

REDEFINING **BANKING** RELATIONSHIPS



kearny  
financial corp.

IN A DIGITAL WORLD

ANNUAL REPORT **2022**

# LETTER TO SHAREHOLDERS

*Dear Fellow Shareholder,*

## Economy

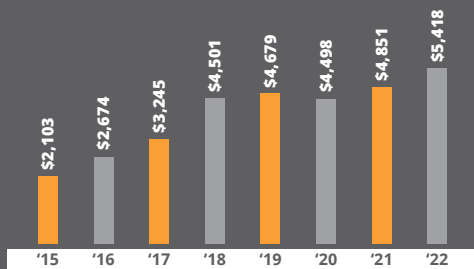
Each year I share my thoughts on the local, national and even the global economy to give you a perspective of the forces that we have encountered in our markets as well as what could affect our strategic direction both positively and negatively. During the second half of fiscal 2022, we experienced tremendous volatility in the financial markets as inflationary pressure in the U.S. grew and the Federal Reserve's effort to curb it via monetary policy created a challenging economic environment. As a result, borrowing costs rose rapidly over a short period of time, sapping confidence and hurting future growth prospects for many companies. When compared to the stagflation of the 70's, the thrift crisis in the late 80's, the dot.com bubble in 2000 and even the Great Recession, it became clear that this time around, our economic environment is different. The confluence of micro and macroeconomic variables involved makes navigation very challenging as the Federal Reserve looks to continue its aggressive increase in interest rates to slow down demand and curb inflation. As in the past, during challenging times we take a more conservative posture and focus on slower, more measured growth while continuing with our transformational process, including adding more technology to our infrastructure (which will be highlighted in another section of this letter). The key to success going forward is to remain vigilant to our credit culture, strategic business plan and rely on the strength of our balance sheet in the coming years. While it is very difficult to predict what will happen over the next 12 to 24 months, many economists are beginning to note that the soft landing that the Federal Reserve is trying to orchestrate could be challenging to achieve. Despite this backdrop, we feel confident that the company is well positioned for the future, as the business environment will improve on the back side of the current economic changes.

## Financial Performance Highlights

The company's financial performance continued to improve during fiscal 2022, as earnings per share increased by 23.4% to \$0.95 per diluted share compared to \$0.77 per diluted share in fiscal 2021. Net income also improved by 6.8% to \$67.5 million compared to \$63.2 million in fiscal 2021. During fiscal 2022, we saw our net interest margin expand by 14 basis points to 2.94%, while net interest income increased by 4.4%

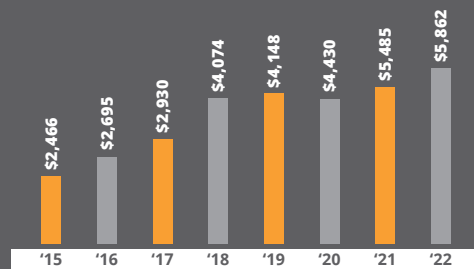
to \$196.6 million. This expansion was supported by record loan originations of \$1.8 billion along with annualized loan growth of 11.7% (or \$565 million) as our lending teams worked diligently throughout the fiscal year despite experiencing some of the fastest loan prepayment speeds in decades. On the funding front, we continued to execute our strategic business plan, remixing our deposit base towards more core non-maturity deposits. Credit for this success goes to our government banking, private client and branch retail teams for a noteworthy fiscal 2022. This category increased by 10.1% (or \$365.1 million), including growth of 10.1% in non-interest-bearing deposits. Turning to our mortgage banking business, the year started off extremely well with gain on sale income peaking at around \$1 million in the first fiscal quarter of 2022, but as volumes receded across the industry due to rising interest rates, we refocused our efforts away from the secondary market sales towards growing our 1-4 family residential loan portfolio. Overall, it was a solid year from an origination perspective with our residential team originating over \$434 million in loans for fiscal 2022. As part of our 2022 strategic business plan, we launched Kearny Investment Services, an investment management division created to provide our clients with investment strategies to achieve their financial goals and objectives. Our financial advisors left no stone unturned during late fiscal 2022 and as a result, the division generated a monthly after-tax profit in June while only being operational for a few months. We feel that this is an excellent sign and are confident that this will help support future growth in non-interest income and support further growth in core non-maturity deposits. Finally, during fiscal 2022, as a part of our ongoing capital management plan, we repurchased 10,221,525 shares of common stock at a cost of \$129.5 million or \$12.67 per diluted share. We feel that being good stewards of capital is a key ingredient in our strategy and expect to continue our three-pronged approach that focuses on share repurchases, dividends and opportunistic M&A.

*The charts further outline these and other trends in Kearny Financial's performance over the last several years.*



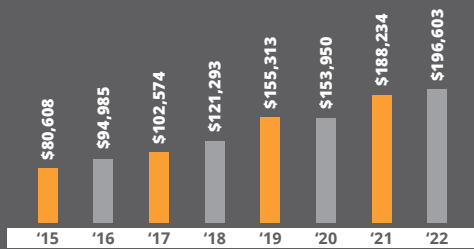
### Total Loans (Millions)

Over the past seven years, our total loans have grown at a compound annual rate of **14.5%**.



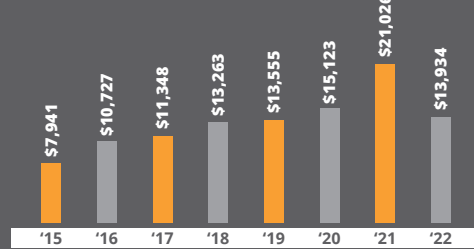
### Deposits (Millions)

Over the past seven years, our deposits have grown at a compound annual rate of **13.2%**.



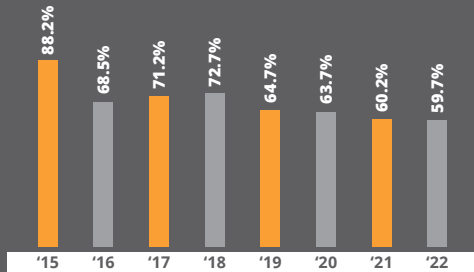
### Net Interest Income (Thousands)

Net interest income has grown over the past seven years at a compound annual rate of **13.6%**.



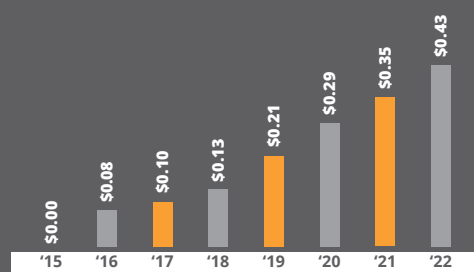
### Non-Interest Income (Thousands)

Non-interest income has diversified with the addition of mortgage banking and investment services.



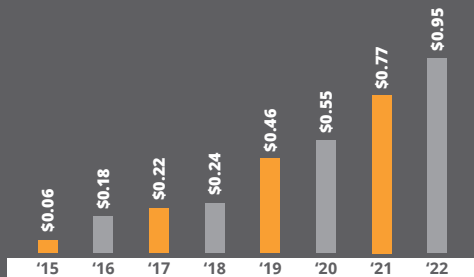
### Efficiency Ratio

Over the past seven years, we have steadily improved our efficiency ratio through a disciplined approach to expense management.



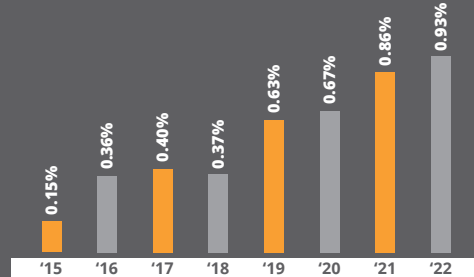
### Dividends per Share

Over the past six years, we have increased quarterly dividends paid to shareholders at a compound annual rate of **32.4%**. Excluded above were special dividends paid per share of \$0.12 and \$0.16 in '18 and '19, respectively.



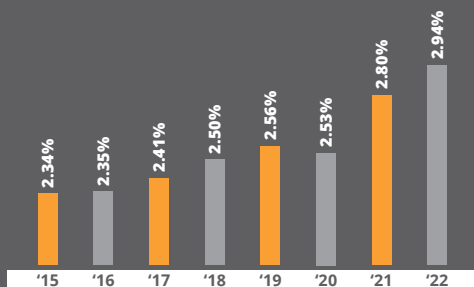
### Earnings per Share

Earnings per share have grown over the last seven years at a compound annual rate of **48.4%**.



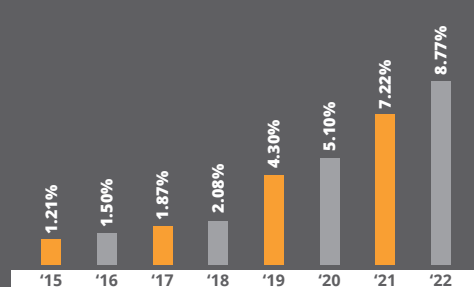
### Return on Average Assets

The company has improved return on average assets over the past seven years.



### Net Interest Margin

The company has expanded net interest margin over the past seven years.



### Return on Average Tangible Equity

The company has improved return on average tangible equity over the past seven years.

## Technology/Analytics

As I mentioned in my previous letter, the financial service industry has clearly accelerated its focus on technology over the last few years. While this was partially brought upon out of necessity due to the onset of the pandemic in early 2020, it was also an industry-wide acceptance that bank clients large and small require more technology and that the industry needed to change to answer this call brought upon by the Apple and Amazon effect. Clearly, the combination of convenience and efficiency for the client, along with the ability to better understand client behavior, including their wants and needs, was something that our industry could no longer discount. During fiscal 2022, as a part of our technological transformation, we continued to focus on data modernization to create a unified “Source of the Truth” for analytics and reporting, which gives us a full view of the customer and all their interactions and preferences. To do this, we utilized a fully secure, cloud-native, open API technology platform with a goal of creating a single repository for all data from both internal and external sources. This enabled our data analytics group to provide insight as to potential cross-marketing efforts created by our various business lines with a goal of expanding client wallet share and improving overall service levels. This was just the tip of the iceberg in terms of better understanding our client base and deepening existing relationships using technologies like AI to help pave the way. Over the coming years, we expect to create additional internal lift by mining this data much the way online and traditional retailers and credit card companies do with their client bases. Additionally, we launched a new client facing technology developed to improve customer communication during the residential lending process.



VERAFIN

Artificial intelligence-based anti-fraud solution



optimalblue



loanbeam  
NOW PART OF LOANLOGICS

Automated loan pricing, and financial analysis tools



workday

Best-of-breed financial and workforce planning and budgeting tool



Encompass



abrigo

Automated mortgage and commercial lending origination platforms



Fincity  
mastercard



PLAID

Digital identity verification systems



BLACKLINE

General ledger account automation and reconciliation platform

Mortgage Messaging®

glia

clinc

Omni-channel customer engagement platforms

AUDITBOARD

SOX 404 compliance and audit management software

Q2

Industry leading digital banking solutions provider

Z  
SUITE TECHNOLOGIES | SUITE TECHNOLOGIES | SUITE TECHNOLOGIES

Fintech partnered, escrow and rent deposit and security solutions

36@factors™

Extensible automated GRC (governance, risk and compliance) management system

Power Automate

Robotic process automation platform

The Mortgage Messaging technology that we utilize fully integrates within our residential mortgage loan origination system. This tool allows loan officers to communicate with the client by sending and receiving SMS messages from within the loan origination system, including providing timely customer notifications related to their transaction as well as tracking capabilities for all communication sent to and from a client. Looking toward the future, our innovations group recently contracted with Q2 to provide our client base with a best-in-breed digital banking platform. This platform provides a much improved omni-channel experience for both our commercial and retail clients in a seamless and consistent way across all devices. This digital platform is far more evolved than our existing platform, as it creates our own ecosystem so that new products and technologies such as financial apps like “Buy Now, Pay Later” can be plugged in without the need to go through lengthy and costly core integration processes such as in the past. We believe that a continued focus going forward on evolving technologies that utilize artificial intelligence, robotic process automation, block chain and machine learning will ultimately drive improvements in efficiency, profitability, speed to market and quality of service, while keeping us relevant in our clients' minds.

# COMMUNITY SERVICE



For over 138 years, we have celebrated a rich history of serving the communities of northern and central New Jersey, Brooklyn and Staten Island. Recently during our 2022 corporate retreat, we had a fintech banking expert share with us his view of banking and the direction of the industry. While much of his speaking engagement focused on financial technology and the disruption that it was causing throughout the industry, his parting comments were very telling, as he shared with the audience that the advantage we have as a company over all the competition in the financial service sector is our connection to the communities that we live, work and play in every day.

Over the years, our employees have spent hundreds of thousands of community service hours helping others in our market areas, whether it was through teaching financial literacy, home building, or even fundraising. Additionally the creation of the KearnyBank Foundation in 2015 as a part of our second step stock offering provided significant financial resources to support these efforts. As of June 30, 2022, grants from the Foundation to non-profit organizations serving our local communities surpassed \$3.5 million.

Finally, to further support our community service efforts, we partnered with a company called Zogo, a Gen Z-powered financial literacy company, launching their mobile suite of financial literacy products built to make financial education accessible and engaging for people of all ages. We received tremendous positive feedback from our Zogo users about the mobile offering, and to date we have over 8,000 users actively using this financial literacy app. Since the launch, these users have completed over 970,000 snippets and modules. We hope that these adoption rates continue to accelerate over the coming quarters, as we intend to launch the offering in new markets.

## Looking Forward

During fiscal 2022, we made a great deal of progress on many fronts, but there's still some work to be done as part of our journey. We will remain vigilant, focusing on factors we can control such as asset quality, operational efficiency, exceptional service to our clients and taking advantage of opportunities that M&A in our markets may provide in terms of new relationships and talent. Looking towards fiscal 2023, we plan to stay the course, staying in front of events so that we are ready for the challenges that may lie ahead. Finally, as I have mentioned in previous letters, people continue to be the most important part of our business, whether it is our employees, clients or our shareholders, all of which have supported our success since our inception back in 1884.

*Thank you for your continued support.*

Sincerely,

Craig L. Montanaro  
President & CEO  
Kearny Financial Corp.  
Kearny Bank



 kearny financial corp.

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the Fiscal Year Ended June 30, 2022

Or

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

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

Commission File Number: 001-37399

**KEARNY FINANCIAL CORP.**

(Exact name of Registrant as specified in its Charter)

Maryland  
(State or Other Jurisdiction of  
Incorporation or Organization)

120 Passaic Avenue, Fairfield, New Jersey  
(Address of Principal Executive Offices)

30-0870244  
(I.R.S. Employer  
Identification No.)

07004  
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	KARNY	The NASDAQ Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  YES  NO

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on December 31, 2021 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$866.9 million. Solely for purposes of this calculation, shares held by directors, executive officers and greater than 10% stockholders are treated as shares held by affiliates.

As of August 19, 2022 there were outstanding 68,226,775 shares of the Registrant's Common Stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. Portions of the definitive Proxy Statement for the Registrant's 2022 Annual Meeting of Stockholders. (Part III)





**KEARNY FINANCIAL CORP.**  
**ANNUAL REPORT ON FORM 10-K**  
**For the Fiscal Year Ended June 30, 2022**  
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SIGNATURES

## PART I

### Item 1. Business

#### Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of the Annual Report on Form 10-K.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- the COVID-19 pandemic may continue to adversely impact the local and national economy and our business and results of operations may continue to be adversely affected;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for credit losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement changes in our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, or reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- changes in monetary or fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, clients, systems and management personnel we have acquired or may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer demand, borrowing and savings habits;

- changes in accounting policies and practices, as may be adopted by bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- technological changes;
- significant increases in our loan losses;
- cyber-attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information and destroy data or disable our systems;
- technological changes that may be more difficult or expensive than expected;
- the ability of third-party providers to perform their obligations to us;
- the ability of the U.S. Government to manage federal debt limits;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own; and
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing products and services described elsewhere in this Annual Report on Form 10-K.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

## **General**

Kearny Financial Corp. (the “Company,” or “Kearny Financial”), is a Maryland corporation that is the holding company for Kearny Bank (the “Bank” or “Kearny Bank”), a nonmember New Jersey-chartered savings bank.

The Company is a unitary savings and loan holding company, regulated by the Board of Governors of the Federal Reserve Bank (“FRB”) and conducts no significant business or operations of its own. The Bank’s deposits are federally insured by the Deposit Insurance Fund as administered by the Federal Deposit Insurance Corporation (“FDIC”) and the Bank is primarily regulated by the New Jersey Department of Banking and Insurance (“NJDBI”) and, as a nonmember bank, the FDIC. References in this Annual Report on Form 10-K to the Company or Kearny Financial generally refer to the Company and the Bank, unless the context indicates otherwise. References to “we”, “us”, or “our” refer to the Bank or Company, or both, as the context indicates.

The Company’s primary business is the ownership and operation of the Bank. The Bank is principally engaged in the business of attracting deposits from the general public in New Jersey and New York and using these deposits, together with other funds, to originate or purchase loans for its portfolio and for sale into the secondary market. Our loan portfolio is primarily comprised of loans collateralized by commercial and residential real estate augmented by secured and unsecured loans to businesses and consumers. We also maintain a portfolio of investment securities, primarily comprised of U.S. agency mortgage-backed securities, obligations of state and political subdivisions, corporate bonds, asset-backed securities and collateralized loan obligations.

We operate from our administrative headquarters in Fairfield, New Jersey and other administrative locations throughout the state of New Jersey. As of June 30, 2022, we had 45 branch offices. The Company maintains a website at [www.kearnybank.com](http://www.kearnybank.com). We make available through that website, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports and proxy materials as soon as is reasonably practicable after the Company electronically files those materials with, or furnishes them to, the Securities and Exchange Commission. You may access these materials by following the links under “Investor Relations” under the “Financial Information” tab at the Company’s website. Information on the Company’s website is not and should not be considered a part of this Annual Report on Form 10-K.

## **Acquisition of MSB Financial Corp. (“MSB”)**

On July 10, 2020, we completed our acquisition of MSB and its subsidiary, Millington Bank. In accordance with the merger agreement, approximately \$9.8 million in cash and 5,853,811 shares of Company common stock were distributed to former MSB shareholders in exchange for their shares of MSB common stock. As a result of the merger, we acquired loans with fair values totaling \$530.2 million, assumed deposits with fair values totaling \$460.2 million and acquired four branch offices located in Somerset and Morris counties. The application of the acquisition method of accounting resulted in the recognition of bargain purchase gain of \$3.1 million and a core deposit intangible of \$690,000.

## **Impact of COVID-19 Pandemic**

During the year ended June 30, 2022, COVID-19 continued to impact the U.S. and global economy in a variety of ways. We continue to monitor developments related to COVID-19, including, but not limited to, its impact on our employees, clients, communities and results of operations.

**Employee Matters.** As the COVID-19 pandemic initially unfolded, and stay-at-home orders were mandated by government officials, many of our non-branch personnel transitioned to working remotely or in a hybrid-remote environment. Through June 30, 2022, many of our non-branch personnel have continued to work in a hybrid-remote fashion. Our information technology infrastructure has afforded us the ability to work remotely with little interruption as we continue to service the needs of our clients. For those essential employees who are unable to work from home, we have provided personal protective equipment and have established procedures and guidelines to ensure a safe working environment.

**Retail Branches.** At the outset of the pandemic we modified our branch hours and access to ensure the safety of our employees and clients. Where possible, branch lobbies were initially transitioned to appointment-only access, with the majority of branch operations being conducted via our drive-up windows. As certain branches did not have drive-up capabilities or suitable alternatives, we temporarily closed certain locations. In the months following, and in accordance with the protocols recommended by the Centers for Disease Control and Prevention (“CDC”), we have outfitted our branches with protective barriers and continued to provide our staff with personal protective equipment. As of June 30, 2022, all of our branches were fully operational.

**CARES Act, Paycheck Protection Program and Health Care Enhancement Act (“PPP Enhancement Act”).** On March 27, 2020, the CARES Act was signed into law. Among the more significant components of the CARES Act, as it pertains to the Company, was the creation of the Paycheck Protection Program (“PPP”), the modification of rules and regulations surrounding troubled debt restructured loans (“TDRs”) and modifications to the tax code to allow for the carryback of net operating losses.

The CARES Act authorized the Small Business Administration (“SBA”) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program. As part of this program the SBA guarantees 100% of the PPP loans made to eligible borrowers. As a qualified SBA lender, the Bank was automatically authorized to originate PPP loans. As of June 30, 2022 we had four loans with total outstanding balances of \$396,000 under the PPP.

Based on Section 4013 of the CARES Act, the 2021 Consolidated Appropriations Act and related regulatory guidance promulgated by federal banking regulators, qualifying loan modifications, including short-term payment deferrals, are not considered to be TDRs. At June 30, 2022, we did not have any active COVID-19 payment deferrals that were not considered to be TDRs.

**2021 Consolidated Appropriations Act.** The 2021 Consolidated Appropriations Act was signed into law on December 27, 2020. The \$900 billion relief package included legislation that extended certain relief provisions of the CARES Act that were set to expire on December 31, 2020. The relief expired on January 1, 2022.

## Business Strategy

In recent years we have evolved our business model from that of a traditional thrift into that of a full-service community bank. This evolution has been accomplished by growing our commercial loans and deposits, expanding our product and service offerings, de-novo branching and the acquisition of other financial institutions. During this time, our strategy has been largely focused on profitably deploying capital and enhancing earnings through a variety of balance sheet growth and diversification strategies. The key components of our business strategy are as follows:

- **Maintain Robust Capital and Liquidity Levels**

As demonstrated by the June 30, 2022 Tier 1 Leverage ratios of the Company and the Bank of 10.14% and 8.70%, respectively, we currently maintain, and plan to continue to maintain, capital levels in excess of regulatory minimums and internal capital adequacy guidelines.

In addition to our robust capital levels, we maintain significant sources of both on- and off-balance sheet liquidity and plan to continue to do so. At June 30, 2022, our liquid assets included \$101.6 million of short-term cash and equivalents supplemented by \$1.34 billion of investment securities classified as available for sale which can be readily sold or pledged as collateral, if necessary. In addition, we had the capacity to borrow additional funds totaling \$975.0 million via unsecured overnight borrowings from other financial institutions and \$2.04 billion and \$303.9 million from the Federal Home Loan Bank of New York and FRB, respectively, without pledging additional collateral.

- **Grow and Diversify Our Retail Non-Maturity Deposits**

We plan to continue to focus on growing and diversifying our retail non-maturity deposit base with an emphasis on growth in core non-maturity deposits and, in particular, non-interest bearing deposits. In addition, we plan to focus on growth in commercial deposits. During fiscal 2022, we successfully grew core non-maturity deposits by \$365.1 million, including non-interest-bearing deposit growth of \$60.2 million.

- **Grow and Diversify Our Loan Portfolio**

We plan to continue focusing on growing and diversifying our loan portfolio with a particular emphasis on growth in the commercial real estate, commercial business and construction loan segments. Our focus, as it relates to new loan originations, will continue to be on high quality loans with strong sponsors and favorable credit metrics.

- **Leverage Our Residential Mortgage Banking Infrastructure**

We plan to continue to leverage the flexibility of our mortgage banking infrastructure to support the origination of residential mortgage loans for sale into the secondary market or to supplement our loan growth initiatives based on market conditions and loan growth targets. In the long-term, we anticipate that residential mortgage loan origination and sale activity will continue to support our non-interest income, while also serving to help manage our exposure to interest rate risk through the sale of longer-duration, fixed-rate loans into the secondary market.

- **Optimize Our Branch Network**

At June 30, 2022, we had a total of 45 branches. We plan to selectively evaluate branch network expansion opportunities while continuing to place strategic emphasis on leveraging the opportunities to increase market share and expand the depth and breadth of client relationships within our existing branches.

We also plan to continue to evaluate and optimize the performance of our existing branch network through additional branch consolidations, where appropriate. Such efforts will take into consideration historical branch profitability, market demographic trajectory, geographic proximity of consolidating branches and the expected impact on the Bank's clients and communities served.

- **Improve Our Operating Efficiency**

In recent years, our operating efficiency has improved both organically and via economies of scale gained from merger and acquisition activity. Exclusive of potential future acquisitions, we plan to continue to improve operating efficiency through organic means, such as the increased use of technology and the continual evaluation of branch consolidation opportunities.

- **Continue Our Technology Transformation**

In recognition of the ongoing evolution of our business towards digital channels we have invested significant human resources and capital towards enhancing both our internal and client-facing technology systems. Our ongoing technology transformation will impact nearly every area of the Company including the residential and commercial lending functions, retail deposit gathering, risk management and back office operations. In fiscal 2023, we plan to accelerate our digital strategy, spearheaded by the adoption of a cloud-based, best-in-breed digital banking platform, and continue to serve our clients' needs in an omnichannel environment while expanding our products and services into new markets in an efficient and cost-effective manner.

**Market Area.** At June 30, 2022, our primary market area consisted of the counties in which we currently operate branches, including Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset and Union counties in New Jersey and Kings (Brooklyn) and Richmond (Staten Island) counties in New York. Our lending is concentrated in New Jersey and New York and our predominant sources of deposits are the communities in which our offices are located as well as the neighboring communities.

**Competition.** We operate in a highly competitive market area with a large concentration of financial institutions and we face substantial competition in attracting deposits and in originating loans. A number of our competitors are significantly larger institutions with greater financial and technological resources and lending limits. Our ability to compete successfully is a significant factor affecting our growth potential and profitability. Our competition for deposits and loans comes primarily from other insured depository institutions located in our primary market area. We also face competition from out-of-market depository institutions operating via online channels and from non-depository institutions including mortgage banks, finance companies, insurance companies, brokerage firms and financial technology companies.

#### Lending Activities

**General.** Our loan portfolio is comprised of multi-family mortgage loans, nonresidential mortgage loans, commercial business loans, construction loans, one- to four-family residential mortgage loans, home equity loans and other consumer loans. In recent years our lending strategies have placed increasing emphasis on the origination of commercial loans.

**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the total portfolio at the dates indicated.

	At June 30,			
	2022		2021	
	Amount	Percent	Amount	Percent
(Dollars In Thousands)				
Commercial loans:				
Multi-family mortgage	\$ 2,409,090	44.31 %	\$ 2,039,260	41.79 %
Nonresidential mortgage	1,019,838	18.76	1,079,444	22.12
Commercial business	176,807	3.25	168,951	3.46
Construction	140,131	2.58	93,804	1.92
One- to four-family residential mortgage	1,645,816	30.27	1,447,721	29.66
Consumer loans:				
Home equity loans	42,028	0.78	47,871	0.98
Other consumer	2,866	0.05	3,259	0.07
Total loans	<u>5,436,576</u>	<u>100.00 %</u>	<u>4,880,310</u>	<u>100.00 %</u>
Less:				
Allowance for credit losses	47,058		58,165	
Unaccrued yield adjustments	18,731		28,916	
Total adjustments	<u>65,789</u>		<u>87,081</u>	
Total loans, net	<u>\$ 5,370,787</u>		<u>\$ 4,793,229</u>	

The following table sets forth the composition of our real estate secured loans indicating the loan-to-value (“LTV”), by loan category, at June 30, 2022 and 2021:

	June 30, 2022		June 30, 2021	
	Balance	LTV	Balance	LTV
(Dollars in Thousands)				
<b>Commercial mortgage loans:</b>				
Multi-family mortgage	\$ 2,409,090	64%	\$ 2,039,260	64%
Nonresidential mortgage	1,019,838	54%	1,079,444	54%
Construction	140,131	61%	93,804	61%
<b>Total commercial mortgage loans</b>	<u>3,569,059</u>	<u>61%</u>	<u>3,212,508</u>	<u>61%</u>
<b>One- to four-family residential mortgage</b>	1,645,816	62%	1,447,721	59%
<b>Consumer loans:</b>				
Home equity loans	42,028	46%	47,871	47%
<b>Total mortgage loans</b>	<u>\$ 5,256,903</u>	<u>61%</u>	<u>\$ 4,708,100</u>	<u>60%</u>

**Loan Maturity Schedule.** The following table sets forth the maturities of our loan portfolio at June 30, 2022. Demand loans, loans having no stated maturity and overdrafts are shown as due in one year or less. Loans are stated in the following table at contractual maturity and actual maturities could differ due to prepayments.

	Amounts Due					Total
	Within One Year	1 to 5 Years	5 to 15 Years	Over 15 Years	Total Due After One Year	
(In Thousands)						
Multi-family mortgage	\$ 43,931	\$ 718,154	\$ 1,514,579	\$ 132,426	\$ 2,365,159	\$ 2,409,090
Nonresidential mortgage	98,771	302,804	498,078	120,185	921,067	1,019,838
Commercial business	78,656	34,981	58,400	4,770	98,151	176,807
Construction	102,518	33,966	608	3,039	37,613	140,131
One- to four-family residential mortgage	5,296	37,174	261,128	1,342,218	1,640,520	1,645,816
Home equity loans	508	4,314	25,979	11,227	41,520	42,028
Other consumer	967	496	40	1,363	1,899	2,866
<b>Total loans</b>	<u>\$ 330,647</u>	<u>\$ 1,131,889</u>	<u>\$ 2,358,812</u>	<u>\$ 1,615,228</u>	<u>\$ 5,105,929</u>	<u>\$ 5,436,576</u>

The following table shows the loans as of June 30, 2022 due after June 30, 2023 according to rate type and loan category:

	Fixed Rates	Floating or Adjustable Rates	Total
	(In Thousands)		
Multi-family mortgage	\$ 1,547,264	\$ 817,895	\$ 2,365,159
Nonresidential mortgage	513,472	407,595	921,067
Commercial business	60,385	37,766	98,151
Construction	801	36,812	37,613
One- to four-family residential mortgage	1,501,319	139,201	1,640,520
Home equity loans	19,431	22,089	41,520
Other consumer	779	1,120	1,899
<b>Total loans</b>	<u>\$ 3,643,451</u>	<u>\$ 1,462,478</u>	<u>\$ 5,105,929</u>

**Multi-Family and Nonresidential Real Estate Mortgage Loans.** At June 30, 2022, multi-family mortgage loans totaled \$2.41 billion, or 44.3% of our loan portfolio, while nonresidential mortgage loans totaled \$1.02 billion, or 18.8% of our loan portfolio. We originate commercial mortgage loans on a variety of multi-family and nonresidential property types, including loans on mixed-use properties which combine residential and commercial space. We generally offer fixed-rate and adjustable-rate balloon mortgage loans on multi-family and nonresidential properties with final stated maturities ranging from five to fifteen years with amortization terms which generally range from 15 to 30 years. Our commercial mortgage loans are primarily secured by properties located in New Jersey, New York and the surrounding states.

**Commercial Business (C&I) Loans.** At June 30, 2022, commercial business loans totaled \$176.8 million, or 3.3% of our loan portfolio. We originate commercial term loans and lines of credit to a variety of clients in our market area. Included within our business loan products are loans originated through the SBA, in which we participate as a Preferred Lender. Our non-SBA commercial term loans generally have terms of up to 10 years. Our commercial lines of credit have terms of up to one year and are generally floating-rate loans.

**Construction Lending.** At June 30, 2022, construction loans totaled \$140.1 million, or 2.6% of our loan portfolio. Our construction lending includes loans to individuals, builders or developers for the construction of multi-family residential buildings or commercial real estate or for the construction or renovation of one- to four-family residences. Construction borrowers must hold title to the land free and clear of any liens. Financing for construction loans is limited to 80% of the anticipated appraised value of the completed property. Disbursements are made in accordance with inspection reports by our approved appraisal firms. Terms of financing are generally limited to one year with an interest rate tied to the prime rate and may include a premium of one or more points. In some cases, we convert a construction loan to a permanent mortgage loan upon completion of construction. We have no formal limits as to the number of projects a builder has under construction or development and make a case-by-case determination on loans to builders and developers who have multiple projects under development.

**One- to Four-Family Residential Mortgage Loans Held in Portfolio.** At June 30, 2022, one- to four-family residential mortgage loans totaled \$1.65 billion, or 30.3% of our loan portfolio. At June 30, 2022, \$1.53 billion, or 92.9%, of our one- to four-family residential mortgage loans are secured by properties located within New Jersey and New York with the remaining \$117.1 million, or 7.1%, secured by properties in other states. The fixed-rate residential mortgage loans that we originate for portfolio generally meet the secondary mortgage market standards of the Federal Home Loan Mortgage Corporation (“Freddie Mac”). In addition, we offer a first-time homebuyer program which provides financial incentives for persons who have not previously owned real estate and are purchasing a one- to four-family property in our primary lending area for use as a primary residence. This program is also available outside these areas, but only to persons who are existing deposit or loan clients of Kearny Bank and/or members of their immediate families.

