0 bps	386,934	-	-	13.76	%		-

Changes in Rates (1)	Net Portfolio Value			At June 30, 2010			
	\$ Amount	\$ Change	% Change	Net Portfolio Value			Basis Point
				as % of Present Value of Assets			
	(In Thousands)			Net Portfolio Value Ratio			Change
+300 bps	264,675	-115,353	-30	% 12.85	%		-387 bps
+200 bps	320,458	-59,569	-16	% 14.97	%		-175 bps
+100 bps	358,461	-21,566	-6	% 16.19	%		-52 bps
0 bps	380,028	-	-	16.71	%	-	

(1) The -100 bp, -200 bp and -300 bp scenarios are not shown due to the low prevailing interest rate environment.

A comparative industry benchmark regarding interest rate risk is the "sensitivity measure" which is generally defined by bank regulators as the change in an institution's NPV ratio, measured in basis points, in an immediate and permanent, adverse parallel shift in interest rates of plus or minus 200 basis points. Based upon the tables above, the Bank's sensitivity measure increased by 51 basis points from -175 basis points at June 30, 2010 to -226 basis points at March 31, 2011 which indicates an increase in the Bank's sensitivity to movements in interest rates from period to period.

There are numerous internal and external factors that may contribute to changes in an institution's sensitivity measure. Internally, changes in the composition and allocation of an institution's balance sheet and the interest rate risk characteristics of its components can significantly alter the exposure to interest rate risk as quantified by the changes in the sensitivity measure. However, changes to certain external factors, most notably changes in the level of market interest rates and overall shape of the yield curve, can significantly alter the projected cash flows of the institution's interest-earning assets and interest-costing liabilities and the associated present values thereof. Changes in internal and external factors from period to period can complement one another's effects to reduce overall sensitivity, partly or wholly offset one another's effects, or exacerbate one another's adverse effects and thereby increase the institution's exposure to interest rate risk as quantified by the sensitivity measure.

Several offsetting internal and external factors working in concert resulted in the increase in the Bank's sensitivity measure. Most notably, the acquisition of Central Jersey, which is reflected in the Company's sensitivity analysis at March 31, 2011, significantly increased the amount of interest-sensitive assets and liabilities in relation to the Company's level of capital. As a result, the Company's "base case" net portfolio value ratio declined thereby increasing the level of its sensitivity to any given change in the dollar amount of net portfolio value resulting from movement in interest rates. Additionally, the increase

in the Company's sensitivity to movements in interest rates, as measured by NPV ratio sensitivity measure, also reflects the relative sensitivity of the interest-earning assets and interest-bearing liabilities acquired from Central Jersey.

Other less noteworthy changes in the composition and allocation of the Bank's balance sheet from June 30, 2010 to March 31, 2011, in conjunction with the external factors noted above, including the increase in longer term interest rates and resulting effect on loan and security prepayment assumptions, resulted in the reported increase in sensitivity to interest rate risk as quantified by the Bank's sensitivity measure.

Because the Bank's sensitivity measure and NPV ratio in the +200 bps scenario were within the applicable thresholds established by its primary regulator, the Bank's "TB 13a Level of Risk" was rated as "Minimal" based upon the results of the OTS interest rate risk model as of June 30, 2010 and December 31, 2010. TB-13a is the OTS's primary regulatory guidance concerning the management of interest rate risk. Based upon the Bank's sensitivity measure as calculated by its internal model, management expects that the Bank's "TB 13a Level of Risk" will to continue to be rated as "Minimal" based upon the upcoming results of the OTS interest rate risk model as of March 31, 2011.

The results of the Bank's internal "NPV-based" analysis are generally consistent with those of the external analysis prepared by OTS. As noted earlier, the Bank's internal interest rate risk analysis also includes an "earnings-based" component. A quantitative, earnings-based approach to measuring interest rate risk is strongly encouraged by bank regulators as a complement to the "NPV-based" methodology. Notwithstanding, there is currently no external "earnings-based" interest rate risk analysis prepared by OTS for the institutions within its oversight. As such, institutions must utilize internal models and analysis to gauge the sensitivity of their earnings to movements in interest rates. Regarding such internal modeling, however, there are no commonly accepted "industry best practices" that specify the manner in which "earnings-based" interest rate risk analysis should be performed with regard to certain key modeling variables. Such variables include, but are not limited to, those relating to rate scenarios (e.g., immediate and permanent rate "shocks" versus gradual rate change "ramps", "parallel" versus "nonparallel" yield curve changes) measurement periods (e.g., one year versus two year, cumulative versus noncumulative), measurement criteria (e.g., net interest income versus net income) and balance sheet composition and allocation ("static" balance sheet, reflecting reinvestment of cash flows into like instruments, versus "dynamic" balance sheet, reflecting internal budget and planning assumptions).

The Company is aware that the absence of an industry-standard, external analysis to measure interest rate risk from an earnings perspective or, at a minimum, a commonly shared set of analysis criteria and assumptions on which to base an internal analysis, could result in inconsistent or misinterpreted disclosure concerning an institution's level of interest rate risk. Consequently, the Company limits the presentation of its earnings-based interest rate risk analysis to the internally modeled scenarios presented in the table below. Consistent with the NPV analysis above, such scenarios utilize immediate and permanent rate "shocks" that result in parallel shifts in the yield curve. For each scenario, projected net interest income is measured over a one year period utilizing a static balance sheet assumption through which incoming and outgoing asset and liability cash flows are reinvested into the same instruments. Product pricing and earning asset prepayment speeds are appropriately adjusted for each rate scenario.