**One- to Four-Family Residential Mortgage Loans Held for Sale.** As a complement to our residential one- to four-family portfolio lending activities, we operate a mortgage banking platform which supports the origination of one- to four-family mortgage loans for sale into the secondary market. The loans we originate for sale generally meet the secondary mortgage market standards of Freddie Mac. Such loans are generally originated by, and sourced from, the same resources and markets as those loans originated and held in our portfolio. Our mortgage banking business strategy resulted in the recognition of \$2.4 million in gains associated with the sale of \$189.1 million of mortgage loans held for sale during the year ended June 30, 2022. As of that date, an additional \$7.1 million of loans were held and committed for sale into the secondary market.

At June 30, 2022, in addition to our one- to four-family residential mortgage loans held for sale, our commercial mortgage loans held for sale totaled \$21.7 million. These loans were non-accrual loans that were expected to be sold subsequent to June 30, 2022.

**Home Equity Loans.** At June 30, 2022, home equity loans totaled \$42.0 million, or 0.8% of our loan portfolio. Our home equity loans are fixed-rate loans for terms of generally up to 20 years. We also offer fixed-rate and adjustable-rate home equity lines of credit with terms of up to 20 years.

**Other Consumer Loans.** At June 30, 2022, other consumer loans totaled \$2.9 million, or 0.1% of our loan portfolio. Our consumer loan portfolio includes unsecured overdraft lines of credit and personal loans as well as loans secured by savings accounts and certificates of deposit on deposit with the Bank.



**Loans to One Borrower.** New Jersey law generally limits the amount that a savings bank may lend to a single borrower and related entities to 15% of the institution's capital funds. Accordingly, as of June 30, 2022, our legal loans to one borrower limit was approximately \$100.8 million.

At June 30, 2022, our largest single borrower had an aggregate outstanding loan exposure of approximately \$82.8 million comprising one multi-family mortgage loan, three nonresidential real estate mortgage loans and two commercial business loans. Our second largest single borrower had an aggregate outstanding loan exposure of approximately \$76.1 million comprising four multi-family mortgage loans and one nonresidential real estate mortgage loan. At June 30, 2022, these lending relationships were current and performing in accordance with the terms of their loan agreements.

**Loan Originations, Purchases, Sales and Repayments.** The following table shows the principal balances of portfolio loans originated, purchased, acquired and repaid during the periods indicated:

	<b>For the Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(In Thousands)</b>		
Loan originations: <sup>(1)</sup>			
Commercial loans:			
Multi-family mortgage	\$ 911,021	\$ 256,223	\$ 193,158
Nonresidential mortgage	231,159	96,238	65,357
Commercial business	140,051	104,628	108,546
Construction	86,448	50,382	7,192
One- to four-family residential mortgage	415,602	553,194	197,825
Consumer loans:			
Home equity loans	18,634	15,804	16,396
Other consumer	1,167	1,227	1,312
Total loan originations	<u>1,804,082</u>	<u>1,077,696</u>	<u>589,786</u>
Loan purchases:			
Commercial loans:			
Multi-family mortgage	55,847	-	2,500
Nonresidential mortgage	-	21,351	53,043
Commercial business	146	251	2,671
One- to four-family residential mortgage	67,396	60,105	15,048
Total loan purchases	<u>123,389</u>	<u>81,707</u>	<u>73,262</u>
Loans acquired from MSB <sup>(2)</sup>	-	530,693	-
Loan sales: <sup>(1)</sup>			
Commercial business	(1,035)	(44,450)	(470)
Total loans sold	<u>(1,035)</u>	<u>(44,450)</u>	<u>(470)</u>
Loan repayments	(1,343,081)	(1,311,576)	(849,249)
(Decrease) increase due to other items	<u>(5,797)</u>	<u>(1,911)</u>	<u>2,087</u>
Net increase (decrease) in loan portfolio	<u>\$ 577,558</u>	<u>\$ 332,159</u>	<u>\$ (184,584)</u>

(1) Excludes origination and sales of one- to four-family mortgage loans held for sale.

(2) For information on loans acquired in the MSB acquisition, see Note 3 to the audited consolidated financial statements.

Additional information about our loans is presented in Note 5 to the audited consolidated financial statements.

**Loan Approval Procedures and Authority.** Senior management recommends, and the Board of Directors approves, our lending policies and loan approval limits. The Bank's Loan Committee consists of the Chief Executive Officer, Chief Lending Officer, Chief Credit Officer, Chief Risk Officer, Director of Residential Lending, Director of Commercial Real Estate Lending, Director of Commercial & Industrial (C&I) Lending, Senior Credit Officer and Special Assets Manager. Loans which exceed certain thresholds, as defined within our policies, are submitted to the Bank's Loan Committee and/or Board of Directors for approval.

## Asset Quality

**Collection Procedures on Delinquent Loans.** We regularly monitor the payment status of all loans within our portfolio and promptly initiate collection efforts on past due loans in accordance with applicable policies and procedures. Delinquent borrowers are notified when a loan is 30 days past due. If the delinquency continues, subsequent efforts are made to contact the delinquent borrower and additional collection notices are sent. All reasonable attempts are made to collect from borrowers prior to referral to an attorney for collection. However, when a residential loan is 120 days delinquent and a commercial loan is 90 days delinquent, it is our general practice to refer it to an attorney for repossession, foreclosure or other form of collection action, as appropriate. In certain instances, we may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize their financial affairs as we attempt to work with the borrower to establish a repayment schedule to cure the delinquency.

As to mortgage loans, if a foreclosure action is taken and the loan is not reinstated, paid in full or refinanced, the property is sold at judicial sale at which we may be the buyer if there are no adequate offers to satisfy the debt. Any property acquired as the result of foreclosure or by deed in lieu of foreclosure is classified as other real estate owned until it is sold or otherwise disposed of. When other real estate owned is acquired, it is recorded at its fair market value less estimated selling costs. The initial write-down of the property, if necessary, is charged to the allowance for credit losses. Adjustments to the carrying value of the properties that result from subsequent declines in value are charged to operations in the period in which the declines are identified.

**Past Due Loans.** A loan's past due status is generally determined based upon its principal and interest ("P&I") payment delinquency status in conjunction with its past maturity status, where applicable. A loan's P&I payment 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 past due and 90 or more days past due.

Additional information about our past due loans is presented in Note 5 to the audited consolidated financial statements.

**Nonaccrual Loans.** Loans are generally placed on nonaccrual status when contractual payments become 90 or more days past due or when we do not expect to receive all P&I payments owed substantially in accordance with the terms of the loan agreement, regardless of past due status. Loans that become 90 days past due but are well secured and in the process of collection, may remain on accrual status. Nonaccrual loans are generally returned to accrual status when all payments due are brought current and we expect to receive all remaining P&I payments owed substantially in accordance with the terms of the loan agreement. 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.

**Purchased Credit Deteriorated Loans ("PCD").** PCD loans are acquired loans that, as of the acquisition date, have experienced a more-than-insignificant deterioration in credit quality since origination. Non-PCD loans are acquired loans that have experienced no or insignificant deterioration in credit quality since origination. To distinguish between the two types of acquired loans, we evaluate risk characteristics that have been determined to be indicators of deteriorated credit quality. The determining criteria may involve loan specific characteristics such as payment status, debt service coverage or other changes in creditworthiness since the loan was originated, while others are relevant to recent economic conditions, such as borrowers in industries impacted by the pandemic. As part of our acquisition of MSB, we acquired PCD loans with a par value of \$69.4 million and an allowance for credit losses of \$3.9 million. Additional information about our PCD loans is presented in Note 5 to the audited consolidated financial statements.

**Nonperforming Assets.** The following table provides information regarding our nonperforming assets which are comprised of nonaccrual loans, accruing loans 90 days or more past due, nonaccrual loans held-for-sale and other real estate owned:

	At June 30,	
	2022	2021
	(Dollars In Thousands)	
Nonaccrual loans <sup>(1)</sup>	\$ 70,321	\$ 79,767
Accruing loans 90 days or more past due	-	-
Total nonperforming loans	70,321	79,767
Nonaccrual loans held-for-sale	21,745	-
Other real estate owned	178	178
Total nonperforming assets	\$ 92,244	\$ 79,945
Total nonaccrual loans to total loans	1.30%	1.64%
Total nonperforming loans to total loans	1.30%	1.64%
Total nonperforming loans to total assets	0.91%	1.10%
Total nonperforming assets to total assets	1.19%	1.10%

(1) TDRs on accrual status not included above totaled \$8.7 million and \$6.2 million at June 30, 2022 and 2021.

Total nonperforming assets increased by \$12.3 million to \$92.2 million at June 30, 2022 from \$79.9 million at June 30, 2021. For those same comparative periods, the number of nonperforming loans decreased to 61 loans from 113 loans while there was one property in other real estate owned at June 30, 2022 and 2021, respectively. At June 30, 2022, there were three nonaccrual loans held-for-sale.

At June 30, 2022 and 2021, we had loans with aggregate outstanding balances totaling \$22.2 million and \$17.8 million, respectively, reported as TDRs.

**Loan Review System.** We maintain a loan review system consisting of several related functions including, but not limited to, classification of assets, calculation of the allowance for credit losses, independent credit file review as well as internal audit and lending compliance reviews. We utilize both internal and external resources, where appropriate, to perform the various loan review functions, all of which operate in accordance with a scope and frequency determined by senior management and the Audit and Compliance Committee of the Board of Directors.

As one component of our loan review system we engage a third-party firm which specializes in loan review and analysis functions. As part of their review process, our third-party review firm compares their review results with their client base to evaluate our risk assessment among our peers. This firm assists senior management and the Board of Directors in identifying potential credit weaknesses; in reviewing and confirming risk ratings or adverse classifications internally ascribed to loans by management; in identifying relevant trends that affect the collectability of the portfolio and identifying segments of the portfolio that are potential problem areas; in verifying the appropriateness of the allowance for credit 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, third-party loan reviews are being conducted quarterly and include non-performing loans as well as samples of performing loans of varying types within our portfolio.

In addition, our loan review system includes functions performed by internal audit and compliance personnel. Internal audit resources perform credit review functions utilizing guidance from regulatory and Institute of Internal Auditors standards in addition to assessing the adequacy of, and adherence to, internal credit policies and loan administration procedures and adherence to regulatory guidance. Our compliance resources monitor adherence to relevant lending-related and consumer protection-related laws and regulations.

**Classification of Assets.** In compliance with the regulatory guidelines, our loan review system includes an evaluation process through which certain loans exhibiting adverse credit quality characteristics are classified as Substandard, Doubtful or Loss. 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 which do not currently expose us 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 within one of four Pass categories or as Watch with the latter denoting a potential deficiency or concern that warrants increased oversight or tracking by management until remediated.

Additional information about our classification of assets is presented in Note 5 to the audited consolidated financial statements.

The following table discloses our designation of certain loans as special mention or adversely classified during each of the two years presented:

	At June 30,	
	2022	2021
	(In Thousands)	
Special mention	\$ 12,740	\$ 84,981
Substandard	81,650	95,394
Doubtful	165	516
Total classified loans	<u>\$ 94,555</u>	<u>\$ 180,891</u>

**Individually Evaluated Loans.** On a case-by-case basis, we may conclude that a loan should be evaluated on an individual basis based on its disparate risk characteristics. When we determine that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, for collateral-dependent loans, the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. If the fair value of the collateral is less than the amortized cost basis of the loan, we will establish an allowance for the difference between the fair value of the collateral, less costs to sell, at the reporting date and the amortized cost basis of the loan.

#### Allowance for Credit Losses - Loans

On July 1, 2020, we adopted ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which replaced the incurred loss methodology with an expected loss methodology, referred to as the “CECL” methodology. See Note 1 to the audited consolidated financial statements for additional information on the adoption of Topic 326. Amounts reported prior to the adoption of ASU 2016-13, continue to be reported in accordance with previously applicable GAAP.

A description of our methodology in establishing our allowance for credit losses is set forth in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Allowance for Credit Losses”.

Additional information about our allowance for credit losses is also presented in Note 6 to the audited consolidated financial statements.

Our allowance for credit losses is maintained at a level necessary to cover lifetime expected credit losses in financial assets at the balance sheet date. The following table presents allowance for credit losses ratios, along with the components of their calculation, for the periods indicated:

	At June 30,	
	2022	2021
	(Dollars in Thousands)	
Allowance for credit losses - loans	\$ 47,058	\$ 58,165
Total loans outstanding	\$ 5,436,576	\$ 4,880,310
Total non-performing loans	\$ 70,321	\$ 79,767
Allowance for credit losses as a percent of total loans outstanding	0.87%	1.19%
Allowance for credit losses to non-performing loans	66.92%	72.92%

The following table presents the ratio of net charge-offs (recoveries) to average loans outstanding by loan category, along with the components of the calculation, for the periods indicated:

	For the Years Ended June 30,											
	2022				2021				2020			
	Net charge-offs (recoveries)	Average loans outstanding	Net charge-offs as a percent of average loans outstanding		Net charge-offs	Average loans outstanding	Net charge-offs as a percent of average loans outstanding		Net charge-offs (recoveries)	Average loans outstanding	Net charge-offs as a percent of average loans outstanding	
Multi-family mortgage	\$ 1,896	\$ 2,056,595	0.09%	\$ -	\$ 2,075,450	0.00%	\$ -	\$ -	\$ 1,894,548	0.00%	\$ -	0.00%
Nonresidential mortgage	1,834	1,036,205	0.18%	80	1,104,052	0.01%	(10)	1,188,862	0.00%			
Commercial business	33	190,023	0.02%	1,429	223,518	0.64%	48	79,704	0.06%			
Construction	-	105,095	0.00%	-	76,309	0.00%	-	21,050	0.00%			
One- to four-family residential mortgage	(147)	1,487,208	-0.01%	9	1,331,779	0.00%	-	1,335,798	0.00%			
Home equity loans	(27)	67,849	-0.04%	32	88,961	0.04%	-	90,070	0.00%			
Other consumer	-	2,993	0.00%	32	4,048	0.79%	106	4,880	2.17%			
Unaccrued yield adjustments	-	(23,568)	0.00%	-	(37,681)	0.00%	-	(46,096)	0.00%			
Total	\$ 3,589	\$ 4,922,400	0.07%	\$ 1,582	\$ 4,866,436	0.03%	\$ 144	\$ 4,568,816	0.00%			

Our loan portfolio experienced an annualized net charge-off rate of 0.07% for the year ended June 30, 2022, an increase of four basis points from the 0.03% rate for the year ended June 30, 2021.

**Allocation of Allowance for Credit Losses on Loans.** The following table sets forth the allowance for credit losses (“ACL”) allocated by loan category and the percent of loans in each category to total loans receivable at the dates indicated. The ACL allocated to each category is the estimated amount considered necessary to cover lifetime expected credit losses inherent in any particular category as of the balance sheet date and does not restrict the use of the allowance to absorb losses in other categories.

	<b>At June 30,</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Amount</b>	<b>Percent of Loans to Total Loans</b>	<b>Amount</b>	<b>Percent of Loans to Total Loans</b>
	<b>(Dollars In Thousands)</b>			
Multi-family mortgage	\$ 25,321	44.31 %	\$ 28,450	41.79 %
Nonresidential mortgage	10,590	18.76	16,243	22.12
Commercial business	1,792	3.25	2,086	3.46
Construction	1,486	2.58	1,170	1.92
One- to four-family residential mortgage	7,540	30.27	9,747	29.66
Home equity loans	245	0.78	433	0.98
Other consumer	84	0.05	36	0.07
Total	<u>\$ 47,058</u>	<u>100.00 %</u>	<u>\$ 58,165</u>	<u>100.00 %</u>

At June 30, 2022, the ACL totaled \$47.1 million, or 0.87% of total loans, reflecting a decrease of \$11.1 million from \$58.2 million, or 1.19% of total loans, at June 30, 2021. This decrease was largely attributable to a provision for credit losses reversal of \$7.5 million, primarily driven by continued improvement in our economic forecast, a net reduction in reserves on loans individually analyzed for impairment and a reduction in the expected life of various segments of the loan portfolio. Also contributing to this decrease were net charge-offs of \$3.6 million.

The ACL at June 30, 2022 is maintained at a level that is management’s best estimate of lifetime expected credit losses inherent in loans at the balance sheet date. The ACL is subject to estimates and assumptions that are susceptible to significant revisions as more information becomes available and as events or conditions effecting individual borrowers and the marketplace as a whole change over time. Additions to the ACL may be necessary if the future economic environment deteriorates from forecasted conditions. In addition, the banking regulators, as an integral part of their examination process, periodically review our loan and foreclosed real estate portfolios, related ACL and valuation allowance for foreclosed real estate. The regulators may require the ACL to be increased based on their review of information available at the time of the examination, which may negatively affect our earnings.

Additional information about the ACL at June 30, 2022 and 2021 is presented in Note 6 to the audited consolidated financial statements.

### Investment Securities

At June 30, 2022, our investment securities portfolio totaled \$1.46 billion and comprised 18.9% of our total assets. By comparison, at June 30, 2021, our securities portfolio totaled \$1.72 billion and comprised 23.5% of our total assets. Additional information about our investment securities at June 30, 2022 is presented in Note 4 to the audited consolidated financial statements.

The year-over-year net decrease in the securities portfolio totaled \$252.6 million which largely reflected repayments, sales and calls that were partially offset by purchases. The decrease in the portfolio included a \$128.0 million decrease in the fair value of the available for sale securities portfolio to an unrealized loss of \$118.0 million at June 30, 2022 from an unrealized gain of \$10.0 million at June 30, 2021.

Our investment policy, which is approved by the Board of Directors, is designed to foster earnings and manage cash flows within prudent interest rate risk and credit risk guidelines, taking into consideration our liquidity needs, asset/liability management goals, and performance objectives. Our Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Treasurer/Chief Investment Officer are the senior management members of our Capital Markets Committee (“CMC”) that are designated by the Board of Directors as the officers primarily responsible for securities portfolio management and all transactions require the approval of at least two of these designated officers.

The investments authorized for purchase under the investment policy approved by our Board of Directors include U.S. government and agency mortgage-backed securities, U.S. government agency debentures, municipal obligations, corporate bonds, asset-backed securities, collateralized loan obligations and subordinated debt. On a short-term basis, our investment policy authorizes investment in securities purchased under agreements to resell, federal funds, and certificates of deposits of insured financial institutions.

The carrying value of our mortgage-backed securities totaled \$785.0 million at June 30, 2022 and comprised 53.7% of total investments and 10.2% of total assets as of that date. We generally invest in mortgage-backed securities issued by U.S. government agencies or government-sponsored entities. Mortgage-backed securities issued or sponsored by U.S. government agencies and government-sponsored entities are guaranteed as to the payment of principal and interest to investors.

The carrying value of our securities representing obligations of state and political subdivisions totaled \$49.6 million at June 30, 2022 and comprised 3.4% of total investments and less than 1.0% of total assets as of that date. Such securities primarily included highly-rated, fixed-rate bank-qualified securities representing general obligations of municipalities located within the U.S. or the obligations of their related entities such as boards of education or school districts. Each of our municipal obligations were consistently rated by Moody's and S&P well above the thresholds that generally support our investment grade assessment with such ratings equaling or exceeding A- or higher by S&P and/or A2 or higher by Moody's, where rated by those agencies. In the absence of, or as a complement to, such ratings, we rely upon our own internal analysis of the issuer's financial condition to validate its investment grade assessment.

The carrying value of our asset-backed securities totaled \$166.6 million at June 30, 2022 and comprised 11.4% of total investments and 2.2% of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities representing securitized federal education loans with 97% U.S. government guarantees. Our securities represent the highest credit-quality tranches within the overall structures with each being rated AA+ or higher by S&P/or Aa1 or higher by Moody's, where rated by those agencies.

The outstanding balance of our collateralized loan obligations totaled \$307.8 million at June 30, 2022 and comprised 21.0% of total investments and 4.0% of total assets as of that date. This category of securities is comprised entirely of structured, floating-rate securities representing securitized commercial loans to large, U.S. corporations. At June 30, 2022, each of our collateralized loan obligations were consistently rated by Moody's and S&P well above the thresholds that generally support our investment grade assessment with such ratings equaling AAA by S&P and Aaa or by Moody's, where rated by those agencies.

The carrying value of our corporate bonds totaled \$153.4 million at June 30, 2022 and comprised 10.5% of total investments and 2.0% of total assets as of that date. This category of securities is comprised of two floating-rate corporate debt obligations issued by large financial institutions and subordinated debt representing profitable, well-capitalized, small- to mid-sized community banks located mainly in the mid-Atlantic region of the U.S. At June 30, 2022, corporate bonds issued by large financial institutions were consistently rated by Moody's and S&P well above the thresholds that generally support our investment grade assessment with such ratings equaling or exceeding BB or higher by S&P and/or Baa3 or higher by Moody's, where rated by those agencies.

Current accounting standards require that debt securities be categorized as held to maturity or available for sale, based on management's intent as to the ultimate disposition of each security. These standards allow debt securities to be classified as held to maturity and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold these securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, or other similar factors cannot be classified as held to maturity.

We do not currently use or maintain a trading account. Securities not classified as held to maturity are classified as available for sale. These securities are reported at fair value and unrealized gains and losses on the securities are excluded from earnings and reported, net of deferred taxes, as adjustments to accumulated other comprehensive income, a separate component of equity. As of June 30, 2022, our available for sale securities portfolio had a carrying value of \$1.34 billion or 91.9% of our total securities with the remaining \$118.3 million or 8.1% of securities were classified as held to maturity.

Other than securities issued or guaranteed by the U.S. government or its agencies, we did not hold securities of any one issuer having an aggregate book value in excess of 10% of our equity at June 30, 2022. All of our securities carry market risk insofar as increases in market interest rates have caused, and may continue to cause, a decrease in their market value. We believe that unrealized and unrecognized losses on securities held at June 30, 2022, are a function of changes in market interest rates and credit spreads, not changes in credit quality. Therefore, no allowance for credit losses was recorded at that time.

During the year ended June 30, 2022, proceeds from sales of securities available for sale totaled \$100.3 million and resulted in no gross gains and gross losses of \$565,000. During the year ended June 30, 2021, proceeds from sales of securities available for sale totaled \$98.1 million and resulted in gross gains of \$1.2 million and gross losses of \$470,000. During the year ended June 30, 2020, proceeds from sales of securities available for sale totaled \$164.3 million and resulted in gross gains of \$2.4 million and gross losses of \$145,000. There were no sales of held to maturity securities during the years ended June 30, 2022, 2021 and 2020.

The following table sets forth the carrying value of our securities portfolio at the dates indicated:

	At June 30,	
	2022	2021
	(In Thousands)	
Debt securities available for sale:		
Obligations of state and political subdivisions	\$ 28,435	\$ 34,603
Asset-backed securities	166,557	242,989
Collateralized loan obligations	307,813	189,880
Corporate bonds	153,397	158,351
Total debt securities available for sale	<u>656,202</u>	<u>625,823</u>
Mortgage-backed securities available for sale:		
Collateralized mortgage obligations	7,122	13,739
Residential pass-through securities	514,758	744,491
Commercial pass-through securities	166,011	292,811
Total mortgage-backed securities available for sale	<u>687,891</u>	<u>1,051,041</u>
Total securities available for sale	<u>1,344,093</u>	<u>1,676,864</u>
Debt securities held to maturity:		
Obligations of state and political subdivisions	21,159	25,824
Total debt securities held to maturity	<u>21,159</u>	<u>25,824</u>
Mortgage-backed securities held to maturity:		
Residential pass-through securities	84,851	-
Commercial pass-through securities	12,281	12,314
Total mortgage-backed securities held to maturity	<u>97,132</u>	<u>12,314</u>
Total securities held to maturity	<u>118,291</u>	<u>38,138</u>
Total securities	<u>\$ 1,462,384</u>	<u>\$ 1,715,002</u>



The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of our securities portfolio at June 30, 2022. This table shows contractual maturities and does not reflect re-pricing or the effect of prepayments. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties. At June 30, 2022, securities with a carrying value of \$42.0 million are callable within one year.

**At June 30, 2022**

	One Year or Less			Five to Ten Years			More Than Ten Years			Total Securities		
	Carrying Value	Weighted Average Yield	Weighted Average Yield	Carrying Value	Weighted Average Yield	Weighted Average Yield	Carrying Value	Weighted Average Yield	Weighted Average Yield	Carrying Value	Weighted Average Yield	Fair Market Value
(Dollars In Thousands)												
<b>Debt securities:</b>												
Obligations of state and political subdivisions	\$ 7,673	2.10 %	\$ 33,134	2.32 %	\$ 8,787	2.50 %	\$ -	-	-	\$ 49,594	2.32 %	\$ 49,560
Asset-backed securities	-	-	-	-	33,138	2.30	133,419	2.55	166,557	2.50	166,557	166,557
Collateralized loan obligations	-	-	-	-	143,326	2.75	164,487	3.24	307,813	3.01	307,813	307,813
Corporate bonds	-	-	-	-	144,188	4.05	9,209	3.72	153,397	4.03	153,397	153,397
<b>Mortgage-backed securities:</b>												
Collateralized mortgage obligations <sup>(1)</sup>	-	-	716	1.58	-	-	6,406	2.15	7,122	2.09	7,122	7,122
Residential pass-through securities <sup>(1)</sup>	-	-	3,431	2.07	8,971	2.39	587,207	2.01	599,609	2.02	591,022	591,022
Commercial pass-through securities <sup>(1)</sup>	-	-	-	-	12,281	1.78	166,011	1.93	178,292	1.92	176,740	176,740
<b>Total securities</b>	<b>\$ 7,673</b>	<b>2.10 %</b>	<b>\$ 37,281</b>	<b>2.28 %</b>	<b>\$ 350,691</b>	<b>3.19 %</b>	<b>\$ 1,066,739</b>	<b>2.27 %</b>	<b>\$ 1,462,384</b>	<b>2.49 %</b>	<b>\$ 1,452,211</b>	<b>\$ 1,452,211</b>

(1) Government-sponsored enterprises.

## Sources of Funds

**General.** Retail deposits are our primary source of funds for lending and other investment purposes. In addition, we derive funds from principal repayments of loan and investment securities. Loan and securities payments are a relatively stable source of funds, while deposit inflows are significantly influenced by general interest rates and money market conditions. Wholesale funding sources including, but not limited to, borrowings from the Federal Home Loan Bank of New York (“FHLB”), wholesale deposits and other short-term borrowings are also used to supplement the funding for loans and investments.

**Deposits.** Our current deposit products include interest-bearing and non-interest-bearing checking accounts, money market deposit accounts, savings accounts and certificates of deposit accounts ranging in terms from 30 days to five years. Certificates of deposit with terms ranging from six months to five years are available for individual retirement account plans. Deposit account terms, such as interest rate earned, applicability of certain fees and service charges and funds accessibility, will vary based upon several factors including, but not limited to, minimum balance, term to maturity, and transaction frequency and form requirements.

Deposits are obtained primarily from within New Jersey and New York through the Bank’s network of retail branches, business relationship officers, treasury management officers and digital banking channels. We maintain a robust suite of commercial deposit products designed to appeal to small and mid-size businesses, non-profit organizations and government entities. Our team of experienced and dedicated business relationship officers serve as the primary points of contact for these commercial clients and act as both new business originators and relationship managers.

Key to our consumer deposit strategy is our “Relationship” suite of products which bundles a variety of banking services and products together for those clients whom have a checking account with direct deposit and electronic statement delivery. Such relationship clients are eligible for a variety of benefits, including a premium on certificates of deposit with a term of at least one year. We also offer High Yield Checking which is primarily designed to attract core deposits in the form of clients’ primary checking accounts through interest rate and fee reimbursement incentives to qualifying clients. The comparatively higher interest expense associated with the High Yield Checking product in relation to our other checking products is partially offset by the transaction fee income associated with the account.

The determination of interest rates on retail deposits is based upon a number of factors, including: (1) our need for funds based on loan demand, current maturities of deposits and other cash flow needs; (2) a current survey of a selected group of competitors’ rates for similar products; (3) our current cost of funds, yield on assets and asset/liability position; and (4) the alternate cost of funds on a wholesale basis. Interest rates are reviewed by senior management on a regular basis, with deposit product and pricing updated, as appropriate, during recurring and ad-hoc senior management meetings.

Our liquidity could be reduced if a significant amount of certificates of deposit maturing within a short period were not renewed. At June 30, 2022 and June 30, 2021, certificates of deposit maturing within one year were \$1.47 billion and \$1.51 billion, respectively. Historically, a significant portion of the certificates of deposit remain with us after they mature.

At June 30, 2022, \$1.33 billion or 70.2% of our certificates of deposit were certificates of \$100,000 or more compared to \$1.19 billion or 63.3% at June 30, 2021. The general level of market interest rates and money market conditions significantly influence deposit inflows and outflows. The effects of these factors are particularly pronounced on deposit accounts with larger balances. In particular, certificates of deposit with balances of \$100,000 or greater are traditionally viewed as being a more volatile source of funding than comparatively lower balance certificates of deposit or non-maturity transaction accounts. In order to retain certificates of deposit with balances of \$100,000 or more, we may have to pay a premium rate, resulting in an increase in our cost of funds. To the extent that such deposits do not remain with us, they may need to be replaced with wholesale funding.

Our sources of wholesale funding included brokered certificates of deposit and listing service certificates of deposit whose balances totaled approximately \$761.9 million and \$11.7 million, or 13.0% and 0.2% of total deposits, respectively, at June 30, 2022. We utilize brokered certificates of deposit and listing service certificates of deposits as alternatives to other forms of wholesale funding, including borrowings, when interest rates and market conditions favor the use of such deposits. For a portion of our short-term brokered certificates of deposit we utilized interest rate contracts to effectively extend their duration and to fix their cost.

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

	For the Years Ended June 30,								
	2022			2021			2020		
	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate	Average Balance	Percent of Total Deposits	Weighted Average Nominal Rate
(Dollars In Thousands)									
Non-interest-bearing deposits	\$ 624,666	11.37%	- %	\$ 518,149	9.88 %	- %	\$ 334,522	7.89 %	- %
Interest-bearing demand	2,067,200	37.64	0.25	1,726,190	32.92	0.41	1,041,188	24.56	1.10
Savings	1,088,971	19.83	0.11	1,066,794	20.35	0.31	831,832	19.62	0.81
Certificates of deposit	1,711,276	31.16	0.52	1,931,887	36.85	1.10	2,032,046	47.93	2.00
Total average deposits	<u>\$5,492,113</u>	<u>100.00%</u>	0.28 %	<u>\$ 5,243,020</u>	<u>100.00 %</u>	0.60 %	<u>\$ 4,239,588</u>	<u>100.00 %</u>	1.39 %

As of June 30, 2022 and 2021, the aggregate amount of certificates of deposit of \$250,000 and over was \$897.4 billion and \$635.3 million, respectively. The following table presents the time remaining until maturity of those certificates of deposit as of June 30, 2022:

Maturity Period	At June 30,	
	2022	
(In Thousands)		
Within three months	\$	559,234
Three through six months		27,042
Six through twelve months		125,093
Over twelve months		186,064
Total certificates of deposit	<u>\$</u>	<u>897,433</u>

The following table sets forth the amount and maturities of certificates of deposit at June 30, 2022:

Interest Rate	At June 30, 2022						
	Within One Year	Over One Year to Two Years	Over Two Years to Three Years	Over Three Years to Four Years	Over Four Years to Five Years	Over Five Years	Total
(In Thousands)							
0.00 - 0.99%	\$ 1,132,482	\$ 65,952	\$ 16,186	\$ 27,198	\$ 30,079	\$ -	\$ 1,271,897
1.00 - 1.99%	223,393	78,371	16,159	933	229	-	319,085
2.00 - 2.99%	112,690	163,657	15,484	322	168	8	292,329
3.00 - 3.99%	-	565	-	-	-	5,686	6,251
Total certificates of deposit	<u>\$ 1,468,565</u>	<u>\$ 308,545</u>	<u>\$ 47,829</u>	<u>\$ 28,453</u>	<u>\$ 30,476</u>	<u>\$ 5,694</u>	<u>\$ 1,889,562</u>

Additional information about our deposits is presented in Note 10 to the audited consolidated financial statements.

**Borrowings.** The sources of wholesale funding we utilize include borrowings in the form of advances from the FHLB as well as other forms of borrowings. We generally use wholesale funding to manage our exposure to interest rate risk and liquidity risk in conjunction with our overall asset/liability management process.

Advances from the FHLB are typically secured by our FHLB capital stock and certain investment securities as well as residential and commercial mortgage loans that we choose to utilize as collateral for such borrowings. Additional information about our FHLB advances is included under Note 11 to the audited consolidated financial statements.

Short-term FHLB advances generally have original maturities of less than one year. At June 30, 2022, we had a total of \$375.0 million of short-term FHLB advances at a weighted average interest rate of 1.66%. Such advances represented 90-day or less FHLB term advances that are generally forecasted to be periodically redrawn at maturity for the same term as the original advance. Based on this presumption, we utilized interest rate contracts to effectively extend the duration of each of these advances at the time they were drawn to effectively fix their cost.

Long-term advances generally include term advances with original maturities of greater than one year. At June 30, 2022, our outstanding balance of long-term FHLB advances totaled \$277.5 million at a weighted average interest rate of 2.87%. Such advances included \$145.0 million of callable advances at a weighted average interest rate of 3.04% and \$132.5 million non-callable advances at a weighted average interest rate of 2.68%.

Our FHLB advances mature as follows:

	At June 30,	
	2022	2021
	(In Thousands)	
<b>By remaining period to maturity:</b>		
Less than one year	\$ 520,000	\$ 390,000
One to two years	22,500	145,000
Two to three years	103,500	22,500
Three to four years	6,500	103,500
Four to five years	-	6,500
Greater than five years	-	-
Total advances	652,500	667,500
Fair value adjustments	(1,163)	(1,624)
Total advances, net of fair value adjustments	\$ 651,337	\$ 665,876

Based upon the market value of investment securities and mortgage loans that are posted as collateral for FHLB advances at June 30, 2022, we are eligible to borrow up to an additional \$2.04 billion of advances from the FHLB as of that date. We are further authorized to post additional collateral in the form of other unencumbered investments securities and eligible mortgage loans that may expand our borrowing capacity with the FHLB up to 30% of our total assets. Additional borrowing capacity up to 50% of our total assets may be authorized with the approval of the FHLB's Board of Directors or Executive Committee.

In addition, we had the capacity to borrow additional funds totaling \$975.0 million via unsecured overnight borrowings from other financial institutions and \$303.9 million from the FRB without pledging additional collateral.

The balance of borrowings at June 30, 2022 included overnight line of credit borrowings from the FHLB totaling \$250.0 million.

### Interest Rate Derivatives and Hedging

We utilize derivative instruments in the form of interest rate swaps and caps to hedge our exposure to interest rate risk in conjunction with our overall asset/liability management process. In accordance with accounting requirements, we formally designate all of our hedging relationships as either fair value hedges, or cash flow hedges, and documents the strategy for undertaking the hedge transactions and its method of assessing ongoing effectiveness.

At June 30, 2022, our derivative instruments were comprised of interest rate swaps and caps with a total notional amount of \$750.0 million. These instruments are intended to manage the interest rate exposure relating to certain wholesale funding positions that were outstanding at June 30, 2022.

Additional information regarding our use of interest rate derivatives and our hedging activities is presented in Note 1 and Note 12 to the audited consolidated financial statements.

### Subsidiary Activity

At June 30, 2022, Kearny Bank was the only wholly-owned operating subsidiary of Kearny Financial Corp. As of that date, Kearny Bank had one wholly-owned subsidiary, CJB Investment Corp. CJB Investment Corp. is a New Jersey Investment Company and remained active through the three-year period ended June 30, 2022.

## Human Capital Resources

Kearny Bank serves as a true financial partner to both consumers and businesses by subscribing to the belief that people, performance and relationships are what matter most. We serve our clients and shareholders through our deep-rooted principles of ethics and integrity, and by giving back to the communities in which we serve.

**Employee Profile.** We strive to create a diverse and inclusive workforce reflective of our clients and the communities where we live and work. We respect and recognize the unique contributions each individual brings to our Company and we are committed to supporting a culture of diversity, equity and inclusion as a foundation for our values and success. As of June 30, 2022, we employed 596 employees, approximately 63% of whom are female. We utilize an online recruitment platform that provides a vehicle to attract a diverse pool of candidates and have established a partnership with a diversity recruitment solution to enhance this effort.

**Talent Development and Employee Engagement.** We invest in the success and the personal and professional development of our employees, celebrating career milestones and longevity. Our average length of tenure is eight years as we look to promote from within to leverage employees' knowledge of the organization as we continue to grow. We offer many educational and learning initiatives to enhance our employees' professional growth, including support for certifications and licenses, as well as offering a robust tuition reimbursement program. To further our efforts in providing employees the opportunity to enrich their careers, we offer a Career Mentoring Program, which offers employees an opportunity to interact and collaborate with our senior leaders. In 2018, we established a Diversity and Inclusion Action Plan as well as a Diversity, Equity and Inclusion Committee (collectively the "Diversity Plan"). The Diversity Plan focuses on diversifying our recruiting pipeline, obtaining Diversity & Inclusion certifications and training for our recruiting staff and establishing programs to attract and retain diverse talent. As part of this initiative, our Senior Women's Leadership Group was established to provide a forum for our female employees to exchange ideas and support programs across the Company.

**Employee Benefits.** We offer our employees competitive pay and incentive programs, together with a comprehensive benefits package designed to enhance the employee experience. Such benefits include medical, dental, vision, long term disability benefits, AD&D and group life insurance, additional supplement plans, Health Advocacy and Employee Assistance programs, generous paid time off and the ability to participate in charitable events during work time. In addition, our employees share in our financial success while preparing for their retirement via participation in our 401(k) Plan, which includes a competitive company match, and our Employee Stock Ownership Plan ("ESOP"), which is 100% funded by the Company.

**Safety, Health and Wellness.** We are committed to the safety and wellness of all of our employees and their families. We provide access to a variety of health and welfare programs, including benefits that support their physical, mental and financial wellbeing. During the COVID-19 pandemic, proper protocols were implemented in our branches and corporate offices to ensure the continued safety of our employees and customers while maintaining compliance with current state and local regulations and guidelines. We have now successfully transitioned to a hybrid work environment, where applicable, one in which employees are able to maintain productivity and efficiency while still allowing for certain flexibility. We continue to encourage those who are sick to stay home and take the time needed to recover.

## Supervision and Regulation

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

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

## Regulation of Kearny Bank

**General.** As a nonmember New Jersey savings bank with federally insured deposits, Kearny Bank is subject to extensive regulation by the NJDDBI and the FDIC. The regulatory structure gives the regulatory agencies widespread discretion in connection with their supervisory and enforcement activities and examination policies, including policies regarding the classification of assets and the level of the allowance for credit losses. The activities of New Jersey savings banks are subject to extensive regulation including restrictions or requirements with respect to loans to one borrower, dividends, permissible investments and lending activities, liquidity, transactions with affiliates and community reinvestment. Both state and federal law regulate a savings bank's relationship with its depositors and borrowers, especially in such matters as the ownership of savings accounts and the form and content of Kearny Bank's mortgage documents.

Kearny Bank must file reports with the NJDDBI and FDIC concerning its activities and financial condition and obtain regulatory approvals prior to entering into certain transactions such as establishing new branches and mergers with or acquisitions of other depository institutions. The NJDDBI and FDIC regularly examine Kearny Bank and prepare reports to Kearny Bank's Board of Directors on any deficiencies found in its operations. The agencies have substantial discretion to take enforcement action with respect to an institution that fails to comply with applicable regulatory requirements or engages in violations of law or unsafe and unsound practices. Such actions can include, among others, the issuance of a cease and desist order, assessment of civil money penalties, removal of officers and directors and the appointment of a receiver or conservator.

**Activities and Powers.** Kearny Bank derives its lending, investment and other powers primarily from the applicable provisions of the New Jersey Banking Act and the related regulations. Under these laws and regulations, New Jersey savings banks, including Kearny Bank, generally may invest in real estate mortgages; consumer and commercial loans; specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies; certain types of corporate equity securities and other specified assets.

A savings bank may also invest pursuant to a leeway power that permits investments not otherwise permitted by the New Jersey Banking Act. Leeway investments must comply with a number of limitations on individual and aggregate amounts of investments. New Jersey savings banks may also exercise those powers, rights, benefits or privileges authorized for national banks, federal savings banks or federal savings associations, or either directly or through a subsidiary. New Jersey savings banks may exercise powers, rights, benefits and privileges of out-of-state banks, savings banks and savings associations, or either directly or through a subsidiary, provided that prior approval by the NJDDBI is required before exercising any such power, right, benefit or privilege. The exercise of these lending, investment and activity powers is further limited by federal law and the related regulations. See "*Activity Restrictions on State-Chartered Banks*" below.

**Activity Restrictions on State-Chartered Banks.** Federal law and FDIC regulations generally limit the activities as principal and equity investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, except such activities and investments that are specifically exempted by law or regulation, or approved by the FDIC.

Before engaging as principal in a new activity that is not permissible for a national bank, or otherwise permissible under federal law or FDIC regulations, an insured bank must seek approval from the FDIC, subject to certain specified exceptions. The FDIC will not approve the activity unless the bank meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the FDIC's Deposit Insurance Fund. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a financial subsidiary are subject to additional requirements.

**Federal Deposit Insurance.** Kearny Bank's deposits are insured to applicable limits by the FDIC. The general maximum deposit insurance amount is \$250,000 per depositor.

The FDIC assesses insured depository institutions to maintain the Deposit Insurance Fund ("DIF"). Under the FDIC's risk-based assessment system, institutions deemed less risky pay lower assessments. Assessments for institutions of less than \$10 billion of assets, such as Kearny Bank, are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's failure within three years. The assessment range for insured institutions of less than \$10 billion of total assets is 1.5 to 30 basis points of total assets less tangible equity.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Kearny Bank. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

**Regulatory Capital Requirements.** FDIC regulations require nonmember banks to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The current requirements implement recommendations of the Basel Committee on Banking Supervision and certain requirements of federal law.

For purposes of the regulatory capital standards, common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt.

Also included in Tier 2 capital is the allowance for credit losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. At June 30, 2022, Kearny Bank has exercised the opt-out election regarding the treatment of Accumulated Other Comprehensive Income.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets, are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one-to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to equity interests depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. At June 30, 2022, Kearny Bank exceeded all regulatory capital requirements.

In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but also qualitative factors. The FDIC has the authority to establish higher capital requirements for individual institutions where deemed necessary.

Depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria may elect to use the optional community bank leverage ratio framework, which requires maintaining a leverage ratio of greater than 9%, to satisfy the regulatory capital requirements, including the risk-based requirements. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly call report. Kearny Bank did not opt into the community bank leverage ratio framework as of June 30, 2022.

Regulations issued by the NJDBI establish generally similar regulatory capital standards for New Jersey-chartered savings banks such as Kearny Bank.

**Prompt Corrective Regulatory Action.** Federal law requires that federal bank regulatory authorities take prompt corrective action with respect to institutions that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.”

The FDIC has adopted regulations to implement the prompt corrective action legislation. An institution is deemed to be well capitalized if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is adequately capitalized if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater.

An institution is undercapitalized if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is categorized as significantly undercapitalized if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. Critically undercapitalized status is triggered if an institution has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%. Qualifying banks that elect and comply with the community bank leverage ratio (as established by the regulatory agencies) are considered well-capitalized under the prompt corrective action regulations.

Undercapitalized banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank’s compliance with such a plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution’s total assets when deemed undercapitalized or the amount necessary to achieve the status adequately capitalized status. If an undercapitalized bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized banks must comply with one or more of a number of additional measures including, but not limited to, a required sale of sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cessation of taking deposits from correspondent banks, the dismissal of directors or officers and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. Critically undercapitalized institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after such status is triggered. These actions are in addition to other discretionary supervisory or enforcement actions that the FDIC may take.

As of June 30, 2022, Kearny Bank was well capitalized.

**Dividend Limitations.** Federal regulations impose various restrictions or requirements on Kearny Bank to pay dividends to Kearny Financial. An institution that is a subsidiary of a savings and loan holding company, such as Kearny Bank, must file notice with the Federal Reserve Board at least thirty days before paying a dividend. The Federal Reserve Board may disapprove a notice if: (i) the savings institution would be undercapitalized following the capital distribution; (ii) the proposed capital distribution raises safety and soundness concerns; or (iii) the capital distribution would violate a prohibition contained in any statute, regulation, enforcement action or agreement or condition imposed in connection with an application.

New Jersey law specifies that no dividend may be paid if the dividend would impair the capital stock of the savings bank. In addition, no dividend may be paid unless the savings bank would, after payment of the dividend, have a surplus of at least 50% of its capital stock (or if the payment of dividend would not reduce surplus).

**Transactions with Related Parties.** Transactions between a depository institution (and, generally, its subsidiaries) and its related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of an institution is any company or entity that controls, is controlled by or is under common control with the institution. In a holding company context, the parent holding company and any companies that are controlled by such parent holding company are affiliates of the institution. Generally, Section 23A of the Federal Reserve Act limits the extent to which the institution or its subsidiaries may engage in covered transactions with any one affiliate to 10% of such institution’s capital stock and surplus and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution’s capital stock and surplus. The term “covered transaction” includes an extension of credit, purchase of assets, issuance of a guarantee or letter of credit and similar transactions. In addition, loans or other extensions of credit by the institution to the affiliate are required to be collateralized in accordance with specified requirements.

The law also requires that affiliate transactions generally be on terms and conditions that are substantially the same as, or at least as favorable to the institution as, those provided to non-affiliates.



Kearny Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, subject to certain exceptions, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Kearny Bank's regulatory capital.

In addition, extensions of credit in excess of certain limits must be approved by Kearny Bank's Board of Directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

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

On May 5, 2022, the FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency released a notice of proposed rulemaking to "strengthen and modernize" the CRA regulations and the related regulatory framework.

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

As a member, Kearny Bank is required to purchase and maintain stock in the FHLB of New York in specified amounts. The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate related collateral and limiting total advances to a member.

The FHLB of New York may pay periodic dividends to members. These dividends are affected by factors such as the FHLB's operating results and statutory responsibilities that may be imposed such as providing certain funding for affordable housing and interest subsidies on advances targeted for low- and moderate-income housing projects. The payment dividends, or any particular amount of dividend, cannot be assumed.

## Other Laws and Regulations

Interest and other charges collected or contracted for by Kearny Bank are subject to state usury laws and federal laws concerning interest rates. Kearny Bank's operations are also subject to federal laws (and their implementing regulations) applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Truth in Savings Act, prescribing disclosure and advertising requirements with respect to deposit accounts.

The operations of Kearny Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act, and Regulation E promulgated thereunder, governing automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21<sup>st</sup> Century Act (also known as "Check 21"), which gives substitute checks, such as digital check images and copies made from that image, the same legal standing as the original paper check;
- USA PATRIOT Act, which requires institutions operating to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to opt out of the sharing of certain personal financial information with unaffiliated third parties.

## **Regulation of Kearny Financial**

**General.** Kearny Financial is a savings and loan holding company within the meaning of federal law. Kearny Financial maintained its savings and loan holding company status (rather than becoming a bank holding company), notwithstanding the June 2017 conversion of Kearny Bank to a New Jersey savings bank charter, through Kearny Bank exercising an election available to it under federal law. Kearny Financial is required to file reports with, and is subject to regulation and examination by, the Federal Reserve Board. Kearny Financial must also obtain regulatory approval from the Federal Reserve Board before engaging in certain transactions, such as mergers with or acquisitions of other depository institutions.

In addition, the Federal Reserve Board has enforcement authority over Kearny Financial and any non-depository subsidiaries. That permits the Federal Reserve Board to restrict or prohibit activities that are determined to pose a serious risk to Kearny Bank. This regulatory structure is intended primarily for protection of Kearny Bank's depositors and not for the benefit of stockholders of Kearny Financial.

The Federal Reserve Board has indicated that, to the greatest extent possible taking into account any unique characteristics of savings and loan holding companies and the requirements of federal law, its approach is to apply to savings and loan holding companies the supervisory principles applicable to the supervision of bank holding companies. The stated objective of the Federal Reserve Board is to ensure the savings and loan holding company and its non-depository subsidiaries are effectively supervised, can serve as a source of strength for and do not threaten the safety and soundness of, the subsidiary depository institution.

**Nonbanking Activities.** As a savings and loan holding company, Kearny Financial is permitted to engage in those activities permissible under federal law for financial holding companies (if certain criteria are met and an election is submitted) and for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act and certain additional activities authorized by federal regulations, subject to the approval of the Federal Reserve Board.

**Mergers and Acquisitions.** Kearny Financial must generally obtain approval from the Federal Reserve Board before acquiring, directly or indirectly, more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation, or purchase of its assets. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating an application for Kearny Financial to acquire control of a savings institution, the Federal Reserve Board considers factors such as the financial and managerial resources and future prospects of Kearny Financial and the target institution, the effect of the acquisition on the risk to the deposit insurance fund, the convenience and the needs of the community served and competitive factors. A merger of another depository institution into Kearny Bank requires the prior approval of the NJDBI and FDIC, based on similar considerations.

**Consolidated Capital Requirements.** Consolidated regulatory capital requirements identical to those applicable to the subsidiary depository institutions (including the community bank leverage ratio alternative) apply to savings and loan holding companies with \$3 billion or more of consolidated assets, including Kearny Financial. Kearny Financial was in compliance with the holding company capital requirements and the capital conservation buffer as of June 30, 2022.

**Source of Strength Doctrine; Dividends.** Federal law extended the source of strength doctrine, which has long applied to bank holding companies, to savings and loan holding companies. The Federal Reserve Board has promulgated regulations implementing the source of strength policy, which requires holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial distress. Further, the Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies that it has also applied to savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior consultation with Federal Reserve supervisory staff as to dividends in certain circumstances, such as when the dividend is not covered by earnings for the period for which it is being paid, when net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or when the prospective rate of earnings retention by the holding company is inconsistent with its capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary depository institution becomes undercapitalized. In addition, a subsidiary institution of a savings and loan holding company must file prior notice with the Federal Reserve Board, and receive its non-objection, before paying a dividend to the parent savings and loan holding company. Federal Reserve Board guidance also provides for regulatory review of certain stock redemption and repurchase proposals by holding companies. These regulatory policies could affect the ability of Kearny Financial to pay dividends, engage in stock redemptions or repurchases or otherwise engage in capital distributions.

**Qualified Thrift Lender Test.** In order for Kearny Financial to be regulated by the Federal Reserve Board as a savings and loan holding company (rather than as a bank holding company), Kearny Bank must remain a qualified thrift lender under applicable law or satisfy the domestic building and loan association test under the Internal Revenue Code. Under the qualified thrift lender test, an institution is generally required to maintain at least 65% of its portfolio assets (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangible assets, including goodwill; and (iii) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed and related securities) in at least nine months out of each 12 month period. As of June 30, 2022, Kearny Bank met the qualified thrift lender test.

**Acquisition of Control.** Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire control of a savings and loan holding company. An acquisition of control can occur upon the acquisition of 10% or more of a class of voting stock of a savings and loan holding company or as otherwise defined by the Federal Reserve Board. Under the Change in Bank Control Act, the Federal Reserve Board has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial condition of the acquirer, and future prospects of the proposed acquirer, the competence and integrity of the proposed acquirer and the effects of the acquisition on competition. Any company that seeks to acquire "control" of Kearny Financial or Kearny Bank, within the meaning of the Savings and Loan Holding Company Act, must file an application, and receive the Federal Reserve Board's prior approval under that statute. The Company would then be subject to regulation as a savings and loan holding company.

The prior approval of the NJDBI would also be necessary for the acquisition of 25% of a class of the Company's voting stock, or "control" as otherwise defined under New Jersey law.

## **Item 1A. Risk Factors**

*An investment in our securities is subject to risks inherent in our business and the industry in which we operate. Before making an investment decision, you should carefully consider the risks and uncertainties described below and all other information included in this Annual Report on Form 10-K. The risks described below may adversely affect our business, financial condition and operating results. In addition to these risks and any other risks or uncertainties described in “Item 1. Business—Forward-Looking Statements” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” there may be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. The value or market price of our securities could decline due to any of these identified or other risks. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.*

### **Economic and Market Area**

**Changes in economic conditions, in particular an economic slowdown in the markets we operate in, could materially and negatively affect our business.**

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Any deterioration in economic conditions, whether caused by national or local concerns, in particular any further economic slowdown in the markets we operate in, could result in the following consequences, any of which could hurt our business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or non-interest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers’ borrowing power, and reducing the value of assets and collateral associated with our existing loans.

Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn or prolonged recession may result in the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt its business. If we experience an economic downturn or a prolonged economic recession occurs in the economy as a whole, borrowers will be less likely to repay their loans as scheduled. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business.

**Inflationary pressures and rising prices may affect our results of operations and financial condition.**

Inflation rose sharply at the end of 2021 and has continued rising in 2022 at levels not seen for over 40 years. Inflationary pressures are currently expected to remain elevated throughout 2022. Small to medium-sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition.

**The COVID-19 pandemic could continue to pose risks to our business, our results of operations and the future prospects of the Company.**

The COVID-19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our clients operate. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 pandemic on the business of the Company, its clients, employees and third-party service providers. The extent of such impact will depend on future developments, which are highly uncertain. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long-term effects on the Company and its clients which are difficult to quantify in the near-term or long-term.

**Severe weather could harm our business.**

Weather-related events, including those that may result from climate change, can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the local economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. The occurrence of a natural disaster could result in one or more of the following: (i) an increase in loan delinquencies; (ii) an increase in problem assets and foreclosures; (iii) a decrease in the demand for our products and services; or (iv) a decrease in the value of the collateral for loans, especially real estate, in turn reducing clients' borrowing power, the value of assets associated with problem loans and collateral coverage. Weather-related events may cause significant flooding and other storm-related damage and these outcomes may become more common in the future.

**Acts of terrorism, public health issues, and geopolitical and other external events could impact our ability to conduct business.**

Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising operating and communication systems. Additionally, the metropolitan New York area and northern New Jersey remain central targets for potential acts of terrorism. Such events could cause significant damage, impact the stability of our facilities and result in additional expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing repayment of our loans, and result in the loss of revenue. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

Additionally, global markets may be adversely affected by the emergence of widespread health emergencies or pandemics, cyber attacks or campaigns, military conflicts, terrorism or other geopolitical events, including the military conflict between Russia and Ukraine. The impact of global market fluctuations may affect our business liquidity. Also, any sudden or prolonged market downturn in the U.S. or abroad as a result of the above factors or otherwise could result in a decline in revenues and adversely affect our results of operations and financial condition, including capital and liquidity levels.

**Our inability to achieve profitability on new branches may negatively affect our earnings.**

We have expanded our presence throughout our market area and we intend to pursue further expansion through de novo branching or the purchase of branches from other financial institutions. The profitability of our expansion strategy will depend on whether the income that we generate from the new branches will offset the increased expenses resulting from operating these branches. We expect that it may take a period of time before these branches can become profitable, especially in areas in which we do not have an established presence. During this period, the expense of operating these branches may negatively affect our net income.

**We face intense competition from other financial services and financial services technology companies, and competitive pressures could adversely affect our business or financial performance.**

We face intense competition in all of its markets and geographic regions. We expect competitive pressures to intensify in the future, especially in light of legislative and regulatory initiatives arising out of the recent global economic crisis, technological innovations that alter the barriers to entry, current economic and market conditions, and government monetary and fiscal policies. Competition with financial services technology companies, or technology companies partnering with financial services companies, may be particularly intense, due to, among other things, differing regulatory environments. Competitive pressures may drive us to take actions that we might otherwise eschew, such as lowering the interest rates or fees on loans or raising the interest rates on deposits in order to keep or attract high-quality clients. These pressures also may accelerate actions that we might otherwise elect to defer, such as substantial investments in technology or infrastructure. The actions that we take in response to competition may adversely affect its results of operations and financial condition. These consequences could be exacerbated if we are not successful in introducing new products and other services, achieving market acceptance of its products and other services, developing and maintaining a strong client base, or prudently managing expenses.

## **Asset Quality and Interest Rate**

### **Changes in interest rates or the shape of the yield curve may adversely affect our profitability and financial condition.**

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

In July 2019, the Federal Reserve Board's Federal Open Market Committee's federal funds rate target was a range of 2.25% – 2.50% and the Committee began lowering the target rate in response to a slowing economy. In March 2020, the Committee quickly lowered the target rate from 1.50% – 1.75% to 0.00 – 0.25% in response to the accelerating COVID-19 crisis and the Committee's objective to inject liquidity into the banking system and stimulate the credit markets. In response to rising inflation in 2022, the Committee increased the target rate to 0.25% – 0.50% in March 2022, to 0.75% – 1.00% in May 2022, to 1.50% – 1.75% in June 2022 and to 2.25% – 2.50% in July 2022. Our net interest spread and net interest margin are at risk of being reduced due to potential increases in our cost of funds that may outpace any increases in our yield on interest-earnings assets.

Interest rates also affect how much money we lend. For example, when interest rates rise, the cost of borrowing increases and loan originations tend to decrease. In addition, changes in interest rates can affect the average life of loans and securities. For example, an increase in interest rates generally results in decreased prepayments of loans and mortgage-backed securities, as borrowers are less likely to refinance their debt. Changes in market interest rates also impact the value of our interest-earning assets and interest-bearing liabilities as well as the value of our derivatives portfolios. In particular, the unrealized gains and losses on securities available for sale and changes in the fair value of interest rate derivatives serving as cash flows hedges are reported, net of tax, in accumulated other comprehensive income which is a component of stockholders' equity. Consequently, declines in the fair value of these instruments resulting from changes in market interest rates have, and may continue to, adversely affect stockholders' equity.

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

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the required amount of the allowance for credit losses, we evaluate loans individually and establish credit loss allowances for specifically identified impairments. For loans not individually analyzed, we estimate losses and establish reserves based on reasonable and supportable forecasts and adjustments for qualitative factors. If the assumptions used in our calculation methodology are incorrect, our allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in further additions to our allowance. Our allowance for credit losses on loans was 0.87% of total loans at June 30, 2022 and significant additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further loan charge-offs. Any increase in our allowance for credit losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

### **A significant portion of our assets consists of investment securities, which generally have lower yields than loans, and we classify a significant portion of our investment securities as available for sale, which creates potential volatility in our equity and may have an adverse impact on our net income.**

As of June 30, 2022, our securities portfolio totaled \$1.46 billion, or 18.9% of our total assets. Investment securities typically have lower yields than loans. For the year ended June 30, 2022, the weighted average yield of our investment securities portfolio was 2.03%, as compared to 3.87% for our loan portfolio.

Accordingly, our net interest margin is lower than it would have been if a higher proportion of our interest-earning assets consisted of loans. Additionally, at June 30, 2022, \$1.34 billion, or 91.9% of our investment securities, are classified as available for sale and reported at fair value with unrealized gains or losses excluded from earnings and reported in other comprehensive income, which affects our reported equity. Accordingly, given the significant size of the investment securities portfolio classified as available for sale and due to possible mark-to-market adjustments of that portion of the portfolio resulting from market conditions, we may experience greater volatility in the value of reported equity. Moreover, given that we actively manage our investment securities portfolio classified as available for sale, we may sell securities which could result in a realized loss, thereby reducing our net income.

**Our increased commercial lending exposes us to additional risk.**

As part of our business strategy we intend to increase our focus on commercial lending. We have increased our commercial lending staff and continue to seek additional commercial lenders to help grow the commercial loan portfolio. Our increased commercial lending, however, exposes us to greater risks than one- to four-family residential lending. Unlike single-family, owner-occupied residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from employment and other income sources, and are secured by real property whose value tends to be more easily ascertainable and realizable, the repayment of commercial loans typically is dependent on the successful operation and income stream of the borrower, which can be significantly affected by economic conditions, and are secured, if at all, by collateral that is more difficult to value or sell or by collateral which may depreciate in value. In addition, commercial loans generally carry larger balances to single borrowers or related groups of borrowers than one- to four-family mortgage loans, which increases the financial impact of a borrower's default.

The risk exposure from our increased commercial lending is also a function of the markets in which we operate. Our commercial lending activity is generally focused on borrowers domiciled, and real estate located, within the states of New Jersey and New York. Regional risk factors and changes to local laws and regulations, including changes to rent regulations or foreclosure laws, may present greater risk than a more geographically diversified portfolio.

**Because we intend to continue to increase our commercial business loan originations, our credit risk will increase.**

Historically we have not had a significant portfolio of commercial business loans. We intend to continue to increase our originations of commercial business loans, including C&I and SBA loans, which generally have more risk than both one- to four-family residential and commercial mortgage loans. Since repayment of commercial business loans may depend on the successful operation of the borrower's business, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy. Because we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for credit losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for credit losses would adversely affect our earnings.

**We have a significant concentration in commercial real estate loans. If our regulators were to curtail our commercial real estate lending activities, our earnings, dividend paying capacity and/or ability to repurchase shares could be adversely affected.**

In 2006, the FDIC, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System issued joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "Guidance"). The Guidance provides that a bank's commercial real estate lending exposure may receive increased supervisory scrutiny when total non-owner occupied commercial real estate loans, including loans secured by multi-family property, non-owner occupied commercial real estate and construction loans, represent 300% or more of an institution's total risk-based capital and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Our level of non-owner occupied commercial real estate equaled 514% of Bank total risk-based capital at June 30, 2022, however our commercial real estate loan portfolio increased by only 12% during the preceding 36 months.

**Income from secondary mortgage market operations is volatile, and we may incur losses with respect to our secondary mortgage market operations that could negatively affect our earnings.**

A component of our business strategy is to sell a portion of residential mortgage loans originated into the secondary market, earning non-interest income in the form of gains on sale. For the year ended June 30, 2022, gains attributable to the sale of residential mortgage loans totaled \$2.4 million, or approximately 17.3% of our non-interest income, a decline of \$2.7 million from \$5.1 million for the year ended June 30, 2021. When interest rates rise, the demand for mortgage loans tends to fall and may reduce the number of loans we can originate for sale. Weak or deteriorating economic conditions also tend to reduce loan demand. If the residential mortgage loan demand decreases or we are unable to sell such loans for an adequate profit, then our non-interest income will likely decline which would adversely affect our earnings.

### **We may be required to record impairment charges with respect to our investment securities portfolio.**

We review our securities portfolio at the end of each quarter to determine whether the fair value is below the current carrying value. When the fair value of any of our investment securities has declined below its carrying value, we are required to assess whether we intend to sell, or it is more than likely than not that we will be required to sell the security before recovery of its amortized cost basis. If this assessment indicates that a credit loss exists, we would be required to record an impairment charge.

We elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies. A possible future downgrade of the sovereign credit ratings of the U.S. government and a decline in the perceived creditworthiness of U.S. government-related obligations could adversely impact the value of our investment securities portfolio. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instruments would significantly exacerbate the other risks to which we are subject and any related adverse effects on the business, financial condition and results of operations.

At June 30, 2022, we had investment securities with fair values of approximately \$1.45 billion on which we had approximately \$128.5 million in gross unrealized losses and \$304,000 of gross unrealized gains. The valuation and liquidity of our securities could be adversely impacted by reduced market liquidity, increased normal bid-asked spreads and increased uncertainty of market participants, which could reduce the market value of our securities, including those with no apparent credit exposure. The valuation of our securities requires judgment and as market conditions change security values may also change. Significant negative changes to valuations could result in impairments in the value of our securities portfolio, which could have an adverse effect on our financial condition or results of operations.

### **Our investments in corporate and municipal debt securities, trust preferred and subordinated debt securities and collateralized loan obligations expose us to additional credit risks.**

The composition and allocation of our investment portfolio has historically emphasized U.S. agency mortgage-backed securities and U.S. agency debentures. While such assets remain a significant component of our investment portfolio at June 30, 2022, prior enhancements to our investment policies, strategies and infrastructure have enabled us to diversify the composition and allocation of our securities portfolio. Such diversification has included investing in corporate debt, municipal obligations, subordinated debt securities issued by financial institutions and collateralized loan obligations. With the exception of collateralized loan obligations, these securities are generally backed only by the credit of their issuers while investments in collateralized loan obligations generally rely on the structural characteristics of an individual tranche within a larger investment vehicle to protect the investor from credit losses arising from borrowers defaulting on the underlying securitized loans.

While we have invested primarily in investment grade securities, these securities are not backed by the federal government and expose us to a greater degree of credit risk than U.S. agency securities. Any decline in the credit quality of these securities exposes us to the risk that the market value of the securities could decrease which may require us to write down their value and could lead to a possible default in payment.

### **Source of Funds**

#### **Our reliance on wholesale funding could adversely affect our liquidity and operating results.**

Among other sources of funds, we rely on wholesale funding, including short- and long-term borrowings, brokered deposits and non-brokered deposits acquired through listing services, to provide funds with which to make loans, purchase investment securities and provide for other liquidity needs. On June 30, 2022, wholesale funding totaled \$1.67 billion, or approximately 21.7% of total assets.