As illustrated in the tables below, the Bank's net interest income would be negatively impacted by an increase in interest rates. Like the NPV results presented earlier, this result is expected given the Bank's liability sensitivity noted earlier. The tables below also reflect an increase in sensitivity to movements in interest rates between the comparative periods resulting from the changes in balance sheet allocation and market interest rates discussed earlier.

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At March 31, 2011

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Changes in Rates	Measurement Period	Net Interest Income	Change in Net Interest Income	Change in Net Interest Income
(In Thousands)							
Base case (No change)	-	Static	0 bps	One Year	\$ 71,170	\$ -	-%
Immediate and permanent	Parallel	Static	+100 bps	One Year	70,527	-643	-0.90
Immediate and permanent	Parallel	Static	+200 bps	One Year	68,379	-2,790	-3.92
Immediate and permanent	Parallel	Static	+300 bps	One Year	65,540	-5,630	-7.91

At June 30, 2010

Rate Change Type	Yield Curve Shift	Balance Sheet Composition & Allocation	Changes in Rates	Measurement Period	Net Interest Income	Change in Net Interest Income	Change in Net Interest Income
(In Thousands)							
Base case (No change)	-	Static	0 bps	One Year	\$ 59,683	\$ -	-%
Immediate and permanent	Parallel	Static	+100 bps	One Year	59,538	-145	-0.24
Immediate and permanent	Parallel	Static	+200 bps	One Year	58,809	-874	-1.46
Immediate and permanent	Parallel	Static	+300 bps	One Year	56,713	-2,970	-4.98

Notwithstanding the rate change scenarios presented in the NPV and earnings-based analyses above, future interest rates and their effect on net portfolio value or net interest income are not predictable. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, prepayments and deposit run-offs and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in this type of computation. Although certain assets and liabilities may have similar maturity or periods of re-pricing, they may react at different times and in different degrees to changes in market interest rates. The interest rate on certain types of assets and liabilities, such as demand deposits and savings accounts, may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, generally have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making calculations set forth above. Additionally, an increased credit risk may result as the ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

ITEM 4.
CONTROLS AND PROCEDURES

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

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

PART II

ITEM 1. Legal Proceedings

At March 31, 2011, neither the Company nor the Bank were involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition of the Company and the Bank.

ITEM 1A. Risk Factors

Management of the Company does not believe there have been any material changes with regard to the Risk Factors previously disclosed under Item 1A. of the Company's Form 10-K for the year ended June 30, 2010, previously filed with the Securities and Exchange Commission.

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

The Company did not repurchase any of its common stock during the quarter ended March 31, 2011.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. [Reserved]

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The following Exhibits are filed as part of this report:

3.1	Charter of Kearny Financial Corp. (1)
3.2	By-laws of Kearny Financial Corp. (2)
4.0	Specimen Common Stock Certificate of Kearny Financial Corp. (1)
10.1	Employment Agreement between Kearny Federal Savings Bank and Albert E. Gossweiler (2)
10.2	Employment Agreement between Kearny Federal Savings Bank and Sharon Jones (2)
10.3	Employment Agreement between Kearny Federal Savings Bank and William C. Ledgerwood (2)
10.4	Employment Agreement between Kearny Federal Savings Bank and Erika K. Parisi (2)
10.5	Employment Agreement between Kearny Federal Savings Bank and Patrick M. Joyce (2)
10.6	

	Employment Agreement between Kearny Federal Savings Bank and Craig L. Montanaro (2)
10.7	Directors Consultation and Retirement Plan (1)
10.8	Benefit Equalization Plan (1)

10.9	Benefit Equalization Plan for Employee Stock Ownership Plan (1)
10.10	Kearny Financial Corp. 2005 Stock Compensation and Incentive Plan (3)
10.11	Kearny Federal Savings Bank Director Life Insurance Agreement (4)
10.12	Kearny Federal Savings Bank Executive Life Insurance Agreement (4)
10.13	Kearny Financial Corp. Directors Incentive Compensation Plan (5)
11.0	Statement regarding computation of earnings per share (Filed herewith).
31.0	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Incorporated by reference to the identically numbered exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-118815).
- (2) Incorporated by reference to the exhibit to the Registrant's Annual Report on Form 10-K filed for the year ended June 30, 2008 (File No. 000-51093).
- (3) Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-130204).
- (4) Incorporated by reference to the exhibits to the Registrant's Form 8-K filed on August 18, 2005 (File No. 000-51093).
- (5) Incorporated by reference to the exhibit to the Registrant's Form 8-K filed on December 9, 2005 (File No. 000-51093).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KEARNY FINANCIAL CORP.

Date: May 10, 2011

By: /s/ Craig L. Montanaro
Craig L. Montanaro
President and Chief Executive
Officer
(Duly authorized officer and
principal executive officer)

Date: May 10, 2011

By: /s/ Eric B. Heyer
Eric B. Heyer
Senior Vice President and
Chief Financial Officer
(Principal financial and accounting
officer)