Generally wholesale funding may not be as stable as funding acquired through traditional retail channels. In the future, this funding may not be readily replaced as it matures, or we may have to pay a higher rate of interest to maintain it. Not being able to maintain or replace those funds as they mature would adversely affect our liquidity. Paying higher interest rates to maintain or replace funding would adversely affect our net interest margin and operating results.



## **Information Security**

### **Risks associated with system failures, service interruptions or other performance exceptions could negatively affect our earnings.**

Information technology systems are critical to our business. We use various technology systems to manage our client relationships, general ledger, securities investments, deposits, and loans. We have established policies and procedures to prevent or limit the effect of system failures, service interruptions or other performance exceptions, but such events may still occur or may not be adequately addressed if they do occur. In addition, performance failures or other exceptions of our client-facing technologies could deter clients from using our products and services.

In addition, we outsource a majority of our data processing to certain third-party service providers. If these service providers encounter difficulties, or if we have difficulty communicating with them, our ability to timely and accurately process and account for transactions could be adversely affected.

The occurrence of any system failures, service interruptions or other performance exceptions could damage our reputation and result in a loss of clients and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

### **Risks associated with cyber-security could negatively affect our earnings.**

The financial services industry has experienced an increase in both the number and severity of reported cyber-attacks aimed at gaining unauthorized access to bank systems as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions.

We have established policies and procedures to prevent or limit the impact of security breaches, but such events may still occur or may not be adequately addressed if they do occur. Although we rely on security safeguards to secure our data, these safeguards may not fully protect our systems from compromises or breaches.

We also rely on the integrity and security of a variety of third party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our clients' transaction data may put us at risk for possible losses due to fraud or operational disruption.

Our clients are also the target of cyber-attacks and identity theft. Large scale identity theft could result in clients' accounts being compromised and fraudulent activities being performed in their name. We have implemented certain safeguards against these types of activities but they may not fully protect us from fraudulent financial losses.

The occurrence of a breach of security involving our clients' information, regardless of its origin, could damage our reputation and result in a loss of clients and business and subject us to additional regulatory scrutiny, and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

## **Regulatory Matters**

### **We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations.**

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a company's shareholders. These regulations may sometimes impose significant limitations on operations. The significant federal and state banking regulations that affect us are described under the heading "Item 1. Business—Regulation." These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. New proposals for legislation continue to be introduced in the U.S. Congress that could further alter the regulation of the bank and non-bank financial services industries and the manner in which companies within the industry conduct business.

In addition, federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Future changes in federal policy and at regulatory agencies may occur over time through policy and personnel changes, which could lead to changes involving the level of oversight and focus on the financial services industry. These changes may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

**Changes to tax laws and regulations could adversely affect our financial condition or results of operations.**

Changes in tax laws and/or regulatory requirements could be enacted. These changes in the law may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. An increase in our corporate tax rate could have an unfavorable impact on our earnings and capital generation abilities. Similarly, the Bank's clients could experience varying effects from changes in tax laws and such effects, whether positive or negative, may have a corresponding impact on our business and the economy as a whole. In addition, changes to regulatory requirements could increase our costs of regulatory compliance and may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability.

**Business Issues**

**Our acquisitions and the integration of acquired businesses, subject us to various risks and may not result in all of the cost savings and benefits anticipated, which could adversely affect our financial condition or results of operations.**

We have in the past, and may in the future, seek to grow our business by acquiring other businesses. There is risk that our acquisitions may not have the anticipated positive results, including results relating to: correctly assessing the asset quality of the assets being acquired; the total cost and time required to complete the integration successfully; being able to profitably deploy funds acquired in an acquisition; or the overall performance of the combined entity.

Acquisitions may also result in business disruptions that could cause clients to remove their accounts from us and move their business to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients and employees. The loss of key employees in connection with an acquisition could adversely affect our ability to successfully conduct our business. Acquisition and integration efforts could divert management attention and resources, which could have an adverse effect on our financial condition and results of operations. Additionally, the operation of the acquired branches may adversely affect our existing profitability, and we may not be able to achieve results in the future similar to those achieved by the existing banking business or manage growth resulting from the acquisition effectively.

**Changes to LIBOR may adversely impact the value of, and the return on, our loans, investment securities and derivatives which are indexed to LIBOR.**

ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, ended publication of the one-week and two-month USD LIBOR tenors on December 31, 2021 and the remaining USD LIBOR tenors will end publication in June 2023. Financial services regulators and industry groups have collaborated to develop alternate reference rate indices or reference rates. The transition to a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies. Uncertainty as to the nature of such potential changes, alternative reference rates, the elimination or replacement of LIBOR, or other reforms may adversely affect the value of, and the return on our loans, and our investment securities.

**We hold certain intangible assets, including goodwill, which could become impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings would decrease.**

At June 30, 2022, we had approximately \$213.9 million in intangible assets on our balance sheet comprising \$210.9 million of goodwill and \$3.0 million of core deposit intangibles. We are required to periodically test our goodwill and identifiable intangible assets for impairment. The impairment testing process considers a variety of factors, including the current market price of our common stock, the estimated net present value of our assets and liabilities, and information concerning the terminal valuation of similarly situated insured depository institutions. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. If an impairment loss is recorded, it will have little or no impact on the tangible book value of our common stock or our regulatory capital levels, but recognition of such an impairment loss could significantly restrict Kearny Bank's ability to make dividend payments to Kearny Financial and therefore adversely impact our ability to pay dividends to stockholders.

**We cannot guarantee that our allocation of capital to various alternatives, including stock repurchase plans, will enhance long-term stockholder value.**

Our business plan calls for us to execute a variety of strategies to allocate and deploy any excess capital including, but not limited to, continued organic balance sheet growth and diversification, implementation of stock repurchase plans and payment of regular cash dividends. Additionally, we will carefully consider acquisition opportunities to further deploy capital when we expect such opportunities to significantly enhance long-term shareholder value. If we are unable to effectively and timely deploy capital through these strategies, it may constrain growth in earnings and return on equity and thereby diminish potential growth in stockholder value.

On August 1, 2022, we announced that our Board authorized a new stock repurchase plan to acquire up to 4,000,000 shares of the Company's outstanding common stock. Repurchases are made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance.

The Inflation Reduction Act of 2022, which was signed into law on August 16, 2022, contains a number of changes to U.S. federal tax laws. One such change is a 1% excise tax on stock repurchases, which will increase the cost of stock repurchases and may impact our future decisions on how to return value to stockholders in the most efficient manner.

**Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.**

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and client attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and suffer damage to our reputation.

**Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.**

Our risk management framework is designed to effectively manage and mitigate risk while minimizing exposure to potential losses. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened legislative and regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

**We could be adversely affected by failure in our internal controls.**

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that clients, regulators and investors may have of us. We continue to devote a significant amount of effort, time and resources to continually strengthening our controls and ensuring compliance with complex accounting standards and banking regulations.

**The inability to attract and retain key personnel could adversely affect our business.**

The successful execution of our business strategy is partially dependent on our ability to attract and retain experienced and qualified personnel. Failure to do so could adversely affect our strategy, client relationships and internal operations.

**Item 1B. Unresolved Staff Comments**

Not applicable.

## **Item 2. Properties**

The Company and the Bank conduct business from their corporate headquarters at 120 Passaic Avenue in Fairfield, New Jersey and from administrative offices located in Fairfield, Clifton, Millington and Oakhurst, New Jersey.

At June 30, 2022, the Company operated 45 branch offices located in Bergen, Essex, Hudson, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset and Union counties, New Jersey and Kings and Richmond counties, New York. At June 30, 2022, 19 of our branch offices are leased with remaining terms between 7 months and 10 years. At June 30, 2022, our net investment in property and equipment totaled \$53.3 million.

Additional information regarding our properties as of June 30, 2022, is presented in Note 8 to the audited consolidated financial statements.

## **Item 3. Legal Proceedings**

We are, from time to time, party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. At June 30, 2022, there were no lawsuits pending or known to be contemplated against us that would be expected to have a material effect on operations or income.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### **Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**(a) Market Information.** The Company’s common stock trades on The NASDAQ Global Select Market under the symbol “KRNY.”

Declarations of dividends by the Board of Directors depend on a number of factors, including investment opportunities, growth objectives, financial condition, profitability, tax considerations, minimum capital requirements, regulatory limitations, stock market characteristics and general economic conditions. The timing, frequency and amount of dividends are determined by the Board of Directors.

The Company’s ability to pay dividends may also depend on the receipt of dividends from the Bank, which is subject to a variety of limitations under federal banking regulations regarding the payment of dividends. For discussion of corporate and regulatory limitations applicable to the payment of dividends, see “Item 1. Business-Regulation.”

As of August 19, 2022, there were 4,351 registered holders of record of the Company’s common stock. Certain shares of the Company are held in “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

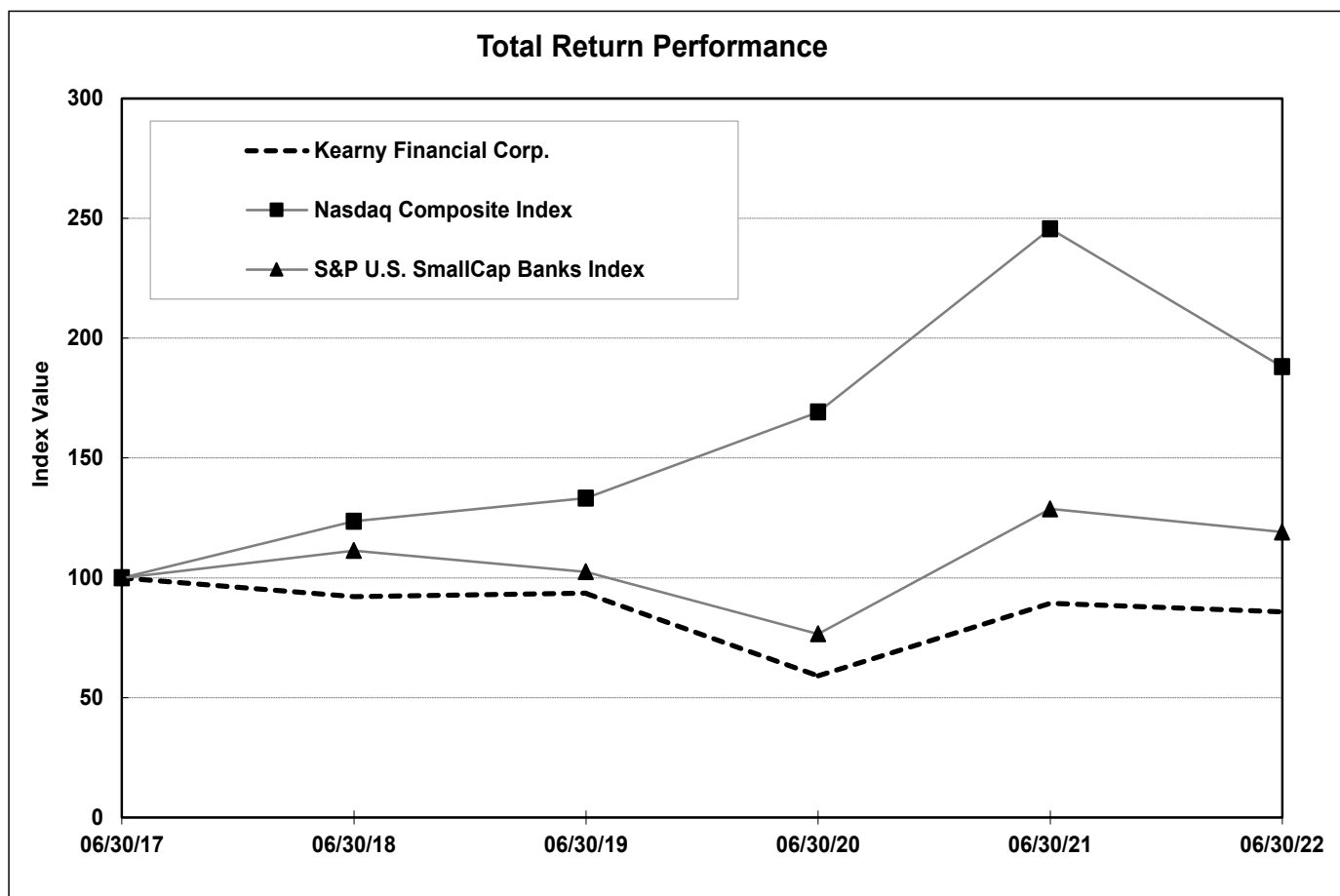
**(b) Use of Proceeds.** Not applicable.

**(c) Issuer Purchases of Equity Securities.** Set forth below is information regarding the Company’s stock repurchases during the fourth quarter of the fiscal year ended June 30, 2022.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
April 1-30, 2022	1,003,199	\$ 12.63	1,003,199	2,076,521
May 1-31, 2022	1,233,710	\$ 11.93	1,233,710	842,811
June 1-30, 2022	517,666	\$ 11.90	517,666	325,145
<b>Total</b>	<b>2,754,575</b>	<b>\$ 12.18</b>	<b>2,754,575</b>	<b>325,145</b>

On September 22, 2021, the Company announced the authorization of a new stock repurchase plan to repurchase up to 7,602,021 shares, or 10% of the shares then outstanding. This plan has no expiration date.

**Stock Performance Graph.** The following graph compares the cumulative total shareholder return on the Company’s common stock with the cumulative total return on the NASDAQ Composite Index and a peer group of the SNL Thrift Index, in each case assuming an investment of \$100 as of June 30, 2017. Total return assumes the reinvestment of all dividends.



	At June 30,					
	2017	2018	2019	2020	2021	2022
Kearny Financial Corp.	\$ 100	\$ 92	\$ 94	\$ 59	\$ 89	\$ 86
NASDAQ Composite	100	124	133	169	246	188
S&P U.S. SmallCap Banks Index	100	111	102	77	129	119

The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. The S&P U.S. SmallCap Banks Index includes all major exchange (NYSE, NYSE American and NASDAQ) traded banks under \$15 billion in market capitalization in S&P’s coverage universe. There can be no assurance that the Company’s future stock performance will be the same or similar to the historical stock performance shown in the graph above. The Company neither makes nor endorses any predictions as to stock performance.

**Item 6. [Reserved]**

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **General**

This discussion and analysis reflects Kearny Financial Corp.’s consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. You should read the information in this section in conjunction with the business and financial information regarding Kearny Financial Corp. and the audited consolidated financial statements and notes thereto contained in this Annual Report on Form 10-K.

### **Critical Accounting Policies and Estimates**

Our accounting policies are integral to understanding the results reported. We describe them in detail in Note 1 to our audited consolidated financial statements. In preparing the audited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the Consolidated Statements of Financial Condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for credit losses.

***Allowance for Credit Losses.*** The determination of our allowance for credit losses on loans (“ACL”) is considered a critical accounting estimate by management because of the high degree of judgment involved in determining qualitative loss factors, the subjectivity of the assumptions used, and the potential for changes in the forecasted economic environment that could result in changes to the amount of the recorded ACL. See Note 1 to our audited consolidated financial statements for a detailed discussion of our accounting policies and methodologies for establishing the ACL.

Management believes the following information may enable investors to better understand the changes in our ACL. Our ACL totaled \$47.1 million and \$58.2 million at June 30, 2022 and 2021, respectively. The \$11.1 million decrease in our ACL was primarily driven by our collectively evaluated loans. The quantitative component of our ACL, which is largely based on the national unemployment rate forecast, decreased \$10.2 million, which resulted from continued improvement in our economic forecast and a reduction in the expected life of various segments of the loan portfolio. The qualitative component of our ACL, which is largely based on management’s judgment of qualitative loss factors, increased \$2.1 million.

Our ACL totaled \$47.1 million at June 30, 2022 and the amount allocated to our collectively evaluated multi-family and nonresidential mortgage loans was \$32.4 million, of which \$28.2 million was attributable to qualitative loss factors. Changes in management’s judgment of qualitative loss factors could result in a significant change to the ACL. As described in Note 1, qualitative loss factors are applied to each portfolio segment with the amounts judgmentally determined by the relative risk to the most severe loss periods identified in the historical loan charge-offs of a peer group of similar-sized regional banks. At June 30, 2022, the most severe historical loss rate for multi-family and nonresidential mortgages loans was 1.92%.

Management performed a hypothetical sensitivity analysis to understand the impact of a change in a key input on our ACL. At June 30, 2022, if the four-quarter national unemployment rate forecast had been 9% rather than an average of approximately 3.5%, our ACL would have been approximately \$11.1 million higher. This sensitivity analysis includes the impact to both the quantitative and qualitative components of our ACL. Changes in quantitative inputs and qualitative loss factors may not occur in the same direction or magnitude across all segments of our loan portfolio and deterioration in some quantitative inputs and qualitative loss factors may offset improvement in others. This sensitivity analysis does not represent a change to our expectations of the economic environment but provides a hypothetical result to assess the sensitivity of the ACL to a change in a key input. This sensitivity analysis does not incorporate changes to management’s judgment of qualitative loss factors.

Our ACL on individually analyzed loans is determined on an individual basis using the present value of expected cash flows discounted using the loan’s effective interest rate or, for collateral-dependent loans, the fair value of the collateral, less estimated selling costs, as applicable. Our ACL on individually analyzed loans decreased \$3.0 million, which resulted from charge-offs, a loan payoff and an increase in the fair value of collateral for collateral-dependent loans, partially offset by new individually analyzed loans.

## Financial Overview

The following financial information and other data in this section are derived from our audited consolidated financial statements and should be read together therewith:

	At June 30,		
	2022	2021	2020
	(In Thousands)		
<b>Balance Sheet Data:</b>			
Cash and equivalents	\$ 101,615	\$ 67,855	\$ 180,967
Assets	7,719,883	7,283,735	6,758,175
Net loans receivable	5,370,787	4,793,229	4,461,070
Investment securities available for sale	1,344,093	1,676,864	1,385,703
Investment securities held to maturity	118,291	38,138	32,556
Goodwill	210,895	210,895	210,895
Deposits	5,862,256	5,485,306	4,430,282
Borrowings	901,337	685,876	1,173,165
Stockholders' equity	894,000	1,042,944	1,084,177

	For the Years Ended June 30,		
	2022	2021	2020
	(Dollars in Thousands, Except Per Share Amounts)		
<b>Summary of Operations:</b>			
Interest income	\$ 226,272	\$ 238,085	\$ 237,804
Interest expense	29,669	49,851	83,854
Net interest income	196,603	188,234	153,950
(Reversal of) provision for credit losses	(7,518)	(1,121)	4,197
Net interest income after (reversal of) provision for credit losses	204,121	189,355	149,753
Non-interest income	13,934	21,026	15,123
Non-interest expenses	125,708	125,885	107,624
Income before taxes	92,347	84,496	57,252
Income tax expense	24,800	21,263	12,287
Net income	<u>\$ 67,547</u>	<u>\$ 63,233</u>	<u>\$ 44,965</u>

<b>Per Share Data:</b>			
Net income per share - Basic and diluted	\$ 0.95	\$ 0.77	\$ 0.55
Weighted average number of common shares outstanding (in thousands):			
Basic	70,911	82,387	82,409
Diluted	70,933	82,391	82,430
Cash dividends per share	\$ 0.43	\$ 0.35	\$ 0.29
Dividend payout ratio <sup>(1)</sup>	45.1%	45.1%	52.8%

(1) Represents cash dividends declared divided by net income.



	<b>At or For the Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Performance ratios:</b>			
Return on average assets (net income divided by average total assets)	0.93%	0.86%	0.67%
Return on average equity (net income divided by average total equity)	6.86%	5.79%	4.10%
Return on average tangible equity (net income divided by average tangible equity) (1)	8.77%	7.22%	5.10%
Net interest rate spread	2.86%	2.61%	2.22%
Net interest margin	2.94%	2.75%	2.45%
Average interest-earning assets to average interest-earning liabilities	118.93%	118.63%	117.24%
Efficiency ratio (non-interest expenses divided by the sum of net interest income and non-interest income)	59.71%	60.16%	63.66%
Non-interest expense to average assets	1.73%	1.72%	1.61%
<b>Asset Quality Ratios:</b>			
Non-performing loans to total loans	1.30%	1.64%	0.82%
Non-performing assets to total assets	1.19%	1.10%	0.55%
Net charge-offs to average loans outstanding	0.07%	0.03%	0.00%
Allowance for credit losses to total loans	0.87%	1.19%	0.82%
Allowance for credit losses to non-performing loans	66.92%	72.92%	101.72%
<b>Capital Ratios:</b>			
Average equity to average assets	13.52%	14.88%	16.39%
Equity to assets at period end	11.58%	14.32%	16.04%
Tangible equity to tangible assets at period end (2)	9.06%	11.72%	13.29%

(1) Average tangible equity equals total average stockholders' equity reduced by average goodwill and average core deposit intangible assets.

(2) Tangible equity equals total stockholders' equity reduced by goodwill and core deposit intangible assets.

## Comparison of Financial Condition at June 30, 2022 and June 30, 2021

**Executive Summary.** Total assets increased by \$436.1 million, or 6.0%, to \$7.72 billion at June 30, 2022 from \$7.28 billion at June 30, 2021. The increase primarily reflected an increase in net loans receivable, partially offset by a decrease in investment securities.

**Investment Securities.** Investment securities available for sale decreased by \$332.8 million to \$1.34 billion at June 30, 2022 from \$1.68 billion at June 30, 2021. This decrease was largely the result of principal repayments totaling \$330.2 million, sales of \$100.3 million and a \$128.0 million decrease in the fair value of the portfolio to a net unrealized loss of \$118.0 million, partially offset by purchases totaling \$229.1 million.

Investment securities held to maturity increased by \$80.2 million to \$118.3 million at June 30, 2022 from \$38.1 million at June 30, 2021. The increase was largely the result of purchases totaling \$86.4 million, partially offset by principal repayments totaling \$6.1 million.

Additional information regarding investment securities at June 30, 2022 is presented under “Item 1. Business” of this Annual Report on Form 10-K, as well as in Note 4 to the audited consolidated financial statements.

**Loans Held-for-Sale.** Loans held-for-sale totaled \$28.9 million at June 30, 2022 as compared to \$16.5 million at June 30, 2021 and are reported separately from the balance of net loans receivable. Loans held-for-sale at June 30, 2022 included \$21.7 million of non-accrual commercial loans. During the year ended June 30, 2022, \$189.1 million of residential mortgage loans were sold, resulting in net gains on sale of \$2.4 million.

**Net Loans Receivable.** Net loans receivable increased by \$577.6 million, or 12.0%, to \$5.37 billion at June 30, 2022 from \$4.79 billion at June 30, 2021. Detail regarding the change in the loan portfolio is presented below:

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>	<u>Increase/ (Decrease)</u>
	(In Thousands)		
<b>Commercial loans:</b>			
Multi-family mortgage	\$ 2,409,090	\$ 2,039,260	\$ 369,830
Nonresidential mortgage	1,019,838	1,079,444	(59,606)
Commercial business	176,807	168,951	7,856
Construction	140,131	93,804	46,327
<b>Total commercial loans</b>	<u>3,745,866</u>	<u>3,381,459</u>	<u>364,407</u>
<b>One- to four-family residential mortgage</b>	1,645,816	1,447,721	198,095
<b>Consumer loans:</b>			
Home equity loans	42,028	47,871	(5,843)
Other consumer	2,866	3,259	(393)
<b>Total consumer loans</b>	<u>44,894</u>	<u>51,130</u>	<u>(6,236)</u>
<b>Total loans</b>	5,436,576	4,880,310	556,266
Unaccreted yield adjustments	(18,731)	(28,916)	10,185
Allowance for credit losses	(47,058)	(58,165)	11,107
<b>Net loans receivable</b>	<u>\$ 5,370,787</u>	<u>\$ 4,793,229</u>	<u>\$ 577,558</u>

Commercial loan origination volume for the year ended June 30, 2022 totaled \$1.37 billion, which comprised \$1.14 billion of commercial mortgage loan originations, \$140.1 million of commercial business loan originations and construction loan disbursements of \$86.4 million. Commercial loan originations for the period were augmented by the purchase of loans totaling \$56.0 million.

One- to four-family residential mortgage loan origination volume, excluding loans held-for-sale, totaled \$415.6 million for the year ended June 30, 2022 and was augmented by the purchase of loans totaling \$67.4 million. Home equity loan and line of credit origination volume for the same period totaled \$18.6 million.

Additional information about our loans at June 30, 2022 is presented under “Item 1. Business” of this Annual Report on Form 10-K, as well as in Note 5 to the audited consolidated financial statements.

**Nonperforming Loans and TDRs.** Nonperforming loans decreased by \$9.5 million to \$70.3 million, or 1.30% of total loans, at June 30, 2022 from \$79.8 million, or 1.64% of total loans, at June 30, 2021. The decrease in nonperforming loans was largely attributable to a decrease of \$10.7 million in non-performing one- to four-family residential mortgage loans.

TDRs are loans where we have modified the contractual terms of the loan as a result of the financial condition of the borrower. Subsequent to their modification, TDRs are placed on non-accrual until such time as satisfactory payment performance has been demonstrated, at which time the loan may be returned to accrual status. At June 30, 2022, we had accruing TDRs totaling \$8.7 million, an increase of \$2.5 million from \$6.2 million at June 30, 2021. At June 30, 2022, we had non-accrual TDRs totaling \$13.5 million, an increase of \$1.9 million from \$11.6 million at June 30, 2021.

Based on Section 4013 of the CARES Act, the 2021 Consolidated Appropriations Act and related regulatory guidance promulgated by federal banking regulators, qualifying loan modifications made in response to the COVID-19 pandemic, including short-term payment deferrals, were not considered to be TDRs. We had no active payment deferrals that were not considered to be TDRs as of June 30, 2022. We had active payment deferrals that were not considered TDRs of \$5.6 million at June 30, 2021.

Additional information about nonperforming loans and TDRs at June 30, 2022 is presented under “Item 1. Business” of this Annual Report on Form 10-K, as well as in Note 5 to the audited consolidated financial statements.

**Allowance for Credit Losses (“ACL”).** At June 30, 2022, the ACL totaled \$47.1 million, or 0.87% of total loans, reflecting a decrease of \$11.1 million from \$58.2 million, or 1.19% of total loans, at June 30, 2021. The decrease was largely attributable to a provision for credit losses reversal of \$7.5 million, primarily driven by continued improvement in our economic forecast, a reduction in the expected life of various segments of the loan portfolio and a net reduction in reserves on loans individually evaluated for impairment. Also contributing to this decrease were net charge-offs of \$3.6 million, of which \$1.8 million had previously been individually reserved for within the ACL.

Additional information about the allowance for credit losses at June 30, 2022 is presented under “Item 1. Business” of this Annual Report on Form 10-K, as well as in Note 1 and Note 6 to the audited consolidated financial statements.

**Other Assets.** The aggregate balance of other assets, including premises and equipment, FHLB stock, interest receivable, goodwill, core deposit intangibles, bank owned life insurance, deferred income taxes, OREO and other assets, increased by \$65.0 million to \$756.2 million at June 30, 2022 from \$691.2 million at June 30, 2021. The increase in other assets primarily reflected a \$39.4 million increase in the fair value of our derivatives portfolio and a \$20.0 million increase in net deferred income tax assets during the year ended June 30, 2022. The remaining change generally reflected normal operating fluctuations within these line items.

**Deposits.** Total deposits increased by \$377.0 million, or 6.9%, to \$5.86 billion at June 30, 2022 from \$5.49 billion at June 30, 2021. The following table sets forth the distribution of, and changes in, deposits, by type, at the dates indicated:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Increase/ (Decrease)</u>
	(In Thousands)		
<b>Non-interest-bearing deposits</b>	\$ 653,899	\$ 593,718	\$ 60,181
<b>Interest-bearing deposits:</b>			
Interest-bearing demand	2,265,597	1,902,478	363,119
Savings	1,053,198	1,111,364	(58,166)
Certificates of deposit	1,889,562	1,877,746	11,816
Interest-bearing deposits	<u>5,208,357</u>	<u>4,891,588</u>	<u>316,769</u>
<b>Total deposits</b>	<u>\$ 5,862,256</u>	<u>\$ 5,485,306</u>	<u>\$ 376,950</u>

Additional information about our deposits at June 30, 2022 is presented under “Item 1. Business” of this Annual Report on Form 10-K, as well as in Note 10 to the audited consolidated financial statements.

**Borrowings.** The balance of borrowings increased by \$215.5 million, or 31.4%, to \$901.3 million at June 30, 2022 from \$685.9 million at June 30, 2021 which included overnight borrowings totaling \$250.0 million and \$20.0 million at June 30, 2022 and 2021, respectively. Partially offsetting the increase in overnight borrowings was the repayment of maturing FHLB advances totaling \$15.0 million.

Additional information about our borrowings at June 30, 2022 is presented under “Item 1. Business” of this Annual Report on Form 10-K, as well as in Note 11 to the audited consolidated financial statements.

**Other Liabilities.** The balance of other liabilities, including advance payments by borrowers for taxes and other miscellaneous liabilities, decreased by \$7.3 million to \$62.3 million at June 30, 2022 from \$69.6 million at June 30, 2021. The change in other liabilities largely reflected the payment of a \$12.5 million loan participation liability which was outstanding at June 30, 2021. The remaining change generally reflected normal operating fluctuations within these line items.

Additional information about our derivatives portfolio at June 30, 2022 is presented under “Item 1. Business” of this Annual Report on Form 10-K, as well as in Note 12 to the audited consolidated financial statements.

**Stockholders’ Equity.** Stockholders’ equity decreased by \$148.9 million to \$894.0 million at June 30, 2022 from \$1.04 billion at June 30, 2021. The decrease in stockholders’ equity during the year ended June 30, 2022 largely reflected share repurchases totaling \$129.5 million and dividends totaling \$30.5 million. In addition, accumulated other comprehensive (loss) income decreased \$61.9 million due primarily to a decline in the fair value of our available for sale securities, partially offset by an increase in the fair value of our derivatives portfolio. These decreases were partially offset by net income of \$67.5 million.

Book value per share decreased by \$0.19 to \$13.02 at June 30, 2022 while tangible book value per share decreased by \$0.59 to \$9.90 at June 30, 2022.

On September 20, 2021, we announced the completion of our seventh stock repurchase plan. On September 22, 2021, we announced the authorization of our eighth stock repurchase plan to repurchase up to 7,602,021, or 10% of the shares then outstanding.

During the year ended June 30, 2022, we repurchased a total of 10,221,525 shares of our common stock in conjunction with our seventh and eighth repurchase plans. Such shares were repurchased at a total cost of \$129.5 million and at an average cost of \$12.67 per share.

Including shares repurchased prior to July 1, 2021, the shares repurchased under our seventh repurchase plan were repurchased at a total cost of \$50.5 million and at an average cost of \$12.43 per share.

Included in the shares repurchased during the year ended June 30, 2022 were 7,276,876 shares that we repurchased pursuant to our eighth repurchase program at a cost of \$93.2 million and at an average cost of \$12.80 per share which represented 95.7% of the total shares authorized to be repurchased.

## **Comparison of Operating Results for the Years Ended June 30, 2022 and June 30, 2021**

**Net Income.** Net income for the year ended June 30, 2022 was \$67.5 million, or \$0.95 per diluted share, an increase of 6.8% from \$63.2 million, or \$0.77 per diluted share for the year ended June 30, 2021. The increase in net income reflected an increase in net interest income and decreases in the provision for credit losses and non-interest expense, partially offset by a decrease in non-interest income and an increase in income tax expense.

**Net Interest Income.** Effective July 1, 2021, loan prepayment penalty income was reclassified to interest income on loans. Previously, loan prepayment penalty income was recorded within non-interest income. Interest income and non-interest income for all periods presented reflect this reclassification.

Net interest income increased by \$8.4 million to \$196.6 million for the year ended June 30, 2022. The increase between the comparative periods resulted from a decrease of \$20.2 million in interest expense, partially offset by a decrease of \$11.8 million in interest income. Included in net interest income for the years ended June 30, 2022 and 2021, respectively, was purchase accounting accretion of \$9.0 million and \$16.6 million and loan prepayment penalty income of \$5.4 million and \$3.7 million.

Net interest margin increased 14 basis points to 2.94% for the year ended June 30, 2022, from 2.80% for the year ended June 30, 2021. The increase reflected decreases in the cost and average balance of interest-bearing liabilities, partially offset by a decrease in the yield on interest-earning assets.

Details surrounding the composition of, and changes to, net interest income are presented in the table below which reflects the components of the average balance sheet and of net interest income for the periods indicated. We derived the average yields and costs by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented with daily balances used to derive average balances. No tax equivalent adjustments have been made to yield or costs. Non-accrual loans were included in the calculation of average balances, however interest receivable on these loans has been fully reserved for and therefore not included in interest income. The yields and costs set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense and exclude the impact of prepayment penalties, which are recorded to non-interest income.

	For the Years Ended June 30,								
	2022			2021			2020		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
(Dollars in Thousands)									
Interest-earning assets:									
Loans receivable <sup>(1)</sup>	\$4,922,400	\$ 190,520	3.87 %	\$4,866,436	\$ 202,240	4.16 %	\$ 4,568,816	\$ 191,599	4.19 %
Taxable investment securities <sup>(2)</sup>	1,622,475	32,746	2.02	1,571,452	31,238	1.99	1,291,516	39,321	3.04
Tax-exempt securities <sup>(2)</sup>	55,981	1,273	2.27	74,604	1,652	2.21	111,477	2,393	2.15
Other interest-earning assets <sup>(3)</sup>	82,802	1,733	2.09	200,435	2,955	1.47	122,278	4,491	3.67
Total interest-earning assets	6,683,658	226,272	3.39	6,712,927	238,085	3.55	6,094,087	237,804	3.90
Non-interest-earning assets	598,712			620,934			595,158		
Total assets	<u>\$7,282,370</u>			<u>\$7,333,861</u>			<u>\$ 6,689,245</u>		
Interest-bearing liabilities:									
Interest-bearing demand	\$2,067,200	\$ 5,123	0.25	\$1,726,190	\$ 7,028	0.41	\$ 1,041,188	\$ 11,433	1.10
Savings	1,088,971	1,190	0.11	1,066,794	3,299	0.31	831,832	6,735	0.81
Certificates of deposit	1,711,276	8,895	0.52	1,931,887	21,208	1.10	2,032,046	40,684	2.00
Total interest-bearing deposits	4,867,447	15,208	0.31	4,724,871	31,535	0.67	3,905,066	58,852	1.51
FHLB advances	679,388	14,067	2.07	931,148	18,314	1.97	1,236,139	24,582	1.99
Other borrowings	72,841	394	0.54	2,563	2	0.06	56,957	420	0.74
Total borrowings	752,229	14,461	1.92	933,711	18,316	1.96	1,293,096	25,002	1.93
Total interest-bearing liabilities	5,619,676	29,669	0.53	5,658,582	49,851	0.88	5,198,162	83,854	1.61
Non-interest-bearing liabilities <sup>(4)</sup>	678,143			583,886			394,758		
Total liabilities	6,297,819			6,242,468			5,592,920		
Stockholders' equity	984,551			1,091,393			1,096,325		
Total liabilities and stockholders' equity	<u>\$7,282,370</u>			<u>\$7,333,861</u>			<u>\$ 6,689,245</u>		
Net interest income		<u>\$ 196,603</u>			<u>\$ 188,234</u>			<u>\$ 153,950</u>	
Interest rate spread <sup>(5)</sup>			<u>2.86 %</u>			<u>2.67 %</u>			<u>2.29 %</u>
Net interest margin <sup>(6)</sup>			<u>2.94 %</u>			<u>2.80 %</u>			<u>2.53 %</u>
Ratio of interest-earning assets to interest-bearing liabilities	<u>1.19X</u>			<u>1.19X</u>			<u>1.17 X</u>		

- (1) Loans held-for-sale and non-accruing loans have been included in loans receivable and the effect of such inclusion was not material. Allowance for credit losses has been included in non-interest-earning assets.
- (2) Fair value adjustments have been excluded in the balances of interest-earning assets.
- (3) Includes interest-bearing deposits at other banks and FHLB of New York capital stock.
- (4) Includes average balances of non-interest-bearing deposits of \$624.7 million, \$518.1 million and \$334.5 million for the years ended June 30, 2022, 2021 and 2020, respectively.
- (5) Interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
- (6) Net interest margin represents net interest income as a percentage of average interest-earning assets.

The following table reflects the dollar amount of changes in interest income and interest expense to changes in volume and in prevailing interest rates during the periods indicated. Each category reflects the: (1) changes in volume (changes in volume multiplied by old rate); (2) changes in rate (changes in rate multiplied by old volume); and (3) net change. The net change attributable to the combined impact of volume and rate has been allocated proportionally to the absolute dollar amounts of change in each.

	Year Ended June 30, 2022			Year Ended June 30, 2021		
	versus			versus		
	Year Ended June 30, 2021			Year Ended June 30, 2020		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In Thousands)			(In Thousands)		
<b>Interest and dividend income</b>						
Loans receivable	\$ 2,337	\$ (14,057)	\$ (11,720)	\$ 12,057	\$ (1,416)	\$ 10,641
Taxable investment securities	1,030	478	1,508	7,341	(15,424)	(8,083)
Tax-exempt securities	(423)	44	(379)	(807)	66	(741)
Other interest-earning assets	(2,157)	935	(1,222)	1,984	(3,520)	(1,536)
Total interest-earning assets	\$ 787	\$ (12,600)	\$ (11,813)	\$ 20,575	\$ (20,294)	\$ 281
<b>Interest expense:</b>						
Interest-bearing demand	\$ 1,216	\$ (3,121)	\$ (1,905)	\$ 5,100	\$ (9,505)	\$ (4,405)
Savings	67	(2,176)	(2,109)	1,533	(4,969)	(3,436)
Certificates of deposit	(2,192)	(10,121)	(12,313)	(1,923)	(17,553)	(19,476)
Borrowings	(3,489)	(366)	(3,855)	(7,067)	381	(6,686)
Total interest-bearing liabilities	\$ (4,398)	\$ (15,784)	\$ (20,182)	\$ (2,357)	\$ (31,646)	\$ (34,003)
Change in net interest income	\$ 5,185	\$ 3,184	\$ 8,369	\$ 22,932	\$ 11,352	\$ 34,284

**Provision for Credit Losses.** The provision for credit losses decreased by \$6.4 million to a provision for credit losses reversal of \$7.5 million for the year ended June 30, 2022, compared to a provision for credit losses reversal of \$1.1 million for the year ended June 30, 2021. The provision for credit losses reversal for the year ended June 30, 2022 was largely attributable to continued improvement in our economic forecast, a reduction in the expected life of various segments of the loan portfolio and a net reduction of \$3.0 million in reserves on individually evaluated loans. By comparison, the provision for credit losses reversal for the year ended June 30, 2021 was largely attributable to a release of reserves within certain loan segments, reflecting the improving credit risk outlook for those asset classes in the reasonable and supportable forecast, partially offset by an increase of \$6.6 million in reserves on individually evaluated loans and \$5.1 million of provision expense on non-PCD loans acquired in connection with the acquisition of MSB.

Additional information regarding the allowance for credit losses and the associated provisions recognized during the year ended June 30, 2022 is presented under “Item 1, Business” on this Annual Report on Form 10-K as well as in Note 1 and Note 6 to the audited consolidated financial statements as well as the Comparison of Financial Condition at June 30, 2022.

**Non-Interest Income.** Non-interest income decreased by \$7.1 million to \$13.9 million for the year ended June 30, 2022.

Fees and service charges increased by \$683,000 to \$2.6 million for the year ended June 30, 2022. The increase primarily reflected increases in various loan-related and deposit-related fees and charges.

Loss on sale and call of securities was \$559,000 during the year ended June 30, 2022 compared to a net gain of \$767,000 recorded during the earlier comparative period.

Gain on sale of loans decreased by \$3.0 million to \$2.5 million for the year ended June 30, 2022. The decrease in gain on sale of loans reflected a decrease in the volume of loans sold between comparative periods coupled with a lower average gain per loan.

Bargain purchase gain of \$3.1 million was recognized in the earlier comparative period in conjunction with the MSB acquisition. There was no such gain recorded in the current period.

The remaining changes in the other components of non-interest income between comparative periods generally reflected normal operating fluctuations within those line items.

**Non-Interest Expense.** Non-interest expense decreased by \$177,000 to \$125.7 million for the year ended June 30, 2022. Included in non-interest expense for the years ended June 30, 2022 and 2021 were various non-recurring items as described below.

Salaries and employee benefits expense increased by \$7.5 million to \$76.3 million for the year ended June 30, 2022. This increase was largely due to the impact of staff additions, annual merit increases, an increase in incentive payments tied to loan origination volume, and increases in benefit plan expense, including employee medical, post-retirement plan and ESOP expense. These increases were partially offset by a decrease in stock-based compensation expense.

Net occupancy expense of premises increased by \$1.4 million to \$14.1 million for the year ended June 30, 2022. This increase was primarily due to non-recurring expenses of \$1.3 million related to the consolidation of three retail branch locations, \$250,000 related to facility repairs made in connection with damage incurred during Tropical Storm Ida and \$187,000 related to the closure of a leased office facility acquired in conjunction with the MSB acquisition.

Equipment and systems expense increased by \$1.0 million to \$15.9 million for the year ended June 30, 2022. This increase was largely attributable to a non-recurring expense of \$800,000 from the early termination of a contract with a service provider.

Director compensation decreased by \$861,000 to \$2.1 million for the year ended June 30, 2022. This decrease primarily reflected a decline in director-related stock-based compensation expense.

Merger-related expenses, associated with our acquisition of MSB, were \$4.3 million for the year ended June 30, 2021. There were no such expenses recorded in the current period.

Debt extinguishment expenses, resulting from the pre-payment of FHLB advances, totaled \$796,000 for the year ended June 30, 2021. There were no such expenses recorded in the current period.

Other expense decreased by \$4.5 million to \$12.8 million for the year ended June 30, 2022. This decrease was primarily attributable to a \$1.8 million decrease in the provision for credit losses on unfunded commitments and a \$1.5 million decrease in asset impairment charges. For the years ended June 30, 2022 and 2021, non-recurring asset impairment charges related to branch and administrative facility consolidation activity totaled \$420,000 and \$1.9 million, respectively.

The remaining changes in the other components of non-interest expense between comparative periods generally reflected normal operating fluctuations within those line items.

**Provision for Income Taxes.** Provision for income taxes increased by \$3.5 million to \$24.8 million for the year ended June 30, 2022, from \$21.3 million for the year ended June 30, 2021. The increase in income tax expense largely reflected a higher level of pre-tax net income, as compared to the prior period.

Effective tax rates for the years ended June 30, 2022 and 2021 were 26.9% and 25.2%, respectively. The effective tax rate for the prior comparative period was impacted by the effects of various non-recurring items recorded in conjunction with our acquisition of MSB, including non-deductible merger related expenses, which were partially offset by a non-taxable bargain purchase gain.

### **Comparison of Operating Results for the Years Ended June 30, 2021 and June 30, 2020**

A comparison of our operating results for the years ended June 30, 2021 and June 30, 2020 can be found in our Annual Report on Form 10-K for the year ended June 30, 2021, filed with the SEC on August 27, 2021.

## Liquidity and Commitments

Liquidity, represented by cash and cash equivalents, is a product of operating, investing and financing activities. Our primary sources of funds are deposits, borrowings, cash flows from investment securities and loans receivable and funds provided from operations. While scheduled payments from the amortization and maturity of loans and investment securities are relatively predictable sources of funds, general interest rates, economic conditions and competition greatly influence deposit flows and prepayments on loans and securities.

Liquidity, at June 30, 2022, included \$101.6 million of short-term cash and equivalents supplemented by \$1.34 billion of investment securities classified as available for sale which can readily be sold or pledged as collateral, if necessary. In addition, we have the capacity to borrow additional funds from the FHLB, Federal Reserve Bank or via unsecured overnight borrowings. As of June 30, 2022, we had the capacity to borrow additional funds totaling \$2.04 billion and \$303.9 million from the FHLB of New York and Federal Reserve Bank, respectively, without pledging additional collateral. As of that same date, we also had access to unsecured overnight borrowings with other financial institutions totaling \$975.0 million, of which none was outstanding.

Deposits increased \$377.0 million to \$5.86 billion at June 30, 2022 from \$5.49 billion at June 30, 2021. The increase in deposit balances reflected a \$316.8 million increase in interest-bearing deposits coupled with a \$60.2 million increase in non-interest-bearing deposits. Borrowings from the FHLB of New York and other sources are generally available to supplement the Bank's liquidity position or to replace maturing deposits. As of June 30, 2022, the Bank's outstanding balance of FHLB advances, excluding fair value adjustments, totaled \$652.5 million. As of the same date, we had \$250.0 million outstanding via the Bank's overnight line of credit with the FHLB.

The following table sets forth information concerning balances and interest rates on our short-term borrowings at and for the periods shown:

	<b>At or For the Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(Dollars in Thousands)</b>		
Balance at end of year	\$ 625,000	\$ 390,000	\$ 865,000
Average balance during year	\$ 476,142	\$ 646,896	\$ 904,262
Maximum outstanding at any month end	\$ 684,000	\$ 815,000	\$ 1,075,000
Weighted average interest rate at end of year	1.72 %	0.33 %	0.45 %
Weighted average interest rate during year	0.58 %	1.08 %	2.14 %

The following table discloses our contractual obligations and commitments as of June 30, 2022:

	<b>At June 30, 2022</b>				
	<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Over Three Years to Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
	<b>(In Thousands)</b>				
<b>Contractual obligations</b>					
Operating lease obligations	\$ 3,614	\$ 6,092	\$ 5,524	\$ 5,956	\$ 21,186
Certificates of deposit	1,468,565	356,374	58,929	5,694	1,889,562
Federal Home Loan Bank Advances	520,000	22,500	103,500	6,500	652,500
Total contractual obligations	<u>\$ 1,992,179</u>	<u>\$ 384,966</u>	<u>\$ 167,953</u>	<u>\$ 18,150</u>	<u>\$ 2,563,248</u>
<b>Commitments</b>					
Undisbursed funds from approved lines of credit <sup>(1)</sup>	\$ 75,755	\$ 18,548	\$ 6,423	\$ 58,540	\$ 159,266
Construction loans in process <sup>(1)</sup>	109,047	-	-	-	109,047
Other commitments to extend credit <sup>(1)</sup>	242,148	-	-	-	242,148
Total commitments	<u>\$ 426,950</u>	<u>\$ 18,548</u>	<u>\$ 6,423</u>	<u>\$ 58,540</u>	<u>\$ 510,461</u>

(1) Represents amounts committed to customers.

In addition to the loan commitments noted above, the pipeline of loans held for sale included \$20.3 million of in process loans whose terms included interest rate locks to borrowers that were paired with a best-efforts commitment to sell the loan to a buyer at a fixed price and within a predetermined timeframe after the sale commitment is established.



In addition to the commitments noted above, we are party to standby letters of credit totaling approximately \$130,000 at June 30, 2022 through which we guarantee certain specific business obligations of our commercial customers.

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 June 30, 2022, outstanding loan commitments relating to loans held in portfolio totaled \$510.5 million compared to \$512.2 million at June 30, 2021. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For additional information regarding our outstanding lending commitments at June 30, 2022, see Note 17 to the audited consolidated financial statements.

## Capital

Consistent with our goals to operate as a sound and profitable financial organization, Kearny Financial and Kearny Bank actively seek to maintain our well capitalized status in accordance with regulatory standards. As of June 30, 2022, Kearny Financial and Kearny Bank exceeded all capital requirements of the federal banking regulators and were considered well capitalized.

The following table presents information regarding the Bank's regulatory capital levels at June 30, 2022:

	At June 30, 2022					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Total capital (to risk-weighted assets)	\$ 672,274	13.10%	\$ 410,429	8.00 %	\$ 513,036	10.00 %
Tier 1 capital (to risk-weighted assets)	642,336	12.52%	307,822	6.00 %	410,429	8.00 %
Common equity tier 1 capital (to risk-weighted assets)	642,336	12.52%	230,866	4.50 %	333,473	6.50 %
Tier 1 capital (to adjusted total assets)	642,336	8.70%	295,163	4.00 %	368,954	5.00 %

The following table presents information regarding the consolidated Company's regulatory capital levels at June 30, 2022:

	At June 30, 2022			
	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
Total capital (to risk-weighted assets)	\$ 778,253	15.17 %	\$ 410,515	8.00 %
Tier 1 capital (to risk-weighted assets)	748,315	14.58 %	307,886	6.00 %
Common equity tier 1 capital (to risk-weighted assets)	748,315	14.58 %	230,914	4.50 %
Tier 1 capital (to adjusted total assets)	748,315	10.14 %	295,290	4.00 %

For additional information regarding regulatory capital at June 30, 2022, see Note 15 to the audited consolidated financial statements.

## Impact of Inflation

The financial statements included in this document have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturities of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation on earnings, as distinct from levels of interest rates, is in the area of non-interest expense. Expense items such as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

### **Recent Accounting Pronouncements**

For a discussion of the expected impact of recently issued accounting pronouncements that have yet to be adopted by us, please refer to Note 2 to the audited consolidated financial statements.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

### **Management of Interest Rate Risk and Market Risk**

The majority of our assets and liabilities are sensitive to changes in interest rates and as such, interest rate risk is a significant form of market risk that we must manage. Interest rate risk is generally defined in regulatory nomenclature as the risk to earnings or capital arising from the movement of interest rates and arises from several risk factors including re-pricing risk, basis risk, yield curve risk and option risk.

We maintain an Asset/Liability Management (“ALM”) program in order to manage our interest rate risk. The program is overseen by the Board of Directors through its Interest Rate Risk Management Committee, which has assigned the responsibility for the operational aspects of the ALM program to our Asset/Liability Management Committee (“ALCO”), which is comprised of various members of the senior and executive management team.

The quantitative analysis that we conduct measures interest rate risk from both a capital and earnings perspective. With regard to earnings, movements in interest rates and the shape of the yield curve significantly influence the amount of net interest income (“NII”) that we recognize. 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 on our interest-earning assets and the interest paid on our interest-bearing liabilities. Our internal interest rate risk analysis calculates the sensitivity of our projected NII over a one year period utilizing a static balance sheet assumption through which incoming and outgoing asset and liability cash flows are reinvested into similar instruments. Product pricing and earning asset prepayment speeds are appropriately adjusted for each rate scenario.

With regard to capital, our internal interest rate risk analysis calculates the sensitivity of our Economic Value of Equity (“EVE”) to movements in interest rates. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet instruments. EVE attempts to quantify our economic value using a discounted cash flow methodology. The degree to which our EVE changes for any hypothetical interest rate scenario from its base case measurement is a reflection of an institution’s sensitivity to interest rate risk.

For both earnings and capital at risk our interest rate risk analysis calculates a base case scenario that assumes no change in interest rates. The model then measures changes 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 with additional scenarios modeled where appropriate. The model requires that interest rates remain positive for all points along the yield curve for each rate scenario which may preclude the modeling of certain falling rate scenarios during periods of lower market interest rates. The relatively low level of interest rates prevalent at June 30, 2022 and June 30, 2021 precluded the modeling of certain falling rate scenarios.

The following tables present the results of our internal EVE and NII analyses as of June 30, 2022 and 2021, respectively:

**June 30, 2022**

Change in Interest Rates			1 to 12 Months		13 to 24 Months	
	\$ Amount of EVE	% Change in EVE	\$ Amount of NII	% Change in NII	\$ Amount of NII	% Change in NII
(Dollars in Thousands)						
+300 bps	1,089,795	(15.37) %	178,865	(13.62) %	214,839	(1.68) %
+200 bps	1,156,219	(10.21) %	187,601	(9.40) %	215,528	(1.36) %
+100 bps	1,239,935	(3.71) %	198,126	(4.32) %	219,594	0.50 %
0 bps	1,287,700	-	207,069	-	218,501	-
-100 bps	1,272,203	(1.20) %	205,241	(0.88) %	204,568	(6.38) %

**June 30, 2021**

Change in Interest Rates			1 to 12 Months		13 to 24 Months	
	\$ Amount of EVE	% Change in EVE	\$ Amount of NII	% Change in NII	\$ Amount of NII	% Change in NII
(Dollars in Thousands)						
+300 bps	1,083,847	(8.82) %	175,830	(8.38) %	196,307	4.11 %
+200 bps	1,132,915	(4.69) %	182,089	(5.12) %	195,756	3.82 %
+100 bps	1,176,890	(0.99) %	187,961	(2.06) %	194,543	3.17 %
0 bps	1,188,656	-	191,908	-	188,559	-
-100 bps	1,071,463	(9.86) %	181,645	(5.35) %	169,447	(10.14) %

There are numerous internal and external factors that may contribute to changes in our EVE and its sensitivity. Changes in the composition and allocation of our balance sheet, or utilization of off-balance sheet instruments such as derivatives, can significantly alter the exposure to interest rate risk as quantified by the changes in the EVE sensitivity measures. Changes to certain external factors, most notably changes in the level of market interest rates and overall shape of the yield curve, can also alter the projected cash flows of our interest-earning assets and interest-costing liabilities and the associated present values thereof.

Subsequent to June 30, 2022, we executed a series of derivative transactions designed to reduce our net interest income exposure to interest rate shocks in a rising rate environment. These transactions were structured to minimize any adverse impact on current period net interest income.

Notwithstanding the rate change scenarios presented in the EVE and NII-based analyses above, future interest rates and their effect on 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 maturities 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 the analyses set forth above. Additionally, an increase in credit risk may result as the ability of borrowers to service their debt may decrease in the event of an interest rate increase.

## **Item 8. Financial Statements and Supplementary Data**

The Company's consolidated financial statements are contained in this Annual Report on Form 10-K immediately following Item 16.

## **Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

### **Item 9A. Controls and Procedures**

#### **(a) Disclosure Controls and Procedures**

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's principal executive officer and principal financial officer have concluded that as of the end of the period covered by this Annual Report on Form 10-K 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 and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

#### **(b) Internal Control over Financial Reporting**

##### ***1. Management's Annual Report on Internal Control Over Financial Reporting.***

Management's report on the Company's internal control over financial reporting appears in the Company's consolidated financial statements that are contained in this Annual Report on Form 10-K immediately following Item 16. Such report is incorporated herein by reference.

##### ***2. Report of Independent Registered Public Accounting Firm.***

The report of Crowe LLP, an independent registered public accounting firm, on the Company's internal control over financial reporting appears in the Company's consolidated financial statements that are contained in this Annual Report on Form 10-K immediately following Item 16. Such report is incorporated herein by reference.

##### ***3. Changes in Internal Control Over Financial Reporting.***

During the last quarter of the year under report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Item 9B. Other Information**

None.

## **Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information that appears under the headings included under “Proposal I – Election of Directors” and “Corporate Governance Matters” in the Registrant’s definitive proxy statement for the Registrant’s 2022 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the Registrant’s fiscal year end (the “Proxy Statement”) is incorporated herein by reference.

The Company has adopted a code of ethics that applies to its principal executive officer and principal financial and accounting officer. A copy of the code of ethics (referred to as Conflicts of Interest & Code of Conduct) is available on our website at [www.kearnybank.com](http://www.kearnybank.com) under the “Investors Relations” link, then within the “Corporate Overview” drop down and under the link “Governance Documents” or without charge upon request to the Corporate Secretary, Kearny Financial Corp., 120 Passaic Avenue, Fairfield, New Jersey 07004.

### **Item 11. Executive Compensation**

The information that appears under the headings “Executive Compensation”, “Director Compensation” and “Compensation Discussion and Analysis” in the Proxy Statement is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

- (a) **Security Ownership of Certain Beneficial Owners.** Information required by this item is incorporated herein by reference to the section captioned “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.
- (b) **Security Ownership of Management.** Information required by this item is incorporated herein by reference to the section captioned “Proposal I – Election of Directors” in the Proxy Statement.
- (c) **Changes in Control.** Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.
- (d) **Securities Authorized for Issuance Under Equity Compensation Plans.** Set forth below is information as of June 30, 2022 with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

	(A) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights <sup>(1)</sup>	(B) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(C) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans - Excluding Securities Reflected in Column (A) <sup>(2)</sup>
<b>Equity compensation plans approved by stockholders:</b>			
2005 Stock Compensation and Incentive Plan	138,040	\$ 10.67	-
2016 Equity Incentive Plan	3,251,166	\$ 15.17	-
2021 Equity Incentive Plan	251,905	\$ -	6,744,285
<b>Equity compensation plans not approved by stockholders:</b>			
None	-	\$ -	-
<b>Total</b>	<b>3,641,111</b>	<b>\$ 14.98</b>	<b>6,744,285</b>

- (1) The number of securities includes 3,133,040 vested options and 120,000 non-vested options outstanding as of June 30, 2022. In addition to these options, 136,166 restricted stock awards and 251,905 restricted stock units were also non-vested as of June 30, 2022. The non-vested options and restricted stock awards are earned at the rate of 20% one year after the date of the grant and 20% annually thereafter. The non-vested restricted stock units are earned at the rate of 33% seven months after the date of the grant and 33% annually thereafter.
- (2) As of June 30, 2022, there were 6,744,285 options (or 2,248,095 restricted stock units or restricted stock awards) remaining available for award under the approved equity compensation plans.

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

The information that appears under the sections captioned “Corporate Governance Matters – Transactions with Certain Related Persons” and “– Board Independence” in the Proxy Statement is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

Our independent registered public accounting firm is Crowe LLP, Grand Rapids, MI, Auditor Firm ID: 173

The information relating to this item is incorporated herein by reference to the information contained under the section captioned “Proposal II – Ratification of Appointment of Independent Auditor” in the Proxy Statement.

## PART IV

### **Item 15. Exhibits, Financial Statement Schedules**

- (1) The following financial statements and the independent auditors' report appear in this Annual Report on Form 10-K immediately after Item 16:

<u>Management Report on Internal Control Over Financial Reporting</u>	F-1
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Statements of Financial Condition as of June 30, 2022 and 2021</u>	F-5
<u>Consolidated Statements of Income For the Years Ended June 30, 2022, 2021 and 2020</u>	F-6
<u>Consolidated Statements of Comprehensive Income For the Years Ended June 30, 2022, 2021 and 2020</u>	F-7
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended June 30, 2022, 2021 and 2020</u>	F-8
<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2022, 2021 and 2020</u>	F-10
<u>Notes to Consolidated Financial Statements</u>	F-12

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

- (3) The following exhibits are filed as part of this Annual Report on Form 10-K:

3.1	<u>Articles of Incorporation of Kearny Financial Corp. (Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-198602), originally filed on September 5, 2014)</u>
3.2	<u>Bylaws of Kearny Financial Corp. (Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-198602), originally filed on September 5, 2014)</u>
4.1	<u>Form of Common Stock Certificate of Kearny Financial Corp. (Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-198602), originally filed on September 5, 2014)</u>
4.2	<u>Description of Capital Stock of Kearny Financial Corp. (Incorporated by reference to Exhibit 4.2 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on August 28, 2020)</u>
10.1	<u>Amended and Restated Employment Agreement between Kearny Bank and Craig Montanaro dated May 18, 2015 (Incorporated by reference to Exhibit 10.1 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†</u>
10.2	<u>Amended and Restated Employment Agreement between Kearny Financial Corp. and Craig Montanaro dated May 18, 2015 (Incorporated by reference to Exhibit 10.2 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†</u>
10.3	<u>Employment Agreement between Kearny Bank and Patrick M. Joyce dated May 18, 2015 (Incorporated by reference to Exhibit 10.4 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†</u>
10.4	<u>Amended and Restated Employment Agreement between Kearny Bank and Eric B. Heyer dated July 1, 2018 (Incorporated by reference to Exhibit 10.5 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on August 28, 2018)†</u>
10.5	<u>Employment Agreement between Kearny Bank and Erika K. Parisi dated May 18, 2015 (Incorporated by reference to Exhibit 10.6 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†</u>
10.6	<u>Employment Agreement between Kearny Bank and Keith Suchodolski dated June 15, 2022 (Incorporated by reference to Exhibit 10.1 to Kearny Financial Corp.'s Current Report on Form 8-K (File No. 001-37399), originally filed on June 16, 2022)†</u>

- 10.7 Employment Agreement between Kearny Bank and Thomas D. DeMedici dated June 21, 2017 (Incorporated by reference to Exhibit 10.8 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on August 28, 2019)†
- 10.8 Change in Control Agreement between Kearny Bank and Anthony V. Bilotta, Jr. dated July 1, 2018 (Incorporated by reference to Exhibit 10.9 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on August 28, 2019)†
- 10.9 Form of Two Year Change in Control Agreement between Kearny Bank and Certain Officers (Incorporated by reference to Exhibit 10.7 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†
- 10.10 Directors Consultation and Retirement Plan as Amended and Restated (Incorporated by reference to Exhibit 10.8 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†
- 10.11 Amended and Restated Benefit Equalization Plan for Pension Plan (Incorporated by reference to Exhibit 10.9 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†
- 10.12 Amended and Restated Benefits Equalization Plan Related to the Employee Stock Ownership Plan (Incorporated by reference to Exhibit 10.10 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†
- 10.13 Kearny Bank Director Life Insurance Agreement (Incorporated by reference to Exhibit 10.1 to Kearny Financial Corp.'s Current Report on Form 8-K (File No. 000-51093), originally filed on August 18, 2005)†
- 10.14 Form of Amendment to Kearny Bank Director Life Insurance Agreement (Incorporated by reference to Exhibit 10.14 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†
- 10.15 Kearny Bank Amended and Restated Executive Life Insurance Agreement with Craig Montanaro (Incorporated by reference to Exhibit 10.2 to Kearny Financial Corp.'s Current Report on Form 8-K (File No. 001-37399), originally filed on June 16, 2022)†
- 10.16 Form of Kearny Bank Executive Life Insurance Agreement with Keith Suchodolski, Patrick M. Joyce and Thomas D. DeMedici (Incorporated by reference to Exhibit 10.2 to Kearny Financial Corp.'s Current Report on Form 8-K (File No. 000-51093), originally filed on August 18, 2005)†
- 10.17 Form of Amendment to Kearny Bank Executive Life Insurance Agreement with Keith Suchodolski, Patrick M. Joyce and Thomas D. DeMedici (Incorporated by reference to Exhibit 10.16 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on September 14, 2015)†
- 10.18 Kearny Bank Amended and Restated Change in Control Severance Pay Plan (Incorporated by reference to Exhibit 10.1 to Kearny Financial Corp.'s Quarterly Report on Form 10-Q (File No. 001-37399), originally filed on May 6, 2022)†
- 10.19 Kearny Bank Executive Management Incentive Compensation Plan (Incorporated by reference to Exhibit 10.20 to Kearny Financial Corp.'s Annual Report on Form 10-K (File No. 001-37399), originally filed on August 28, 2019) †
- 10.20 Amendment to Freeze Benefit Accruals Under the Kearny Financial Corp. Directors Consultation and Retirement Plan (Incorporated by reference to Exhibit 10.1 to Kearny Financial Corp.'s Current Report on Form 8-K (File No. 001-37399), originally filed on December 23, 2015)†
- 10.21 Kearny Financial Corp. 2016 Equity Incentive Plan (Incorporated by reference to Appendix A to Kearny Financial Corp.'s Proxy Statement (File No. 001-37399), originally filed on September 14, 2016)†
- 10.22 Supplemental Executive Retirement Plan by and between Kearny Bank and Craig L. Montanaro effective as of July 1, 2021 (Incorporated by reference to Exhibit 10.1 to Kearny Financial Corp.'s Current Report on Form 8-K (File No. 001-37399), originally filed on June 21, 2021)†
- 10.23 Kearny Financial Corp. 2021 Equity Incentive Plan (Incorporated by reference to Appendix A to Kearny Financial Corp.'s Proxy Statement (File No. 001-37399), originally filed on September 17, 2021)†
- 21 Subsidiaries of Registrant
- 23.1 Consent of Crowe LLP

31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101	The following materials from the Company’s Annual Report to Stockholders on Form 10-K for the year ended June 30, 2021, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder’s Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.
101.INS	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded with the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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† Management contract or compensatory plan or arrangement required to be filed as an exhibit.

**Item 16. Form 10-K Summary**

Not applicable.



August 26, 2022

### **Management Report on Internal Control over Financial Reporting**

The management of Kearny Financial Corp. and Subsidiaries (collectively the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control system is a process designed to provide reasonable assurance to the management and board of directors regarding the preparation and fair presentation of published consolidated financial statements.

The Company’s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on our consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company’s management assessed the effectiveness of internal control over financial reporting as of June 30, 2022. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on its assessment, management believes that, as of June 30, 2022, the Company’s internal control over financial reporting is effective based on those criteria.

The Company’s independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effective operation of the Company’s internal control over financial reporting as of June 30, 2022, a copy of which is included in this annual report.

/s/ Craig L. Montanaro  
\_\_\_\_\_  
Craig L. Montanaro  
President and Chief Executive Officer

/s/ Keith Suchodolski  
\_\_\_\_\_  
Keith Suchodolski  
Senior Executive Vice President and Chief Financial Officer

## Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of  
Kearny Financial Corp. and Subsidiaries  
Fairfield, New Jersey

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Kearny Financial Corp. and Subsidiaries (the “Company”) as of June 30, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended June 30, 2022, and the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of June 30, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

### *Explanatory Paragraph – Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for credit losses effective July 1, 2020 due to the adoption of ASC 326.

### Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

## **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### **Allowance for Credit Losses – Qualitative Factors on Multi-family and Nonresidential Mortgage Loans**

As described in Note 1 to the consolidated financial statements, the Company accounts for credit losses under ASC 326, Financial Instruments – Credit Losses. ASC 326 requires the measurement of expected lifetime credit losses for financial assets measured at amortized cost at the reporting date. As of June 30, 2022, the balance of the allowance for credit losses on loans was \$47.1 million.

Management employs a process and methodology to estimate the allowance for credit losses (“ACL”) on loans that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors involves pooling loans into portfolio segments for loans that share similar risk characteristics. Pooled loan portfolio segments include multi-family, nonresidential mortgage, commercial business, construction, one-to-four-family residential mortgage, home equity and consumer loans.

For pooled loans, the Company primarily utilizes a discounted cash flow (“DCF”) methodology to estimate credit losses over the expected life of the loan. The DCF methodology combines the probability of default, the loss given default, remaining life of the loan and prepayment and curtailment speed assumptions to estimate a reserve for each loan. The loss rates are adjusted by current and forecasted macroeconomic assumptions and return to the mean after the forecasted periods. These quantitative factors are supplemented by qualitative factors reflecting management's view of how losses may vary from those represented by quantitative loss rates. Qualitative factors are applied to each portfolio segment with the amounts determined by correlation of credit stress to the maximum loss factors of a peer group's historical charge-offs. Changes in these assumptions could have a material effect on the Company's financial results.

We identified auditing the qualitative component of the ACL on pooled loans in the multi-family and nonresidential mortgage loan segments as a critical audit matter because the methodology to determine the estimate of credit losses uses subjective judgments by management and is subject to material variability. Performing audit procedures to evaluate the qualitative factors on the multi-family and nonresidential mortgage loan segments involved a high degree of auditor judgment and required significant effort, including the need to involve more experienced audit personnel including the use of internal specialists.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the evaluation of the ACL on pooled loans, including controls addressing:
  - o Methodology and accounting policies.
  - o Data inputs, judgments and calculations used to determine the qualitative factors.
  - o Information technology general controls and application controls.
  - o Management's review of the qualitative factors.
- Substantively testing management's process, including evaluating their judgments and assumptions, for developing the ACL on loans collectively evaluated for impairment, which included:
  - o Evaluation of the appropriateness of the Company's methodology and accounting policies involved in the application of ASC 326.
  - o Testing the mathematical accuracy of the calculation.
  - o Testing the completeness and accuracy of data used in the calculation including utilizing internal specialists to assist in testing the accuracy of the underlying peer data used to develop the maximum loss factors.
  - o Evaluation of the reasonableness of management's judgments related to qualitative factors to determine if they are calculated to conform with management's policies and were consistently applied period over period. Our evaluation considered evidence from internal and external sources and loan portfolio composition and performance.

/s/ Crowe LLP

We have served as the Company's auditor since 2017.

Grand Rapids, Michigan  
August 26, 2022

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**

Consolidated Statements of Financial Condition

(In Thousands, Except Share and Per Share Data)

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
<b><u>Assets</u></b>		
Cash and amounts due from depository institutions	\$ 26,094	\$ 21,463
Interest-bearing deposits in other banks	75,521	46,392
Cash and cash equivalents	101,615	67,855
Investment securities available for sale (amortized cost of \$1,462,124 and \$1,666,853, respectively), net of allowance for credit losses of \$0 at June 30, 2022 and June 30, 2021	1,344,093	1,676,864
Investment securities held to maturity (fair value of \$108,118 and \$39,610, respectively), net of allowance for credit losses of \$0 at June 30, 2022 and June 30, 2021	118,291	38,138
Loans held-for-sale	28,874	16,492
Loans receivable	5,417,845	4,851,394
Less: allowance for credit losses on loans	(47,058)	(58,165)
Net loans receivable	5,370,787	4,793,229
Premises and equipment	53,281	56,338
Federal Home Loan Bank ("FHLB") of New York stock	47,144	36,615
Accrued interest receivable	20,466	19,362
Goodwill	210,895	210,895
Core deposit intangibles	3,020	3,705
Bank owned life insurance	289,177	283,310
Deferred income tax assets, net	49,350	29,323
Other real estate owned	178	178
Other assets	82,712	51,431
<b>Total Assets</b>	<b>\$ 7,719,883</b>	<b>\$ 7,283,735</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b><u>Liabilities</u></b>		
Deposits:		
Non-interest-bearing	\$ 653,899	\$ 593,718
Interest-bearing	5,208,357	4,891,588
Total deposits	5,862,256	5,485,306
Borrowings	901,337	685,876
Advance payments by borrowers for taxes	16,746	15,752
Other liabilities	45,544	53,857
<b>Total Liabilities</b>	<b>6,825,883</b>	<b>6,240,791</b>
<b><u>Stockholders' Equity</u></b>		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$0.01 par value; 800,000,000 shares authorized; 68,666,323 shares and 78,964,859 shares issued and outstanding, respectively	687	790
Paid-in capital	528,396	654,396
Retained earnings	445,451	408,367
Unearned employee stock ownership plan shares; 2,558,895 shares and 2,759,594 shares, respectively	(24,807)	(26,753)
Accumulated other comprehensive (loss) income	(55,727)	6,144
<b>Total Stockholders' Equity</b>	<b>894,000</b>	<b>1,042,944</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 7,719,883</b>	<b>\$ 7,283,735</b>

*See notes to consolidated financial statements.*

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**

Consolidated Statements of Income  
(In Thousands, Except Per Share Data)

	Years Ended June 30,		
	2022	2021	2020
<b>Interest Income</b>			
Loans	\$ 190,520	\$ 202,240	\$ 191,599
Taxable investment securities	32,746	31,238	39,321
Tax-exempt investment securities	1,273	1,652	2,393
Other interest-earning assets	1,733	2,955	4,491
Total Interest Income	226,272	238,085	237,804
<b>Interest Expense</b>			
Deposits	15,208	31,535	58,852
Borrowings	14,461	18,316	25,002
Total Interest Expense	29,669	49,851	83,854
<b>Net Interest Income</b>	196,603	188,234	153,950
(Reversal of) provision for credit losses	(7,518)	(1,121)	4,197
<b>Net Interest Income after (Reversal of) Provision for Credit Losses</b>	204,121	189,355	149,753
<b>Non-Interest Income</b>			
Fees and service charges	2,580	1,897	2,051
(Loss) gain on sale and call of securities	(559)	767	2,250
Gain on sale of loans	2,539	5,574	3,186
Gain (loss) on sale and write down of other real estate owned	5	-	(28)
Income from bank owned life insurance	6,167	6,267	6,225
Electronic banking fees and charges	1,626	1,717	1,245
Bargain purchase gain	-	3,053	-
Other income	1,576	1,751	194
Total Non-Interest Income	13,934	21,026	15,123
<b>Non-Interest Expense</b>			
Salaries and employee benefits	76,264	68,800	62,015
Net occupancy expense of premises	14,114	12,673	11,424
Equipment and systems	15,886	14,870	11,755
Advertising and marketing	2,059	2,161	2,788
Federal deposit insurance premium	2,455	1,940	286
Directors' compensation	2,132	2,993	3,079
Merger-related expenses	-	4,349	951
Debt extinguishment expenses	-	796	2,156
Other expense	12,798	17,303	13,170
Total Non-Interest Expense	125,708	125,885	107,624
<b>Income before Income Taxes</b>	92,347	84,496	57,252
Income tax expense	24,800	21,263	12,287
<b>Net Income</b>	<u>\$ 67,547</u>	<u>\$ 63,233</u>	<u>\$ 44,965</u>
<b>Net Income per Common Share (EPS)</b>			
Basic	\$ 0.95	\$ 0.77	\$ 0.55
Diluted	\$ 0.95	\$ 0.77	\$ 0.55
<b>Weighted Average Number of Common Shares Outstanding</b>			
Basic	70,911	82,387	82,409
Diluted	70,933	82,391	82,430

*See notes to consolidated financial statements.*

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Consolidated Statements of Comprehensive Income  
(In Thousands)

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Net Income</b>	\$ 67,547	\$ 63,233	\$ 44,965
<b>Other Comprehensive (Loss) Income, net of tax:</b>			
Net unrealized (loss) gain on securities available for sale	(91,453)	(8,274)	16,126
Amortization of net unrealized loss on securities available for sale transferred to held to maturity	-	-	421
Net realized loss (gain) on sale and call of securities available for sale	397	(538)	(1,587)
Fair value adjustments on derivatives	28,481	13,470	(16,310)
Benefit plan adjustments	704	229	(232)
<b>Total Other Comprehensive (Loss) Income</b>	<b>(61,871)</b>	<b>4,887</b>	<b>(1,582)</b>
<b>Total Comprehensive Income</b>	<b>\$ 5,676</b>	<b>\$ 68,120</b>	<b>\$ 43,383</b>

*See notes to consolidated financial statements.*

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Consolidated Statements of Changes in Stockholders' Equity  
(In Thousands, Except Per Share Data)

	<u>Common Stock</u>		<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Unearned ESOP Shares</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
<b>Balance - June 30, 2019</b>	89,126	\$ 891	\$ 787,394	\$ 366,679	\$ (30,644)	\$ 2,839	\$ 1,127,159
Net income	-	-	-	44,965	-	-	44,965
Other comprehensive loss, net of income tax	-	-	-	-	-	(1,582)	(1,582)
ESOP shares committed to be released (201 shares)	-	-	409	-	1,945	-	2,354
Stock repurchases	(5,376)	(53)	(69,729)	-	-	-	(69,782)
Stock-based compensation expense	-	-	5,879	-	-	-	5,879
Cancellation of stock issued for restricted stock awards	(87)	(1)	(1,082)	-	-	-	(1,083)
Cash dividends declared (\$0.29 per common share)	-	-	-	(23,733)	-	-	(23,733)
<b>Balance - June 30, 2020</b>	<u>83,663</u>	<u>\$ 837</u>	<u>\$ 722,871</u>	<u>\$ 387,911</u>	<u>\$ (28,699)</u>	<u>\$ 1,257</u>	<u>\$ 1,084,177</u>

	<u>Common Stock</u>		<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Unearned ESOP Shares</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
<b>Balance - June 30, 2020</b>	83,663	\$ 837	\$ 722,871	\$ 387,911	\$ (28,699)	\$ 1,257	\$ 1,084,177
Cumulative effect of change in accounting principle - Topic 326	-	-	-	(14,239)	-	-	(14,239)
Balance - July 1, 2020 as adjusted for change in accounting principle	83,663	837	722,871	373,672	(28,699)	1,257	1,069,938
Net income	-	-	-	63,233	-	-	63,233
Other comprehensive income, net of income tax	-	-	-	-	-	4,887	4,887
ESOP shares committed to be released (201 shares)	-	-	123	-	1,946	-	2,069
Stock option exercise	41	-	373	-	-	-	373
Stock repurchases	(10,567)	(105)	(118,916)	-	-	-	(119,021)
Issuance of stock under stock benefit plans	54	1	(1)	-	-	-	-
Stock-based compensation expense	-	-	5,673	-	-	-	5,673
Cancellation of stock issued for restricted stock awards	(80)	(1)	(802)	-	-	-	(803)
Stock issued in conjunction with the acquisition of MSB Financial Corp.	5,854	58	45,075	-	-	-	45,133
Cash dividends declared (\$0.35 per common share)	-	-	-	(28,538)	-	-	(28,538)
<b>Balance - June 30, 2021</b>	<u>78,965</u>	<u>\$ 790</u>	<u>\$ 654,396</u>	<u>\$ 408,367</u>	<u>\$ (26,753)</u>	<u>\$ 6,144</u>	<u>\$ 1,042,944</u>

*See notes to consolidated financial statements.*



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Consolidated Statements of Changes in Stockholders' Equity  
(In Thousands, Except Per Share Data)

	<u>Common Stock</u>		<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Unearned ESOP Shares</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
<b>Balance - June 30, 2021</b>	78,965	\$ 790	\$ 654,396	\$ 408,367	\$ (26,753)	\$ 6,144	\$ 1,042,944
Net income	-	-	-	67,547	-	-	67,547
Other comprehensive loss, net of income tax	-	-	-	-	-	(61,871)	(61,871)
ESOP shares committed to be released (201 shares)	-	-	600	-	1,946	-	2,546
Stock repurchases	(10,222)	(102)	(129,418)	-	-	-	(129,520)
Stock-based compensation expense	-	-	3,794	-	-	-	3,794
Cancellation of stock issued for restricted stock awards	(77)	(1)	(976)	-	-	-	(977)
Cash dividends declared (\$0.43 per common share)	-	-	-	(30,463)	-	-	(30,463)
<b>Balance - June 30, 2022</b>	<u>68,666</u>	<u>\$ 687</u>	<u>\$ 528,396</u>	<u>\$ 445,451</u>	<u>\$ (24,807)</u>	<u>\$ (55,727)</u>	<u>\$ 894,000</u>

*See notes to consolidated financial statements.*

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(In Thousands)

	Years Ended June 30,		
	2022	2021	2020
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 67,547	\$ 63,233	\$ 44,965
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	5,971	5,862	4,647
Net accretion of premiums, discounts and loan fees and costs	(5,669)	(13,214)	(9,457)
Deferred income taxes and valuation allowance	5,023	4,154	665
Bargain purchase gain	-	(3,053)	-
Amortization of intangible assets	685	980	1,165
Amortization (accretion) of benefit plans' unrecognized net loss (gain)	1,003	320	(328)
(Reversal of) provision for credit losses	(7,518)	(1,121)	4,197
(Gain) loss on sale and write-down of other real estate owned	(5)	-	28
Loans originated for sale	(179,727)	(281,086)	(290,800)
Proceeds from sale of mortgage loans held-for-sale	196,796	290,530	285,436
Gain on sale of mortgage loans held-for-sale, net	(2,415)	(5,147)	(3,159)
Realized loss (gain) on sale/call of securities available for sale	559	(767)	(2,250)
Realized loss on debt extinguishment	-	796	2,156
Realized gain on sale of loans receivable	(124)	(427)	(27)
Realized (gain) loss on disposition of premises and equipment	(363)	(971)	383
Loss on write-down of premises	-	1,938	-
Increase in cash surrender value of bank owned life insurance	(6,167)	(6,267)	(6,225)
ESOP and stock-based compensation expense	6,340	7,742	8,233
(Increase) decrease in interest receivable	(1,104)	(288)	1,987
Decrease (increase) in other assets	7,922	(4,454)	(35,290)
Increase (decrease) in interest payable	853	(638)	(4,887)
(Decrease) increase in other liabilities	(8,306)	17,295	17,885
<b>Net Cash Provided by Operating Activities</b>	<b>81,301</b>	<b>75,417</b>	<b>19,324</b>
<b>Cash Flows from Investing Activities:</b>			
Purchases of:			
Investment securities available for sale	(229,145)	(918,668)	(487,898)
Investment securities held to maturity	(86,406)	(12,321)	-
Proceeds from:			
Repayments/calls/maturities of investment securities available for sale	330,152	517,511	213,052
Repayments/calls/maturities of investment securities held to maturity	6,116	6,595	6,175
Sale of investment securities available for sale	100,336	98,084	164,299
Purchase of loans	(123,389)	(81,707)	(73,262)
Net (increase) decrease in loans receivable	(467,236)	232,660	264,109
Proceeds from sale of loans receivable	1,450	44,801	497
Purchase of interest rate caps	-	-	(1,476)
Proceeds from sale of other real estate owned	708	-	-
Additions to premises and equipment	(2,920)	(5,458)	(5,960)
Proceeds from death benefit of bank owned life insurance	300	-	-
Proceeds from cash settlement of premises and equipment	612	4,852	395
Purchase of FHLB stock	(30,382)	(37)	(4,500)
Redemption of FHLB stock	19,853	25,421	10,036
Net cash acquired in acquisition	-	4,296	-
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(479,951)</b>	<b>(83,971)</b>	<b>85,467</b>

*See notes to consolidated financial statements.*

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows  
(In Thousands)

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Cash Flows from Financing Activities:</b>			
Net increase in deposits	377,606	596,583	283,726
Repayment of term FHLB advances	(4,100,000)	(2,847,796)	(3,508,146)
Proceeds from term FHLB advances	4,085,000	2,345,000	3,390,000
Net increase (decrease) in other short-term borrowings	230,000	(48,635)	(33,035)
Net increase (decrease) in advance payments by borrowers for taxes	994	(1,611)	(318)
Repurchase and cancellation of common stock of Kearny Financial Corp.	(129,520)	(119,021)	(69,782)
Cancellation of shares repurchased on vesting to pay taxes	(977)	(803)	(1,083)
Exercise of stock options	-	373	-
Dividends paid	(30,693)	(28,648)	(24,121)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>432,410</b>	<b>(104,558)</b>	<b>37,241</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>33,760</b>	<b>(113,112)</b>	<b>142,032</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>67,855</b>	<b>180,967</b>	<b>38,935</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 101,615</b>	<b>\$ 67,855</b>	<b>\$ 180,967</b>
<b>Supplemental Disclosures of Cash Flows Information:</b>			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 15,552	\$ 19,734	\$ 11,812
Interest	\$ 28,816	\$ 50,488	\$ 88,740
<b>Non-cash investing and financing activities:</b>			
Transfers from loans receivable to loans held-for-sale	\$ 27,036	\$ 43,579	\$ -
Acquisition of other real estate owned in settlement of loans	\$ 703	\$ -	\$ 206
Fair value of assets acquired, net of cash and cash equivalents acquired	\$ -	\$ 567,816	\$ -
Fair value of liabilities assumed	\$ -	\$ 523,926	\$ -
In conjunction with the adoption of ASU 2019-04, the following qualifying held to maturity securities were transferred to available for sale:			
Debt securities transferred from held to maturity to available for sale	\$ -	\$ -	\$ 537,732
In conjunction with the adoption of ASU 2016-02, the following assets and liabilities were recognized:			
Operating lease right-of-use assets	\$ -	\$ -	\$ 17,243
Operating lease liabilities	\$ -	\$ -	\$ 17,758

*See notes to consolidated financial statements.*

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies**

**Basis of Consolidated Financial Statement Presentation**

The consolidated financial statements include the accounts of Kearny Financial Corp. (the “Company”), its wholly-owned subsidiary, Kearny Bank (the “Bank”) and the Bank’s wholly-owned subsidiary, CJB 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 (“GAAP”), including the elimination of all significant inter-company accounts and transactions during consolidation.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the Consolidated Statements of Financial Condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

**Business of the Company and Subsidiaries**

The Company’s primary business is the ownership and operation of the Bank. The Bank is principally engaged in the business of attracting deposits from the general public and using those deposits, together with other funds, to originate or purchase loans for its portfolio and invest in securities. Loans originated or purchased by the Bank generally include loans collateralized by residential and commercial real estate augmented by secured and unsecured loans to businesses and consumers. The investment securities purchased by the Bank generally include U.S. agency mortgage-backed securities, U.S. government and agency debentures, obligations of state and political subdivisions, corporate bonds, asset-backed securities, collateralized loan obligations and subordinated debt.

At June 30, 2022, the Bank had one wholly owned subsidiary CJB Investment Corp. CJB Investment Corp was organized under New Jersey law as a New Jersey Investment Company and remained active through the three-year period ended June 30, 2022.

**Subsequent Events**

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of June 30, 2022, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date this document was filed.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions and borrowings with original maturities fewer than 90 days.

**Securities**

The Company classifies its investment securities as either available for sale or held to maturity. The Company does not use or maintain a trading account. Investment securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Investment securities not classified as held to maturity are classified as available for sale and reported at fair value, with unrealized holding gains or losses, net of deferred income taxes, reported in the accumulated other comprehensive income (“OCI”) component of stockholders’ equity.

Premiums on callable securities are amortized to the earliest call date whereas discounts on such securities are accreted to the maturity date utilizing the level-yield method. Premiums and discounts on all other securities are generally amortized or accreted to the maturity date utilizing the level-yield method taking into consideration the impact of principal amortization and prepayments, as applicable. Gain or loss on sales of securities is based on the specific identification method.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

Effective July 1, 2020, the Company adopted the provisions of ASC 326 and modified its accounting policy for the assessment of available for sale securities for impairment. Under ASC 326, for available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more than likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating by a rating agency, and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax. The Company elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major agencies and have a long history of no credit losses.

Under ASC 326, changes in the allowance for credit losses are recorded as provision for, or reversal of, credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

**Concentration of Risk**

Financial instruments which potentially subject the Company and its subsidiaries to concentrations of credit risk consist of cash and cash equivalents, investment securities and loans receivable. Cash and cash equivalents include deposits placed in other financial institutions.

Securities include concentrations of investments backed by U.S. government agencies and U.S. government sponsored enterprises ("GSEs"), including the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Government National Mortgage Association ("Ginnie Mae"). Additional concentration risk exists in the Company's municipal and corporate obligations, asset-backed securities and collateralized loan obligations.

The Company's lending activity is primarily concentrated in loans collateralized by real estate in the states of New Jersey and New York. As a result, credit risk is broadly dependent on the real estate market and general economic conditions in these states. Additionally, the Company's lending policies limit the amount of credit extended to any single borrower and their related interests thereby limiting the concentration of credit risk to any single borrower.

**Loans Receivable**

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at unpaid principal balances, net of deferred loan origination fees and costs, purchase discounts and premiums, purchase accounting fair value adjustments and the allowance for credit losses. Interest income is accrued on the unpaid principal balance. Certain direct loan origination costs, net of loan origination fees, are deferred and amortized, using the level-yield method, as an adjustment of yield over the contractual lives of the related loans. Unearned premiums and discounts are amortized or accreted utilizing the level-yield method over the contractual lives of the related loans.

**Loans Held-for-Sale**

Loans held-for-sale are carried at the lower of cost or estimated fair value, as determined on an aggregate basis. Net unrealized losses, if any, are recognized in a valuation allowance through a charge to earnings. Premiums and discounts and origination fees and costs on loans held-for-sale are deferred and recognized as a component of the gain or loss on sale. Gains and losses on sales of loans held-for-sale are recognized on settlement dates and are determined by the difference between the sale proceeds and the carrying value of the loans. These transactions are accounted for as sales based on satisfaction of the criteria for such accounting which provide that, as transferor, control over the loans have been surrendered.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Past Due Loans**

A loan's past due status is generally determined based upon its principal and interest ("P&I") payment delinquency status in conjunction with its past maturity status, where applicable. A loan's P&I payment 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), 30-59 days, 60-89 days and 90 or more days.

**Nonaccrual Loans**

Loans are generally placed on nonaccrual status when contractual payments become 90 or more days past due or when the Company does not expect to receive all P&I payments owed substantially in accordance with the terms of the loan agreement, regardless of past due status. Loans that become 90 day past due, but are well secured and in the process of collection, may remain on accrual status. Nonaccrual loans are generally returned to accrual status when all 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.

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.

**Classification of Assets**

In compliance with the regulatory guidelines, the Company's loan review system includes an evaluation process through which certain loans exhibiting adverse credit quality characteristics are classified as Special Mention, Substandard, Doubtful or Loss.

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 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 within one of four Pass categories or as Watch with the latter denoting a potential deficiency or concern that warrants increased oversight or tracking by management until remediated.

Management generally performs a classification of assets review, including the regulatory classification of assets, on an ongoing 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.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Allowance for Credit Losses**

Effective July 1, 2020, the Company adopted the provisions of ASC 326 and modified its accounting policy for the allowance for credit losses on loans. The allowance for credit losses represents the estimated amount considered necessary to cover lifetime expected credit losses inherent in financial assets at the balance sheet date. The measurement of expected credit losses is applicable to loans receivable and securities measured at amortized cost. It also applies to off-balance sheet credit exposures such as loan commitments and unused lines of credit. The allowance is established through a provision for credit losses that is charged against income. The methodology for determining the allowance for credit losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the forecasted economic environment that could result in changes to the amount of the recorded allowance for credit losses.

The allowance for credit losses is reported separately as a contra-asset on the Consolidated Statements of Financial Condition. The expected credit losses for unfunded lending commitments and unfunded loan commitments is reported on the Consolidated Statements of Financial Condition in other liabilities while the provision for credit losses related to unfunded commitments is reported in other non-interest expense.

*Allowance for Credit Losses on Loans Receivable*

The allowance for credit losses on loans is deducted from the amortized cost basis of the loan to present the net amount expected to be collected. Expected losses are evaluated and calculated on a collective, or pooled, basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether loans within a pool continue to exhibit similar risk characteristics. If the risk characteristics of a loan change, such that they are no longer similar to other loans in the pool, the Company will evaluate the loan with a different pool of loans that share similar risk characteristics. If the loan does not share risk characteristics with other loans, the Company will evaluate the loan on an individual basis. The Company evaluates the pooling methodology at least annually. Loans are charged off against the allowance for credit losses when the Company believes the balances to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off or expected to be charged off.

The Company has chosen to segment its portfolio consistent with the manner in which it manages credit risk. Such segments include multi-family mortgage, nonresidential mortgage, commercial business, construction, one- to four-family residential mortgage, home equity and consumer. For most segments the Company calculates estimated credit losses using a probability of default and loss given default methodology, the results of which are applied to the aggregated discounted cash flow of each individual loan within the segment. The point in time probability of default and loss given default are then conditioned by macroeconomic scenarios to incorporate reasonable and supportable forecasts that affect the collectability of the reported amount.

The Company estimates the allowance for credit losses on loans via a quantitative analysis which considers relevant available information from internal and external sources related to past events and current conditions, as well as the incorporation of reasonable and supportable forecasts. The Company evaluates a variety of factors including third party economic forecasts, industry trends and other available published economic information in arriving at its forecasts. After the reasonable and supportable forecast period, the Company reverts, on a straight-line basis, to the historical average economic variables. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the renewal option is included in the original or modified contract at the reporting date and are not unconditionally cancelable by the Company.

Also included in the allowance for credit losses on loans are qualitative reserves to cover losses that are expected but, in the Company's assessment, may not be adequately represented in the quantitative analysis or the forecasts described above. Factors that the Company considers include changes in lending policies and procedures, business conditions, the nature and size of the portfolio, portfolio concentrations, the volume and severity of past due loans and non-accrual loans, the effect of external factors such as competition, legal and regulatory requirements, among others. Qualitative loss factors are applied to each portfolio segment with the amounts judgmentally determined by the relative risk to the most severe loss periods identified in the historical loan charge-offs of a peer group of similar-sized regional banks.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

*Individually Evaluated Loans*

On a case-by-case basis, the Company may conclude that a loan should be evaluated on an individual basis based on its disparate risk characteristics. When the Company determines that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, for collateral-dependent loans, the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. If the fair value of the collateral is less than the amortized cost basis of the loan, the Company will charge off the difference between the fair value of the collateral, less costs to sell at the reporting date and the amortized cost basis of the loan.

*Acquired Loans*

Acquired loans are included in the Company's calculation of the allowance for credit losses. How the allowance on an acquired loan is recorded depends on whether or not it has been classified as a Purchased Credit Deteriorated ("PCD") loan. PCD loans are loans acquired at a discount that is due, in part, to credit quality. PCD loans are accounted for in accordance with ASC Subtopic 326-20 and are initially recorded at fair value as determined by the sum of the present value of expected future cash flows and an allowance for credit losses at acquisition.

The allowance for PCD loans is recorded through a gross-up effect, while the allowance for acquired non-PCD loans is recorded through provision expense, consistent with originated loans. Thus, the determination of which loans are PCD and non-PCD can have a significant impact on the accounting for these loans. Subsequent to acquisition, the allowance for PCD loans will generally follow the same estimation, provision and charge-off process as non-PCD acquired and originated loans.

*Allowance for Credit Losses on Off-Balance Sheet Commitments*

The Company is required to include unfunded commitments that are expected to be funded in the future within the allowance calculation, other than those that are unconditionally cancelable. To arrive at that reserve, the reserve percentage for each applicable segment is applied to the unused portion of the expected commitment balance and is multiplied by the expected funding rate. To determine the expected funding rate, the Company uses a historical utilization rate for each segment. As noted above, the allowance for credit losses on unfunded loan commitments is included in other liabilities on the Consolidated Statements of Financial Condition and the related credit expense is recorded in other non-interest expense in the Consolidated Statements of Income.

**Troubled Debt Restructurings ("TDR")**

A modification to the terms of a loan is generally considered a TDR if the Company grants a concession to a borrower, that it would not otherwise consider, due to the borrower's financial difficulties. In granting the concession, the Company's general objective is to obtain more cash or other value from the borrower or otherwise increase the probability of repayment.

A TDR may include, but is not necessarily limited to, the modification of loan terms such as the reduction of the loan's stated interest rate, extension of the maturity date and/or reduction or deferral of amounts owed under the terms of the loan agreement. In measuring the impairment associated with restructured loans that qualify as TDRs, the Company compares the present value of the cash flows that are expected to be received in accordance with the loan's modified terms, discounted at the loan's original contractual interest rate, with the pre-modification carrying value to measure impairment.

All restructured loans that qualify as TDRs are placed on nonaccrual status for a period of no less than six months after restructuring, irrespective of the borrower's adherence to a TDR's modified repayment terms during which time TDRs continue to be adversely classified and reported as impaired. TDRs may be returned to accrual status and a non-adverse classification 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.



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System (the “FRB”) and the Federal Deposit Insurance Corporation (the “FDIC”), issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term modifications such as payment deferrals, fee waivers, extension of repayment terms, or other delays in payment that are insignificant. Provisions of the CARES Act largely mirrored the provisions of the interagency statement, providing that modified loans were not to be considered TDRs if they were performing at December 31, 2019 and other considerations set forth in the interagency statements were met. Borrowers considered current were those that were less than 30 days past due at the time a modification program was implemented or at December 31, 2019.

On December 27, 2020, the 2021 Consolidated Appropriations Act (the “2021 CAA”) was signed into law. The \$900 billion relief package included legislation that extended certain relief provisions of the CARES Act that were set to expire on December 31, 2020 to January 1, 2022.

**Premises and Equipment**

Land is carried at cost. Office buildings, leasehold improvements and furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization. Office buildings and furniture, fixtures and equipment are depreciated using the straight-line method over their estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or lives of the assets, whichever is shorter.

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

**Other Real Estate Owned and Other Repossessed Assets**

Properties and other assets acquired through foreclosure, deed in lieu of foreclosure or repossession are carried at estimated fair value, less estimated selling costs. The estimated fair value of real estate property and other repossessed assets is generally based on independent appraisals. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for credit losses. Thereafter, decreases in the properties’ estimated fair value are charged to income along with any additional property maintenance and protection expenses incurred in owning the properties.

**Federal Home Loan Bank Stock**

Federal law requires a member institution of the FHLB system to hold restricted stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost, less any applicable impairment. Both cash and stock dividends are reported as income.

**Goodwill and Other Intangible Assets**

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company performed its annual impairment test during the fourth quarter of its fiscal year ended June 30, 2022. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our audited Consolidated Statements of Financial Condition.

In assessing impairment, the Company has the option to perform a qualitative analysis to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of such events or circumstances, the Company determines it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then the Company would not be required to perform a quantitative impairment test.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

For the year ended June 30, 2022, a qualitative assessment of goodwill was performed and it was determined that it was not more-likely-than-not that the fair value of the Company's single reporting unit was less than its carrying amount, therefore the Company did not perform a quantitative impairment test.

No impairment charges were required to be recorded in the years ended June 30, 2022, 2021 or 2020. If an impairment loss is determined to exist in the future, such loss will be reflected as an expense in the Consolidated Statements of Income in the period in which the impairment loss is determined.

The balance of other intangible assets at June 30, 2022 and 2021 totaled \$3.0 million and \$3.7 million, respectively, representing the remaining unamortized balance of the core deposit intangibles ascribed to the value of deposits acquired by the Bank through the acquisition of Atlas Bank in June 2014, Clifton Bancorp Inc. in April 2018, and MSB Financial Corp. in July 2020.

**Bank Owned Life Insurance**

Bank owned life insurance is accounted for using the cash surrender value method and is recorded at its net realizable value. The change in the net asset value is recorded as a component of non-interest income. A deferred liability has been recorded for the estimated cost of postretirement life insurance benefits accruing to applicable employees and directors covered by an endorsement split-dollar life insurance arrangement.

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

**Income Taxes**

The Company and its subsidiaries file consolidated federal income tax returns. Federal income taxes are allocated to each entity based on their respective contributions to the taxable income of the consolidated income tax returns. Separate state income tax returns are filed for the Company and its subsidiaries on either a consolidated or unconsolidated basis as required by the jurisdiction. The federal income tax rate of 21% was applicable for the years ended June 30, 2022, 2021 or 2020.

Federal and state income taxes have been provided on the basis of the Company's income or loss as reported in accordance with GAAP. The amounts reflected on the Company's state and federal income tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial statement reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods. Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided for the full amount which is not more likely than not to be realized.

The Company identified no significant income tax uncertainties through the evaluation of its income tax positions as of June 30, 2022 and 2021. Therefore, the Company has no unrecognized income tax benefits as of those dates. Our policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income. The Company recognized no material interest and penalties during the years ended June 30, 2022, 2021 or 2020. The tax years subject to examination by the taxing authorities are the years ended June 30, 2021, 2020 and 2019.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Retirement Plans**

Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation plan expense allocates the benefits over years of service.

**Employee Stock Ownership Plan**

The cost of shares issued to the Employee Stock Ownership Plan (the "ESOP"), but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated and unallocated ESOP shares either reduce retained earnings or reduce debt and accrued interest as determined by the ESOP Plan Administrator.

**Comprehensive Income**

Comprehensive income is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes items recorded in equity, such as unrealized gains and losses on securities available for sale, unrealized gains and losses on derivatives, amortization of unrealized gains and losses on securities transferred from available for sale to held to maturity and amortization related to post-retirement obligations. Comprehensive income is presented in a separate Consolidated Statement of Comprehensive Income.

**Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

**Loan Commitments and Related Financial Instruments**

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. (See Note 17, Commitments, for additional information).

**Derivatives and Hedging**

The Company utilizes derivative instruments in the form of interest rate swaps and caps to hedge its exposure to interest rate risk in conjunction with its overall asset/liability management process. In accordance with accounting requirements, the Company formally designates all of its hedging relationships as either fair value hedges, intended to offset the changes in the value of certain financial instruments due to movements in interest rates, or cash flow hedges, intended to offset changes in the cash flows of certain financial instruments due to movement in interest rates, and documents the strategy for undertaking the hedge transactions, and its method of assessing ongoing effectiveness. The Company does not use derivative instruments for speculative purposes.

All derivatives are recognized as either assets or liabilities in the Consolidated Financial Statements at their fair values. For a derivative designated as a cash flow hedge, the gain or loss on the derivative is recorded in other comprehensive income and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. For a derivative designated as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.

Derivative instruments qualify for hedge accounting treatment only if they are designated as such on the date on which the derivative contract is entered and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as undesignated derivatives and would be recorded at fair value with changes in fair value recorded in income.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

The Company discontinues hedge accounting when (a) it determines that a derivative is no longer effective in offsetting changes in cash flows of a hedged item; (b) the derivative expires or is sold, terminated or exercised; (c) probability exists that the forecasted transaction will no longer occur; or (d) management determines that designating the derivative as a hedging instrument is no longer appropriate. In all cases in which hedge accounting is discontinued and a derivative remains outstanding, the Company will carry the derivative at fair value in the Consolidated Financial Statements, recognizing changes in fair value in current period income in the Consolidated Statements of Income.

In accordance with the applicable accounting guidance, the Company takes into account the impact of collateral and master netting agreements that allow it to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related collateral when recognizing derivative assets and liabilities. As a result, the Company's Statements of Financial Condition could reflect derivative contracts with negative fair values included in derivative assets, and contracts with positive fair values included in derivative liabilities.

The Company's interest rate derivatives are comprised of interest rate swaps and caps hedging variable rate wholesale funding and accounted for as cash flow hedges. The carrying value of interest rate derivatives is included in the balance of other assets or other liabilities and comprises the remaining unamortized cost of interest rate caps and the cumulative changes in the fair value of interest rate derivatives. Such changes in fair value are offset against accumulated other comprehensive income, net of deferred income tax.

In general, the cash flows received and/or exchanged with counterparties for those derivatives qualifying as interest rate hedges are generally classified in the financial statements in the same category as the cash flows of the items being hedged.

Interest differentials paid or received under the swap agreements are reflected as adjustments to interest expense. The notional amounts of the interest rate swaps are not exchanged and do not represent exposure to credit loss. In the event of default by a counter party, the risk in these transactions is the cost of replacing the agreements at current market rates.

**Net Income per Common Share ("EPS")**

Basic EPS is based on the weighted average number of common shares actually outstanding adjusted for the 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 or restricted stock units, 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.

**Fair Value of Financial Instruments**

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18, Fair Value of Financial Instruments. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

**Operating Segments**

Public companies are required to report certain financial information about significant revenue-producing segments of the business for which such information is available and utilized by the chief operating decision makers. Substantially all of the Company's operations occur through the Bank and involve the delivery of loan and deposit products to customers. Management makes operating decisions and assesses performance based on an ongoing review of its banking operation, which constitutes the Company's only operating segment for financial reporting purposes.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Stock Compensation Plans**

Compensation expense related to stock options, non-vested stock awards and non-vested stock units is based on the fair value of the award on the measurement date with expense recognized on a straight-line basis over the service period of the award. The fair value of stock options is estimated using the Black-Scholes valuation model. The fair value of non-vested stock awards and stock units is generally the closing market price of the Company's common stock on the date of grant. The Company accounts for forfeitures as they occur.

**Advertising and Marketing Expenses**

The Company expenses advertising and marketing costs as incurred.

**Reclassification**

Certain reclassifications have been made in the consolidated financial statements to conform to the current year presentation. Such reclassifications had no impact on net income or stockholders' equity as previously reported. Specifically, effective July 1, 2021, loan prepayment penalty income was reclassified to interest income on loans. Previously, loan prepayment income was recorded within non-interest income. Interest income and non-interest income for all periods presented reflect this reclassification.

**Note 2 – Recent Accounting Pronouncements**

In March 2022, the Financial Accounting Standards Board (the "FASB") issued ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" to improve the usefulness of information provided to investors about certain loan refinancings, restructurings and write-offs. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings by creditors and enhances disclosure requirements for certain modifications made to borrowers experiencing financial difficulty. In addition, ASU 2022-02 requires public business entities to disclose current-period gross write-offs for financing receivables and net investments in leases by year of origination in the vintage disclosures. For entities that have adopted ASU 2016-13, the amendments in ASU 2022-02 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted, including adoption in an interim period. If an entity elects to early adopt the amendments in ASU 2022-02, the guidance should be applied as of the beginning of the fiscal year that includes the interim period. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The amendments in ASU 2022-02 should be applied prospectively, but for the amendments related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method that would result in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In March 2022, the FASB issued ASU 2022-01, "Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method" which clarifies the guidance in ASC 815 on fair value hedge accounting of interest rate risk for portfolios of financial assets. This ASU amends the guidance in ASU 2017-12 (released in August 2017) that, among other things, established the last-of-layer method to enable fair value hedge accounting for these portfolios to be more accessible. ASU 2022-01 expands the current last-of-layer method to allow multiple hedged layers of a single closed portfolio under this method. To reflect that expansion, the last-of-layer method is renamed the portfolio layer method. The scope of last-of-layer hedging will be expanded so that the portfolio layer method can be utilized for nonprepayable financial assets. In addition, ASU 2022-01 specifies eligible hedging instruments in a single-layer hedge, provides additional guidance on the accounting for and disclosure of hedge basis adjustments under the portfolio layer method, and specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio. For public business entities, the amendments in ASU 2022-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted on any date on or after the issuance of ASU 2022-01 for any entity that has adopted the amendments in ASU 2017-12 for the corresponding period. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated financial statements.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 2 – Recent Accounting Pronouncements (continued)**

**Adoption of New Accounting Standards**

In December 2019, the Financial Accounting Standards Board (the “FASB”) issued *ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes”*. ASU 2019-12 provides amendments intended to reduce the cost and complexity in accounting for income taxes while maintaining or improving the usefulness of the information provided to users of financial statements. ASU 2019-12 removes the following exceptions from ASC 740, Income Taxes: (i) exceptions to the incremental approach for intraperiod tax allocation; (ii) exceptions to accounting for basis differences when a foreign subsidiary becomes an equity method investment or a foreign equity method investment become a subsidiary; and (iii) exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. ASU 2019-12 provides the following amendments that simplify and improve guidance with Topic 740: (i) franchise taxes that are based partially on income; (ii) transactions that result in a step up in the tax basis of goodwill; (iii) separate financial statements of legal entities that are not subject to tax; (iv) enacted changes in tax laws in interim periods; and (v) employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. For public business entities, the amendments in ASU 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company adopted ASU 2019-12 in July 2021, and its adoption did not have a significant impact on the Company's consolidated financial statements.

**Note 3 – Business Combination**

On July 10, 2020, the Company completed its acquisition of MSB, and its subsidiary Millington Bank. In accordance with the merger agreement, approximately \$9.8 million in cash and 5,853,811 shares of Company common stock were distributed to former MSB shareholders in exchange for their shares of MSB common stock.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. Management engaged a third-party specialist to develop the fair value estimate of certain MSB's assets and liabilities as of the acquisition date. The assets and liabilities, both tangible and intangible, were recorded at their fair values as of July 10, 2020 based on management's best estimate using the information available as of the merger date. The application of the acquisition method of accounting resulted in the recognition of bargain purchase gain of \$3.1 million and a core deposit intangible of \$690,000. During the year ended June 30, 2021 the Company completed all MSB tax returns and determined that there were no material adjustments to the balance of deferred income tax assets or bargain purchase gain associated with the MSB acquisition.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 3 – Business Combination (continued)**

The Company recorded the assets acquired and liabilities assumed through the merger at fair value as summarized in the following table:

	<u>As Recorded by MSB</u>	<u>Fair Value Adjustments</u> (In Thousands)	<u>As Recorded at Acquisition</u>
Cash paid for acquisition			\$ 9,830
Value of stock issued			45,133
Total purchase price			<u>\$ 54,963</u>
Cash and cash equivalents	\$ 14,126	\$ -	\$ 14,126
Investment securities	4,000	(510) (a)	3,490
Loans receivable	537,589	(7,345) (b)	530,244
Allowance for loan losses	(6,037)	6,037 (c)	-
Premises and equipment	7,698	(3,221) (d)	4,477
FHLB stock	3,345	-	3,345
Accrued interest receivable	1,701	-	1,701
Core deposit intangibles	-	690 (e)	690
Bank owned life insurance	14,663	-	14,663
Deferred income taxes, net	1,729	2,152 (f)	3,881
Other assets	4,830	495 (g)	5,325
Total assets acquired	<u>\$ 583,644</u>	<u>\$ (1,702)</u>	<u>\$ 581,942</u>
Deposits	\$ 458,392	\$ 1,786 (h)	\$ 460,178
FHLB borrowings	62,900	-	62,900
Advance payments by borrowers for taxes	794	-	794
Other liabilities	810	(756) (i)	54
Total liabilities assumed	<u>\$ 522,896</u>	<u>\$ 1,030</u>	<u>\$ 523,926</u>
Net assets acquired			<u>\$ 58,016</u>
Bargain purchase gain			<u>\$ (3,053)</u>

Explanation of certain fair value related adjustments:

- (a) Represents the fair value adjustments on investment securities.
- (b) Represents the fair value adjustments on the net book value of loans, which includes an interest rate mark and credit mark adjustment and the reversal of deferred fees/costs and premiums.
- (c) Represents the elimination of MSB's allowance for loan losses.
- (d) Represents the fair value adjustments to reflect the fair value of land and buildings and premises and equipment, which will be amortized on a straight-line basis over the estimated useful lives of the individual assets.
- (e) Represents the intangible assets recorded to reflect the fair value of core deposits. The core deposit asset was recorded as an identifiable intangible asset and will be amortized on an accelerated basis over the estimated average life of the deposit base.
- (f) Represents an adjustment to net deferred tax assets resulting from the fair value adjustments related to the acquired assets, liabilities assumed and identifiable intangible assets recorded.
- (g) Represents an adjustment to other assets acquired.
- (h) Represents fair value adjustments on time deposits, which will be treated as a reduction of interest expense over the remaining term of the time deposits.
- (i) Represents an adjustment to other liabilities assumed.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 3 - Business Combination (continued)**

The fair value of loans acquired from MSB was estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. There was no carryover of MSB's allowance for loan losses associated with the loans that were acquired. For information regarding purchased loans which have been determined to be PCD, refer to Note 5, Loans Receivable.

The core deposit intangible asset recognized is being amortized over its estimated useful life of approximately 10 years utilizing the sum-of-the-years digits method.

The fair value of retail demand and interest bearing deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was estimated by discounting the contractual future cash flows using market rates offered for time deposits of similar remaining maturities.

Merger-related expenses were recorded in the Consolidated Statements of Income as a component of non-interest expense and include costs relating to the Company's acquisition of MSB, as described above. These charges represent one-time costs associated with acquisition activities and are expensed as incurred. Direct acquisition and other charges were recorded in merger-related expense on the Consolidated Statements of Income. Direct acquisition and other charges incurred in connection with the MSB merger totaled \$4.3 million and \$951,000 for the years ended June 30, 2021 and 2020, respectively.

**Note 4 - Securities**

The following tables present the amortized cost, gross unrealized gains and losses and estimated fair values for available for sale securities and the amortized cost, gross unrecognized gains and losses and estimated fair values for held to maturity securities as of the dates indicated.

	<b>June 30, 2022</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Allowance for Credit Losses</b>	<b>Fair Value</b>
	(In Thousands)				
<b>Available for sale:</b>					
<b>Debt securities:</b>					
Obligations of state and political subdivisions	\$ 28,485	\$ 39	\$ 89	\$ -	\$ 28,435
Asset-backed securities	169,506	-	2,949	-	166,557
Collateralized loan obligations	315,693	-	7,880	-	307,813
Corporate bonds	159,871	175	6,649	-	153,397
<b>Total debt securities</b>	<b>673,555</b>	<b>214</b>	<b>17,567</b>	<b>-</b>	<b>656,202</b>
<b>Mortgage-backed securities:</b>					
Collateralized mortgage obligations <sup>(1)</sup>	7,451	-	329	-	7,122
Residential pass-through securities <sup>(1)</sup>	595,337	45	80,624	-	514,758
Commercial pass-through securities <sup>(1)</sup>	185,781	1	19,771	-	166,011
<b>Total mortgage-backed securities</b>	<b>788,569</b>	<b>46</b>	<b>100,724</b>	<b>-</b>	<b>687,891</b>
<b>Total securities available for sale</b>	<b>\$ 1,462,124</b>	<b>\$ 260</b>	<b>\$ 118,291</b>	<b>\$ -</b>	<b>\$ 1,344,093</b>

(1) Government-sponsored enterprises.



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 4 – Securities (continued)**

	<b>June 30, 2021</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Allowance for Credit Losses</b>	<b>Fair Value</b>
	<b>(In Thousands)</b>				
<b>Available for sale:</b>					
<b>Debt securities:</b>					
Obligations of state and political subdivisions	\$ 33,800	\$ 803	\$ -	\$ -	\$ 34,603
Asset-backed securities	240,217	2,835	63	-	242,989
Collateralized loan obligations	189,873	177	170	-	189,880
Corporate bonds	155,622	2,802	73	-	158,351
<b>Total debt securities</b>	<b>619,512</b>	<b>6,617</b>	<b>306</b>	<b>-</b>	<b>625,823</b>
<b>Mortgage-backed securities:</b>					
Collateralized mortgage obligations <sup>(1)</sup>	13,420	319	-	-	13,739
Residential pass-through securities <sup>(1)</sup>	744,196	7,443	7,148	-	744,491
Commercial pass-through securities <sup>(1)</sup>	289,725	5,738	2,652	-	292,811
<b>Total mortgage-backed securities</b>	<b>1,047,341</b>	<b>13,500</b>	<b>9,800</b>	<b>-</b>	<b>1,051,041</b>
<b>Total securities available for sale</b>	<b>\$ 1,666,853</b>	<b>\$ 20,117</b>	<b>\$ 10,106</b>	<b>\$ -</b>	<b>\$ 1,676,864</b>

(1) Government-sponsored enterprises.

	<b>June 30, 2022</b>				
	<b>Amortized Cost</b>	<b>Gross Unrecognized Gains</b>	<b>Gross Unrecognized Losses</b>	<b>Allowance for Credit Losses</b>	<b>Fair Value</b>
	<b>(In Thousands)</b>				
<b>Held to maturity:</b>					
<b>Debt securities:</b>					
Obligations of state and political subdivisions	\$ 21,159	\$ 44	\$ 78	\$ -	\$ 21,125
<b>Total debt securities</b>	<b>21,159</b>	<b>44</b>	<b>78</b>	<b>-</b>	<b>21,125</b>
<b>Mortgage-backed securities:</b>					
Residential pass-through securities <sup>(1)</sup>	84,851	-	8,587	-	76,264
Commercial pass-through securities <sup>(1)</sup>	12,281	-	1,552	-	10,729
<b>Total mortgage-backed securities</b>	<b>97,132</b>	<b>-</b>	<b>10,139</b>	<b>-</b>	<b>86,993</b>
<b>Total securities held to maturity</b>	<b>\$ 118,291</b>	<b>\$ 44</b>	<b>\$ 10,217</b>	<b>\$ -</b>	<b>\$ 108,118</b>

(1) Government-sponsored enterprises.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 4 – Securities (continued)**

	June 30, 2021				
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Allowance for Credit Losses	Fair Value
	(In Thousands)				
<b>Held to maturity:</b>					
<b>Debt securities:</b>					
Obligations of state and political subdivisions	\$ 25,824	\$ 1,204	\$ -	\$ -	\$ 27,028
<b>Total debt securities</b>	<b>25,824</b>	<b>1,204</b>	<b>-</b>	<b>-</b>	<b>27,028</b>
<b>Mortgage-backed securities:</b>					
Commercial pass-through securities <sup>(1)</sup>	12,314	268	-	-	12,582
<b>Total mortgage-backed securities</b>	<b>12,314</b>	<b>268</b>	<b>-</b>	<b>-</b>	<b>12,582</b>
<b>Total securities held to maturity</b>	<b>\$ 38,138</b>	<b>\$ 1,472</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 39,610</b>

(1) Government-sponsored enterprises.

Excluding the balances of mortgage-backed securities, the following tables present the amortized cost and estimated fair values of debt securities available for sale and held to maturity, by contractual maturity, at June 30, 2022:

	June 30, 2022	
	Amortized Cost	Fair Value
	(In Thousands)	
<b>Available for sale debt securities:</b>		
Due in one year or less	\$ 2,621	\$ 2,625
Due after one year through five years	18,736	18,725
Due after five years through ten years	336,005	327,737
Due after ten years	316,193	307,115
<b>Total</b>	<b>\$ 673,555</b>	<b>\$ 656,202</b>

	June 30, 2022	
	Amortized Cost	Fair Value
	(In Thousands)	
<b>Held to maturity debt securities:</b>		
Due in one year or less	\$ 5,048	\$ 5,056
Due after one year through five years	14,409	14,377
Due after five years through ten years	1,702	1,692
Due after ten years	-	-
<b>Total</b>	<b>\$ 21,159</b>	<b>\$ 21,125</b>

Sales of securities available for sale were as follows for the periods presented below:

	June 30, 2022	June 30, 2021	June 30, 2020
	(In Thousands)		
<b>Available for sale securities sold:</b>			
Proceeds from sales of securities	\$ 100,336	\$ 98,084	\$ 164,299
Gross realized gains	\$ -	\$ 1,196	\$ 2,363
Gross realized losses	(565)	(470)	(145)
Net (loss) gain on sales of securities	\$ (565)	\$ 726	\$ 2,218

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 4 – Securities (continued)**

Gains resulting from calls of securities available for sale were as follows for the periods presented below:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	(In Thousands)		
<b>Available for sale securities called:</b>			
Gross realized gains	\$ 6	\$ 41	\$ 32
Gross realized losses	-	-	-
Net gain on calls of securities	<u>\$ 6</u>	<u>\$ 41</u>	<u>\$ 32</u>

During the years ended June 30, 2022, 2021 and 2020, there were no gains or losses recorded on sales or calls of securities held to maturity.

The carrying value of securities pledged for borrowings at the FHLB and other institutions, and securities pledged for public funds and other purposes, were as follows as of the dates presented below:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
	(In Thousands)	
<b>Securities pledged:</b>		
Pledged for borrowings at the FHLB of New York	\$ 178,048	\$ 170,120
Pledged to secure public funds on deposit	357,841	137,778
Pledged for potential borrowings at the Federal Reserve Bank of New York	378,071	274,076
Total carrying value of securities pledged	<u>\$ 913,960</u>	<u>\$ 581,974</u>

The following tables present the gross unrealized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time that securities have been in a continuous unrealized loss position within the available for sale portfolio at June 30, 2022 and June 30, 2021:

	June 30, 2022						
	Less than 12 Months		12 Months or More		Number of Securities	Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
(Dollars in Thousands)							
<b>Securities Available for Sale:</b>							
Obligations of state and political subdivisions	\$ 11,310	\$ 89	\$ -	\$ -	30	\$ 11,310	\$ 89
Asset-backed securities	161,303	2,928	5,254	21	15	166,557	2,949
Collateralized loan obligations	236,967	6,435	70,846	1,445	24	307,813	7,880
Corporate bonds	129,407	6,464	3,815	185	27	133,222	6,649
Collateralized mortgage obligations	7,122	329	-	-	6	7,122	329
Commercial pass-through securities	63,045	3,194	102,817	16,577	21	165,862	19,771
Residential pass-through securities	237,928	26,566	274,197	54,058	106	512,125	80,624
<b>Total</b>	<u>\$ 847,082</u>	<u>\$ 46,005</u>	<u>\$ 456,929</u>	<u>\$ 72,286</u>	<u>229</u>	<u>\$ 1,304,011</u>	<u>\$ 118,291</u>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 4 – Securities (continued)**

June 30, 2021							
Less than 12 Months		12 Months or More		Total			
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	
(Dollars in Thousands)							
<b>Securities Available for Sale:</b>							
Asset-backed securities	\$ 12,159	\$ 63	\$ -	\$ -	2	\$ 12,159	\$ 63
Collateralized loan obligations	36,741	9	58,605	161	8	95,346	170
Corporate bonds	15,952	73	-	-	4	15,952	73
Commercial pass-through securities	145,055	2,652	-	-	7	145,055	2,652
Residential pass-through securities	424,112	7,148	-	-	10	424,112	7,148
<b>Total</b>	<u>\$ 634,019</u>	<u>\$ 9,945</u>	<u>\$ 58,605</u>	<u>\$ 161</u>	<u>31</u>	<u>\$ 692,624</u>	<u>\$ 10,106</u>

The following table presents the gross unrecognized losses on securities and the estimated fair value of the related securities, aggregated by investment category and length of time that securities have been in a continuous unrecognized loss position within the held to maturity portfolio at June 30, 2022:

June 30, 2022							
Less than 12 Months		12 Months or More		Total			
Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Number of Securities	Fair Value	Unrecognized Losses	
(Dollars in Thousands)							
<b>Securities Held to Maturity:</b>							
Obligations of state and political subdivisions	\$ 8,681	\$ 78	\$ -	\$ -	15	\$ 8,681	\$ 78
Commercial pass-through securities	10,729	1,552	-	-	1	10,729	1,552
Residential pass-through securities	76,264	8,587	-	-	8	76,264	8,587
<b>Total</b>	<u>\$ 95,674</u>	<u>\$ 10,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>24</u>	<u>\$ 95,674</u>	<u>\$ 10,217</u>

At June 30, 2021, there were no held to maturity securities with unrecognized losses.

Available for sale securities are evaluated to determine if a decline in fair value below the amortized cost basis has resulted from a credit loss or from other factors. An impairment related to credit factors would be recorded through an allowance for credit losses. The allowance is limited to the amount by which the security's amortized cost basis exceeds the fair value. An impairment that has not been recorded through an allowance for credit losses shall be recorded through other comprehensive income, net of applicable taxes. Investment securities will be written down to fair value through the Consolidated Statement of Income if management intends to sell, or may be required to sell, the securities before they recover in value. The issuers of these securities continue to make timely principal and interest payments and none of these securities were past due or were placed in nonaccrual status at June 30, 2022. Management believes that the unrealized losses on these securities are a function of changes in market interest rates and credit spreads, not changes in credit quality. No allowance for credit losses was recorded at June 30, 2022 on available for sale securities.

At June 30, 2022, the held to maturity securities portfolio consisted of agency mortgage-backed securities and obligations of state and political subdivisions. The mortgage-backed securities are issued by U.S. government agencies and are implicitly guaranteed by the U.S. government. The obligations of state and political subdivisions in the portfolio are highly rated by major rating agencies and have a long history of no credit losses. The Company regularly monitors the obligations of state and political subdivisions sector of the market and reviews collectability including such factors as the financial condition of the issuers as well as credit ratings in effect as of the reporting period. No allowance for credit losses was recorded at June 30, 2022 on held to maturity securities.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable**

The following table sets forth the composition of the Company's loan portfolio at June 30, 2022 and June 30, 2021:

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>
	(In Thousands)	
<b>Commercial loans:</b>		
Multi-family mortgage	\$ 2,409,090	\$ 2,039,260
Nonresidential mortgage	1,019,838	1,079,444
Commercial business	176,807	168,951
Construction	140,131	93,804
<b>Total commercial loans</b>	<u>3,745,866</u>	<u>3,381,459</u>
<b>One- to four-family residential mortgage</b>	1,645,816	1,447,721
<b>Consumer loans:</b>		
Home equity loans	42,028	47,871
Other consumer	2,866	3,259
<b>Total consumer loans</b>	<u>44,894</u>	<u>51,130</u>
<b>Total loans</b>	5,436,576	4,880,310
Unaccreted yield adjustments	(18,731)	(28,916)
<b>Total loans receivable, net of yield adjustments</b>	<u>\$ 5,417,845</u>	<u>\$ 4,851,394</u>

The Bank has granted loans to officers and directors of the Company and its subsidiaries and to their associates. As of June 30, 2022 and 2021, such loans totaled approximately \$2.6 million and \$1.4 million, respectively. During the year ended June 30, 2022, the Bank granted two new loans to related parties totaling \$1.8 million. During the year ended June 30, 2021, the Bank granted one new loan to related parties totaling \$478,000.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

**Past Due Loans**

Past due status is based on the contractual payment terms of the loans. The following tables present the payment status of past due loans as of June 30, 2022 and June 30, 2021, by loan segment:

<b>Payment Status June 30, 2022</b>						
	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>90 Days and Over</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total</b>
(In Thousands)						
Multi-family mortgage	\$ 3,148	\$ 3,056	\$ 7,788	\$ 13,992	\$ 2,395,098	\$ 2,409,090
Nonresidential mortgage	4,026	-	18,132	22,158	997,680	1,019,838
Commercial business	98	57	155	310	176,497	176,807
Construction	-	-	-	-	140,131	140,131
One- to four-family residential mortgage	1,525	253	3,455	5,233	1,640,583	1,645,816
Home equity loans	28	35	-	63	41,965	42,028
Other consumer	-	-	-	-	2,866	2,866
<b>Total loans</b>	<b>\$ 8,825</b>	<b>\$ 3,401</b>	<b>\$ 29,530</b>	<b>\$ 41,756</b>	<b>\$ 5,394,820</b>	<b>\$ 5,436,576</b>

<b>Payment Status June 30, 2021</b>						
	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>90 Days and Over</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total</b>
(In Thousands)						
Multi-family mortgage	\$ -	\$ -	\$ 16,094	\$ 16,094	\$ 2,023,166	\$ 2,039,260
Nonresidential mortgage	-	-	32,891	32,891	1,046,553	1,079,444
Commercial business	-	-	401	401	168,550	168,951
Construction	-	-	-	-	93,804	93,804
One- to four-family residential mortgage	382	2,734	5,104	8,220	1,439,501	1,447,721
Home equity loans	6	5	32	43	47,828	47,871
Other consumer	1	-	-	1	3,258	3,259
<b>Total loans</b>	<b>\$ 389</b>	<b>\$ 2,739</b>	<b>\$ 54,522</b>	<b>\$ 57,650</b>	<b>\$ 4,822,660</b>	<b>\$ 4,880,310</b>

**Nonperforming Loans**

Loans are generally placed on nonaccrual status when contractual payments become 90 or more days past due or when the Company does not expect to receive all P&I payment owed substantially in accordance with the terms of the loan agreement, regardless of past due status. Loans that become 90 days past due, but are well secured and in the process of collection, may remain on accrual status. Nonaccrual loans are generally returned to accrual status when all 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. 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. The Company did not recognize interest income on non-accrual loans during the years ended June 30, 2022, 2021 and 2020.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

The following tables present information relating to the Company’s nonperforming loans as of June 30, 2022 and June 30, 2021:

<b>Performance Status</b>						
<b>June 30, 2022</b>						
<b>90 Days and Over Past Due Accruing</b>	<b>Nonaccrual Loans with Allowance for Credit Losses</b>	<b>Nonaccrual Loans with no Allowance for Credit Losses</b>	<b>Total Nonperforming</b>	<b>Performing</b>	<b>Total</b>	
<b>(In Thousands)</b>						
Multi-family mortgage	\$ -	\$ 8,367	\$ 18,286	\$ 26,653	\$ 2,382,437	\$ 2,409,090
Nonresidential mortgage	-	12,602	19,292	31,894	987,944	1,019,838
Commercial business	-	212	81	293	176,514	176,807
Construction	-	-	1,561	1,561	138,570	140,131
One- to four-family residential mortgage	-	3,543	4,946	8,489	1,637,327	1,645,816
Home equity loans	-	302	1,129	1,431	40,597	42,028
Other consumer	-	-	-	-	2,866	2,866
<b>Total loans</b>	<b>\$ -</b>	<b>\$ 25,026</b>	<b>\$ 45,295</b>	<b>\$ 70,321</b>	<b>\$ 5,366,255</b>	<b>\$ 5,436,576</b>

<b>Performance Status</b>						
<b>June 30, 2021</b>						
<b>90 Days and Over Past Due Accruing</b>	<b>Nonaccrual Loans with Allowance for Credit Losses</b>	<b>Nonaccrual Loans with no Allowance for Credit Losses</b>	<b>Total Nonperforming</b>	<b>Performing</b>	<b>Total</b>	
<b>(In Thousands)</b>						
Multi-family mortgage	\$ -	\$ 8,300	\$ 10,226	\$ 18,526	\$ 2,020,734	\$ 2,039,260
Nonresidential mortgage	-	12,612	24,575	37,187	1,042,257	1,079,444
Commercial business	-	236	676	912	168,039	168,951
Construction	-	-	2,228	2,228	91,576	93,804
One- to four-family residential mortgage	-	7,422	11,748	19,170	1,428,551	1,447,721
Home equity loans	-	452	1,292	1,744	46,127	47,871
Other consumer	-	-	-	-	3,259	3,259
<b>Total loans</b>	<b>\$ -</b>	<b>\$ 29,022</b>	<b>\$ 50,745</b>	<b>\$ 79,767</b>	<b>\$ 4,800,543</b>	<b>\$ 4,880,310</b>

**Troubled Debt Restructurings**

On a case-by-case basis, the Company may agree to modify the contractual terms of a loan to assist a borrower who may be experiencing financial difficulty, as well as to preserve the Company’s position in the loan. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a TDR. The Company had TDRs totaling \$22.2 million and \$17.8 million as of June 30, 2022 and June 30, 2021, respectively. The allowance for credit losses associated with the TDRs presented in the tables below totaled \$365,000 and \$256,000 as of June 30, 2022 and June 30, 2021, respectively. As of June 30, 2022, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured in a TDR.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

The following tables present total TDRs at June 30, 2022 and June 30, 2021:

	<b>June 30, 2022</b>					
	<b>Accrual</b>		<b>Non-accrual</b>		<b>Total</b>	
	<b># of Loans</b>	<b>Amount</b>	<b># of Loans</b>	<b>Amount</b>	<b># of Loans</b>	<b>Amount</b>
	(Dollars In Thousands)					
<b>Commercial loans:</b>						
Multi-family mortgage	-	\$ -	2	\$ 5,626	2	\$ 5,626
Nonresidential mortgage	4	389	2	1,565	6	1,954
Commercial business	5	3,631	2	82	7	3,713
Construction	-	-	1	1,561	1	1,561
<b>Total commercial loans</b>	<b>9</b>	<b>4,020</b>	<b>7</b>	<b>8,834</b>	<b>16</b>	<b>12,854</b>
<b>One- to four-family residential mortgage</b>	<b>29</b>	<b>4,488</b>	<b>16</b>	<b>3,314</b>	<b>45</b>	<b>7,802</b>
<b>Consumer loans:</b>						
Home equity loans	5	164	2	1,364	7	1,528
<b>Total</b>	<b>43</b>	<b>\$ 8,672</b>	<b>25</b>	<b>\$ 13,512</b>	<b>68</b>	<b>\$ 22,184</b>

	<b>June 30, 2021</b>					
	<b>Accrual</b>		<b>Non-accrual</b>		<b>Total</b>	
	<b># of Loans</b>	<b>Amount</b>	<b># of Loans</b>	<b>Amount</b>	<b># of Loans</b>	<b>Amount</b>
	(Dollars In Thousands)					
<b>Commercial loans:</b>						
Multi-family mortgage	-	\$ -	1	\$ 2,896	1	\$ 2,896
Nonresidential mortgage	1	105	6	2,275	7	2,380
Commercial business	3	3,755	6	693	9	4,448
Construction	-	-	1	2,228	1	2,228
<b>Total commercial loans</b>	<b>4</b>	<b>3,860</b>	<b>14</b>	<b>8,092</b>	<b>18</b>	<b>11,952</b>
<b>One- to four-family residential mortgage</b>	<b>18</b>	<b>2,216</b>	<b>20</b>	<b>3,405</b>	<b>38</b>	<b>5,621</b>
<b>Consumer loans:</b>						
Home equity loans	4	159	3	68	7	227
<b>Total</b>	<b>26</b>	<b>\$ 6,235</b>	<b>37</b>	<b>\$ 11,565</b>	<b>63</b>	<b>\$ 17,800</b>



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

The following table presents information regarding TDRs that occurred during the years ended June 30, 2022 and 2021:

	Year Ended June 30, 2022			Year Ended June 30, 2021		
	# of Loans	Pre- modification Recorded Investment	Post- modification Recorded Investment	# of Loans	Pre- modification Recorded Investment	Post- modification Recorded Investment
	(Dollars In Thousands)					
Multi-family mortgage	2	\$ 12,091	\$ 12,073	-	\$ -	\$ -
One- to four-family residential mortgage	13	3,812	3,924	4	877	881
Home equity loans	2	1,477	1,477	3	70	70
<b>Total</b>	<u>17</u>	<u>\$ 17,380</u>	<u>\$ 17,474</u>	<u>7</u>	<u>\$ 947</u>	<u>\$ 951</u>

During the years ended June 30, 2022 and June 30, 2021, there were no charge-offs related to TDRs. During the year ended June 30, 2022, there were three TDR defaults totaling \$305,000. During the year ended June 30, 2021, there were no defaults of TDRs.

Loan modifications generally involve a reduction in interest rates and/or extension of maturity dates and also may include step up interest rates in their modified terms which will impact their weighted average yield in the future. The loans which qualified as TDRs during the year ended June 30, 2022, capitalized prior past due amounts, reduced the interest rate or modified the repayment terms.

In March 2020, various regulatory agencies, including the Board of Governors of the FRB and the FDIC, issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This included short-term modifications such as payment deferrals, fee waivers, extension of repayment terms, or other delays in payment that were insignificant. Provisions of the CARES Act largely mirrored the provisions of the interagency statement, providing that modified loans were not to be considered TDRs if they were performing at December 31, 2019 and other considerations set forth in the interagency statements were met. Borrowers considered current were those that were less than 30 days past due at the time a modification program was implemented or at December 31, 2019.

On December 27, 2020, the 2021 CAA was signed into law. The \$900 billion relief package included legislation that extended certain relief provisions of the CARES Act that were set to expire on December 31, 2020 to January 1, 2022. As of June 30, 2022, the Company did not have any non-TDR loan modifications granted under the CARES Act.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

**Individually Analyzed Loans**

Individually analyzed loans include loans which do not share similar risk characteristics with other loans. TDRs will generally be evaluated for individual impairment, however, after a period of sustained repayment performance which permits the credit to be returned to accrual status, a TDR would generally be removed from individual impairment analysis and returned to its corresponding pool. As of June 30, 2022, the carrying value of individually analyzed loans, including loans acquired with deteriorated credit quality that were individually analyzed, totaled \$70.3 million, of which \$63.3 million were considered collateral dependent.

For collateral dependent loans where management has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and repayment of the loan is to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral, less costs to sell, and the amortized cost basis of the loan as of the measurement date. See Note 18 for additional disclosure regarding fair value of individually analyzed collateral dependent loans.

The following table presents the carrying value and related allowance of collateral dependent individually analyzed loans at the dates indicated:

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Carrying Value</u>	<u>Related Allowance</u>	<u>Carrying Value</u>	<u>Related Allowance</u>
	(In Thousands)			
<b>Commercial loans:</b>				
Multi-family mortgage	\$ 26,653	\$ 849	\$ 18,526	\$ 1,368
Nonresidential mortgage <sup>(1)</sup>	30,733	2,696	32,891	4,724
Commercial business <sup>(2)</sup>	-	-	183	-
Construction	1,561	-	-	-
<b>Total commercial loans</b>	<u>58,947</u>	<u>3,545</u>	<u>51,600</u>	<u>6,092</u>
One- to four-family residential mortgage <sup>(3)</sup>	4,305	77	7,612	420
<b>Consumer loans:</b>				
Home equity loans <sup>(3)</sup>	35	-	31	-
<b>Total</b>	<u>\$ 63,287</u>	<u>\$ 3,622</u>	<u>\$ 59,243</u>	<u>\$ 6,512</u>

(1) Secured by income-producing nonresidential property.

(2) Secured by business assets.

(3) Secured by one- to four-family residential properties.

**Credit Quality Indicators**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. The Company uses the following definitions for risk ratings:

**Pass** – Loans that are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

**Special Mention** – Loans 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.

**Substandard** – Loans which are 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 Company will sustain some loss if the deficiencies are not corrected.

**Doubtful** – Loans which 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.

**Loss** – Loans which considered uncollectible or of so little value that their continuance as assets is not warranted.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

The following table presents the risk category of loans as of June 30, 2022 by loan segment and vintage year:

	<b>Term Loans by Origination Year for Fiscal Years ended June 30,</b>						<b>Revolving Loans</b>	<b>Total</b>
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>Prior</b>		
	(In Thousands)							
<b>Multi-family mortgage:</b>								
Pass	\$ 963,263	\$ 250,385	\$ 211,101	\$ 264,174	\$ 248,058	\$ 438,642	\$ -	\$ 2,375,623
Special Mention	-	-	-	-	-	6,814	-	6,814
Substandard	-	-	-	9,821	5,935	10,897	-	26,653
Doubtful	-	-	-	-	-	-	-	-
<b>Total multi-family mortgage</b>	<b>963,263</b>	<b>250,385</b>	<b>211,101</b>	<b>273,995</b>	<b>253,993</b>	<b>456,353</b>	<b>-</b>	<b>2,409,090</b>
<b>Nonresidential mortgage:</b>								
Pass	231,777	87,309	53,983	60,714	49,285	491,849	6,052	980,969
Special Mention	-	-	-	-	-	591	-	591
Substandard	-	720	-	933	4,026	32,599	-	38,278
Doubtful	-	-	-	-	-	-	-	-
<b>Total nonresidential mortgage</b>	<b>231,777</b>	<b>88,029</b>	<b>53,983</b>	<b>61,647</b>	<b>53,311</b>	<b>525,039</b>	<b>6,052</b>	<b>1,019,838</b>
<b>Commercial business:</b>								
Pass	46,888	38,791	12,155	3,581	4,861	6,455	58,662	171,393
Special Mention	-	-	62	186	2,173	873	215	3,509
Substandard	-	38	319	-	1,347	61	58	1,823
Doubtful	-	-	-	-	-	80	2	82
<b>Total commercial business</b>	<b>46,888</b>	<b>38,829</b>	<b>12,536</b>	<b>3,767</b>	<b>8,381</b>	<b>7,469</b>	<b>58,937</b>	<b>176,807</b>
<b>Construction loans:</b>								
Pass	16,407	95,526	10,337	3,039	6,509	1,017	5,735	138,570
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,561	-	1,561
Doubtful	-	-	-	-	-	-	-	-
<b>Total construction loans</b>	<b>16,407</b>	<b>95,526</b>	<b>10,337</b>	<b>3,039</b>	<b>6,509</b>	<b>2,578</b>	<b>5,735</b>	<b>140,131</b>
<b>Residential mortgage:</b>								
Pass	472,160	524,163	88,645	49,316	55,139	442,517	374	1,632,314
Special Mention	-	-	-	1,205	-	621	-	1,826
Substandard	-	-	-	83	-	11,593	-	11,676
Doubtful	-	-	-	-	-	-	-	-
<b>Total residential mortgage</b>	<b>472,160</b>	<b>524,163</b>	<b>88,645</b>	<b>50,604</b>	<b>55,139</b>	<b>454,731</b>	<b>374</b>	<b>1,645,816</b>
<b>Home equity loans:</b>								
Pass	3,197	692	1,681	3,117	2,027	7,321	22,334	40,369
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	120	-	1,539	-	1,659
Doubtful	-	-	-	-	-	-	-	-
<b>Total home equity loans</b>	<b>3,197</b>	<b>692</b>	<b>1,681</b>	<b>3,237</b>	<b>2,027</b>	<b>8,860</b>	<b>22,334</b>	<b>42,028</b>
<b>Other consumer loans</b>								
Pass	442	308	471	375	258	895	34	2,783
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	83	83
<b>Other consumer loans</b>	<b>442</b>	<b>308</b>	<b>471</b>	<b>375</b>	<b>258</b>	<b>895</b>	<b>117</b>	<b>2,866</b>
<b>Total loans</b>	<b>\$ 1,734,134</b>	<b>\$ 997,932</b>	<b>\$ 378,754</b>	<b>\$ 396,664</b>	<b>\$ 379,618</b>	<b>\$ 1,455,925</b>	<b>\$ 93,549</b>	<b>\$ 5,436,576</b>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

The following table presents the risk category of loans as of June 30, 2021 by loan segment and vintage year:

	<b>Term Loans by Origination Year for Fiscal Years ended June 30,</b>						<b>Revolving Loans</b>	<b>Total</b>
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Prior</b>		
	(In Thousands)							
<b>Multi-family mortgage:</b>								
Pass	\$ 281,402	\$ 257,970	\$ 374,871	\$ 341,304	\$ 343,370	\$ 374,909	\$ -	\$ 1,973,826
Special Mention	-	-	26,974	5,079	4,834	1,054	-	37,941
Substandard	-	-	-	2,896	13,198	11,399	-	27,493
Doubtful	-	-	-	-	-	-	-	-
<b>Total multi-family mortgage</b>	<b>281,402</b>	<b>257,970</b>	<b>401,845</b>	<b>349,279</b>	<b>361,402</b>	<b>387,362</b>	<b>-</b>	<b>2,039,260</b>
<b>Nonresidential mortgage:</b>								
Pass	99,602	77,146	56,435	64,616	254,940	441,696	6,150	1,000,585
Special Mention	-	-	23,520	4,146	8,801	4,513	-	40,980
Substandard	743	-	-	4,934	20,602	11,600	-	37,879
Doubtful	-	-	-	-	-	-	-	-
<b>Total nonresidential mortgage</b>	<b>100,345</b>	<b>77,146</b>	<b>79,955</b>	<b>73,696</b>	<b>284,343</b>	<b>457,809</b>	<b>6,150</b>	<b>1,079,444</b>
<b>Commercial business:</b>								
Pass	44,514	18,988	4,701	12,654	3,322	12,892	65,657	162,728
Special Mention	-	-	-	2,304	945	12	461	3,722
Substandard	41	76	160	1,474	132	189	-	2,072
Doubtful	-	-	-	-	-	420	9	429
<b>Total commercial business</b>	<b>44,555</b>	<b>19,064</b>	<b>4,861</b>	<b>16,432</b>	<b>4,399</b>	<b>13,513</b>	<b>66,127</b>	<b>168,951</b>
<b>Construction loans:</b>								
Pass	40,332	17,404	11,203	13,860	1,641	1,382	5,735	91,557
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	2,247	-	2,247
Doubtful	-	-	-	-	-	-	-	-
<b>Total construction loans</b>	<b>40,332</b>	<b>17,404</b>	<b>11,203</b>	<b>13,860</b>	<b>1,641</b>	<b>3,629</b>	<b>5,735</b>	<b>93,804</b>
<b>Residential mortgage:</b>								
Pass	560,543	124,606	69,917	74,754	119,238	472,587	375	1,422,020
Special Mention	-	-	1,233	-	-	712	-	1,945
Substandard	-	1,040	671	511	1,468	20,066	-	23,756
Doubtful	-	-	-	-	-	-	-	-
<b>Total residential mortgage</b>	<b>560,543</b>	<b>125,646</b>	<b>71,821</b>	<b>75,265</b>	<b>120,706</b>	<b>493,365</b>	<b>375</b>	<b>1,447,721</b>
<b>Home equity loans:</b>								
Pass	834	2,508	4,585	2,778	2,241	7,798	24,788	45,532
Special Mention	-	-	-	-	-	393	-	393
Substandard	-	-	-	-	11	1,935	-	1,946
Doubtful	-	-	-	-	-	-	-	-
<b>Total home equity loans</b>	<b>834</b>	<b>2,508</b>	<b>4,585</b>	<b>2,778</b>	<b>2,252</b>	<b>10,126</b>	<b>24,788</b>	<b>47,871</b>
<b>Other consumer loans</b>								
Pass	550	517	633	256	127	1,044	44	3,171
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	1	1
Doubtful	-	-	-	-	-	-	87	87
<b>Other consumer loans</b>	<b>550</b>	<b>517</b>	<b>633</b>	<b>256</b>	<b>127</b>	<b>1,044</b>	<b>132</b>	<b>3,259</b>
<b>Total loans</b>	<b>\$ 1,028,561</b>	<b>\$ 500,255</b>	<b>\$ 574,903</b>	<b>\$ 531,566</b>	<b>\$ 774,870</b>	<b>\$ 1,366,848</b>	<b>\$ 103,307</b>	<b>\$ 4,880,310</b>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 5 – Loans Receivable (continued)**

**Purchased Credit Deteriorated Loans**

PCD loans are acquired loans that, as of the acquisition date, have experienced a more-than-insignificant deterioration in credit quality since origination. Non-PCD loans are acquired loans that have experienced no or insignificant deterioration in credit quality since origination. To distinguish between the two types of acquired loans, the Company evaluates risk characteristics that have been determined to be indicators of deteriorated credit quality. The determining criteria may involve loan specific characteristics such as payment status, debt service coverage or other changes in creditworthiness since the loan was originated, while others are relevant to recent economic conditions, such as borrowers in industries impacted by the pandemic.

As part of the acquisition of MSB, the Company purchased loans, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The carrying amount of those loans is as follows:

	<b>At July 10, 2020</b>	
	<b>(In Thousands)</b>	
Purchase price of PCD loans at acquisition	\$	65,347
Allowance for credit losses at acquisition		3,901
Non-credit discount at acquisition		167
Par value of acquired PCD loans at acquisition	\$	<u>69,415</u>

**Residential Mortgage Loans in Foreclosure**

The Company may obtain physical possession of one- to four-family real estate collateralizing a residential mortgage loan via foreclosure or through an in-substance repossession. As of June 30, 2022, we held one single-family property in other real estate owned with an aggregate carrying value of \$178,000 that was acquired through foreclosure on a residential mortgage loan. As of that same date, we held seven residential mortgage loans with aggregate carrying values totaling \$1.5 million which were in the process of foreclosure. As of June 30, 2021, we held one single-family property in other real estate owned with an aggregate carrying value of \$178,000 that was acquired through a foreclosure on a residential mortgage loan. As of that same date, we held 11 residential mortgage loans with aggregate carrying values totaling \$2.1 million which were in the process of foreclosure.

The States of New Jersey and New York had issued executive orders and enacted legislation declaring moratoriums on removing individuals from a residential property as a result of an eviction or foreclosure proceeding. New Jersey's moratorium on evictions ended on December 31, 2021 and the moratorium on home foreclosures ended on November 15, 2021. This included landlords facing foreclosure who currently have tenants. New York's moratorium on evictions for tenants who have endured COVID-related hardships and on foreclosures ended on January 15, 2022. As a result, the Company has resumed residential property foreclosure sales and evictions. Eviction laws may be subject to legal challenges and could change based on the results of court proceedings.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 6 – Allowance for Credit Losses**

**Adoption of Topic 326**

On July 1, 2020, the Company adopted ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which replaced the incurred loss methodology with an expected loss methodology, referred to as the “CECL” methodology. See Note 1, Summary of Significant Accounting Policies, for additional information on the adoption of Topic 326.

**Allowance for Credit Losses on Loans Receivable**

The following tables present the balance of the allowance for credit losses at June 30, 2022 and 2021. The balance of the allowance for credit losses is based on the CECL methodology, as noted above. The tables identify the valuation allowances attributable to specifically identified impairments on individually analyzed loans, including those acquired with deteriorated credit quality, as well as valuation allowances for impairments on loans collectively evaluated. The tables include the underlying balance of loans receivable applicable to each category as of those dates.

**Allowance for Credit Losses**  
**June 30, 2022**

	Loans acquired with deteriorated credit quality individually analyzed	Loans acquired with deteriorated credit quality collectively evaluated	Loans individually analyzed	Loans collectively evaluated	Total allowance for credit losses
(In Thousands)					
Multi-family mortgage	\$ -	\$ -	\$ 849	\$ 24,472	\$ 25,321
Nonresidential mortgage	-	73	2,696	7,821	10,590
Commercial business	-	9	16	1,767	1,792
Construction	-	-	-	1,486	1,486
One- to four-family residential mortgage	-	229	148	7,163	7,540
Home equity loans	26	-	-	219	245
Other consumer	-	-	-	84	84
<b>Total loans</b>	<b>\$ 26</b>	<b>\$ 311</b>	<b>\$ 3,709</b>	<b>\$ 43,012</b>	<b>\$ 47,058</b>

**Balance of Loans Receivable**  
**June 30, 2022**

	Loans acquired with deteriorated credit quality individually analyzed	Loans acquired with deteriorated credit quality collectively evaluated	Loans individually analyzed	Loans collectively evaluated	Total loans
(In Thousands)					
Multi-family mortgage	\$ -	\$ -	\$ 26,653	\$ 2,382,437	\$ 2,409,090
Nonresidential mortgage	377	5,033	31,517	982,911	1,019,838
Commercial business	-	1,267	293	175,247	176,807
Construction	-	5,735	1,561	132,835	140,131
One- to four-family residential mortgage	87	6,460	8,402	1,630,867	1,645,816
Home equity loans	329	58	1,102	40,539	42,028
Other consumer	-	-	-	2,866	2,866
<b>Total loans</b>	<b>\$ 793</b>	<b>\$ 18,553</b>	<b>\$ 69,528</b>	<b>\$ 5,347,702</b>	<b>\$ 5,436,576</b>
Unaccreted yield adjustments					(18,731)
<b>Loans receivable, net of yield adjustments</b>					<b>\$ 5,417,845</b>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 6 – Allowance for Credit Losses (continued)**

**Allowance for Credit Losses  
June 30, 2021**

	<b>Loans acquired with deteriorated credit quality individually analyzed</b>	<b>Loans acquired with deteriorated credit quality collectively evaluated</b>	<b>Loans individually analyzed</b>	<b>Loans collectively evaluated</b>	<b>Total allowance for credit losses</b>
	<b>(In Thousands)</b>				
Multi-family mortgage	\$ -	\$ 155	\$ 1,368	\$ 26,927	\$ 28,450
Nonresidential mortgage	2,700	692	2,025	10,826	16,243
Commercial business	-	15	33	2,038	2,086
Construction	-	49	-	1,121	1,170
One- to four-family residential mortgage	122	204	447	8,974	9,747
Home equity loans	21	1	1	410	433
Other consumer	-	-	-	36	36
<b>Total loans</b>	<b>\$ 2,843</b>	<b>\$ 1,116</b>	<b>\$ 3,874</b>	<b>\$ 50,332</b>	<b>\$ 58,165</b>

**Balance of Loans Receivable  
June 30, 2021**

	<b>Loans acquired with deteriorated credit quality individually analyzed</b>	<b>Loans acquired with deteriorated credit quality collectively evaluated</b>	<b>Loans individually analyzed</b>	<b>Loans collectively evaluated</b>	<b>Total loans</b>
	<b>(In Thousands)</b>				
Multi-family mortgage	\$ -	\$ 5,599	\$ 18,526	\$ 2,015,135	\$ 2,039,260
Nonresidential mortgage	6,519	25,844	30,668	1,016,413	1,079,444
Commercial business	183	2,533	729	165,506	168,951
Construction	-	12,970	2,228	78,606	93,804
One- to four-family residential mortgage	3,617	4,785	15,553	1,423,766	1,447,721
Home equity loans	380	65	1,364	46,062	47,871
Other consumer	-	-	-	3,259	3,259
<b>Total loans</b>	<b>\$ 10,699</b>	<b>\$ 51,796</b>	<b>\$ 69,068</b>	<b>\$ 4,748,747</b>	<b>\$ 4,880,310</b>
Unaccreted yield adjustments					(28,916)
<b>Loans receivable, net of yield adjustments</b>					<b>\$ 4,851,394</b>

The following tables present the activity in the ACL on loans for the years ended June 30, 2022 and 2021:

**Changes in the Allowance for Credit Losses  
Year Ended June 30, 2022**

	<b>Balance at June 30, 2021</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>(Reversal of) provision for credit losses</b>	<b>Balance at June 30, 2022</b>
	<b>(In Thousands)</b>				
Multi-family mortgage	\$ 28,450	\$ (1,896)	\$ -	\$ (1,233)	\$ 25,321
Nonresidential mortgage	16,243	(2,646)	812	(3,819)	10,590
Commercial business	2,086	(193)	160	(261)	1,792
Construction	1,170	-	-	316	1,486
One- to four-family residential mortgage	9,747	-	147	(2,354)	7,540
Home equity loans	433	-	27	(215)	245
Other consumer	36	(2)	2	48	84
<b>Total loans</b>	<b>\$ 58,165</b>	<b>\$ (4,737)</b>	<b>\$ 1,148</b>	<b>\$ (7,518)</b>	<b>\$ 47,058</b>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 6 – Allowance for Credit Losses (continued)**

**Changes in the Allowance for Credit Losses**  
**Year Ended June 30, 2021**

	<b>Balance at June 30, 2020 (prior to adoption of ASC 326):</b>	<b>Impact of adopting Topic 326</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>Initial allowance on PCD loans</b>	<b>(Reversal of) provision for credit losses</b>	<b>Balance at June 30, 2021</b>
<b>(In Thousands)</b>							
Multi-family mortgage	\$ 20,916	\$ 8,408	\$ -	\$ -	\$ 250	\$ (1,124)	\$ 28,450
Nonresidential mortgage	8,763	2,390	(80)	-	1,720	3,450	16,243
Commercial business	1,926	(421)	(1,446)	17	1,007	1,003	2,086
Construction	236	80	-	-	99	755	1,170
One- to four-family residential mortgage	4,860	9,106	(13)	4	720	(4,930)	9,747
Home equity loans	568	92	(32)	-	105	(300)	433
Other consumer	58	(15)	(41)	9	-	25	36
<b>Total loans</b>	<u>\$ 37,327</u>	<u>\$ 19,640</u>	<u>\$ (1,612)</u>	<u>\$ 30</u>	<u>\$ 3,901</u>	<u>\$ (1,121)</u>	<u>\$ 58,165</u>

For the accounting policy on the allowance for loan losses that was in effect prior to the adoption of Topic 326, see Note 1 to our Annual Report on Form 10-K for the fiscal year ended June 30, 2020. The following table presents the activity in the allowance for loan losses for the year ended June 30, 2020:

**Changes in the Allowance for Loan Losses**  
**Year Ended June 30, 2020**

	<b>Balance at June 30, 2019</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>Provision for (reversal of) credit losses</b>	<b>Balance at June 30, 2020</b>
<b>(In Thousands)</b>					
Multi-family mortgage	\$ 16,959	\$ -	\$ -	\$ 3,957	\$ 20,916
Nonresidential mortgage	9,672	-	10	(919)	8,763
Commercial business	2,467	(50)	2	(493)	1,926
Construction	136	-	-	100	236
One- to four-family residential mortgage	3,377	-	-	1,483	4,860
Home equity loans	491	-	-	77	568
Other consumer	172	(139)	33	(8)	58
<b>Total loans</b>	<u>\$ 33,274</u>	<u>\$ (189)</u>	<u>\$ 45</u>	<u>\$ 4,197</u>	<u>\$ 37,327</u>

**Allowance for Credit Losses on Off Balance Sheet Commitments**

The following table presents the activity in the ACL on off balance sheet commitments recorded in other non-interest expense for the years ended June 30, 2022 and 2021:

	<b>Year Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>(In Thousands)</b>		
<b>Balance at beginning of the period</b>	\$ 1,708	\$ -
Impact of adopting Topic 326 <sup>(1)</sup>	-	536
(Reversal of) provision for credit losses	(667)	1,172
<b>Balance at end of the period</b>	<u>\$ 1,041</u>	<u>\$ 1,708</u>

(1) Adoption of CECL accounting standard effective July 1, 2020.



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 7 – Leases**

The Company leases certain premises and equipment under operating leases. As of June 30, 2022, the Company had right-of-use assets totaling \$18.4 million and lease liabilities totaling \$19.2 million. By comparison at June 30, 2021, the Company had right-of-use assets of totaling \$17.1 million and lease liabilities of totaling \$17.8 million.

As of June 30, 2022, the weighted average remaining lease term for operating leases was 7.25 years and the weighted average discount rate used in the measurement of operating lease liabilities was 2.53%. Total operating lease costs for the years ended June 30, 2022, 2021 and 2020 was \$3.7 million, \$3.8 million and \$4.0 million, respectively.

There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the year ended June 30, 2022. At June 30, 2022, the Company had no leases that had not yet commenced.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability at June 30, 2022 and 2021 is as follows:

	June 30,	
	2022	2021
	(In Thousands)	
Less than one year	\$ 3,614	\$ 3,604
After one year but within two years	3,187	2,998
After two years but within three years	2,905	2,372
After three years but within four years	2,817	1,917
After four years but within five years	2,707	1,759
Greater than five years	5,956	7,205
Total undiscounted cash flows	21,186	19,855
Less: discount on cash flows	(2,001)	(2,028)
Total lease liability	\$ 19,185	\$ 17,827

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 8 – Premises and Equipment**

	June 30,	
	2022	2021
	(In Thousands)	
Land	\$ 12,192	\$ 12,192
Buildings and improvements	48,156	47,535
Leasehold improvements	11,336	12,075
Furnishings and equipment	29,431	28,349
Construction in progress	426	71
	101,541	100,222
Less accumulated depreciation and amortization	48,260	43,884
<b>Total premises and equipment</b>	<b>\$ 53,281</b>	<b>\$ 56,338</b>

Depreciation expense on premises and equipment for the fiscal years ended June 30, 2022, 2021 and 2020 totaled \$6.0 million, \$5.9 million and \$4.6 million, respectively.

**Note 9 – Goodwill and Other Intangible Assets**

	Goodwill	Core Deposit Intangibles
	(In Thousands)	
Balance at June 30, 2019	\$ 210,895	\$ 5,160
Amortization	-	(1,165)
Balance at June 30, 2020	210,895	3,995
Acquisition of MSB Financial Corp.	-	690
Amortization	-	(980)
Balance at June 30, 2021	210,895	3,705
Amortization	-	(685)
Balance at June 30, 2022	\$ 210,895	\$ 3,020

Scheduled amortization of core deposit intangibles for each of the next five years and thereafter is as follows:

Year Ending June 30,	Core Deposit Intangible Amortization (In Thousands)
2023	\$ 563
2024	526
2025	495
2026	467
2027	441
Thereafter	528

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 10 – Deposits**

Deposits are summarized as follows:

	June 30,			
	2022		2021	
	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate
	(Dollars in Thousands)			
Non-interest-bearing demand	\$ 653,899	0.00 %	\$ 593,718	0.00 %
Interest-bearing demand	2,265,597	0.56	1,902,478	0.18
Savings	1,053,198	0.17	1,111,364	0.13
Certificates of deposits	1,889,562	0.80	1,877,746	0.57
<b>Total deposits</b>	<u>\$ 5,862,256</u>	0.50 %	<u>\$ 5,485,306</u>	0.28 %

Brokered deposits are summarized as follows:

	June 30,			
	2022		2021	
	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate
	(Dollars in Thousands)			
Certificates of deposits	\$ 761,862	1.14 %	\$ 458,616	0.10 %
<b>Total brokered deposits</b>	<u>\$ 761,862</u>	1.14 %	<u>\$ 458,616</u>	0.10 %

A summary of certificates of deposit by maturity follows:

	June 30,
	2022
	(In Thousands)
One year or less	\$ 1,468,565
After one year to two years	308,545
After two years to three years	47,829
After three years to four years	28,453
After four years to five years	30,476
After five years	5,694
<b>Total certificates of deposit</b>	<u>\$ 1,889,562</u>

Certificates of deposit with balances of \$250,000 or more at June 30, 2022 and 2021, totaled approximately \$897.4 million and \$635.3 million, respectively. The Bank's deposits are insurable to applicable limits by the FDIC.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 11 – Borrowings**

Borrowings at June 30, 2022 and June 30, 2021 consisted of the following:

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
(In Thousands)		
FHLB advances	\$ 651,337	\$ 665,876
Overnight borrowings <sup>(1)</sup>	250,000	20,000
<b>Total borrowings</b>	<b>\$ 901,337</b>	<b>\$ 685,876</b>

(1) At June 30, 2022, represents FHLB overnight line of credit borrowings. At June 30, 2021, represents unsecured overnight borrowings from other financial institutions.

Fixed-rate advances from FHLB of New York mature as follows:

	<b>June 30, 2022</b>		<b>June 30, 2021</b>	
	<b>Balance</b>	<b>Weighted Average Interest Rate</b>	<b>Balance</b>	<b>Weighted Average Interest Rate</b>
(Dollars in Thousands)				
<b>By remaining period to maturity:</b>				
Less than one year	\$ 520,000	2.04 %	\$ 390,000	0.33 %
One to two years	22,500	2.63	145,000	3.04
Two to three years	103,500	2.68	22,500	2.63
Three to four years	6,500	2.82	103,500	2.68
Four to five years	-	-	6,500	2.82
Greater than five years	-	-	-	-
<b>Total advances</b>	652,500	2.17 %	667,500	1.38 %
Unamortized fair value adjustments	(1,163)		(1,624)	
<b>Total advances, net of fair value adjustments</b>	<b>\$ 651,337</b>		<b>\$ 665,876</b>	

At June 30, 2022, FHLB advances and overnight line of credit borrowings were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately \$3.58 billion and \$178.0 million, respectively. At June 30, 2021, FHLB advances were collateralized by the FHLB capital stock owned by the Bank and mortgage loans and securities with carrying values totaling approximately \$3.27 billion and \$170.1 million, respectively.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 12 – Derivative Instruments and Hedging Activities**

**Risk Management Objective of Using Derivatives**

The Company uses various financial instruments, including derivatives, to manage its exposure to interest rate risk. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to specific wholesale funding positions.

**Fair Values of Derivative Instruments on the Statement of Financial Condition**

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Statement of Financial Condition as of June 30, 2022 and June 30, 2021:

June 30, 2022				
Asset Derivatives			Liability Derivatives	
Location	Fair Value		Location	Fair Value
(In Thousands)				
<b>Derivatives designated as hedging instruments:</b>				
Interest rate contracts	Other assets	\$ 41,223	Other liabilities	\$ -
<b>Total</b>		<b>\$ 41,223</b>		<b>\$ -</b>

June 30, 2021				
Asset Derivatives			Liability Derivatives	
Location	Fair Value		Location	Fair Value
(In Thousands)				
<b>Derivatives designated as hedging instruments:</b>				
Interest rate contracts	Other assets	\$ 1,832	Other liabilities	\$ 673
<b>Total</b>		<b>\$ 1,832</b>		<b>\$ 673</b>

**Cash Flow Hedges of Interest Rate Risk**

The Company's objectives in using derivatives are primarily to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps and caps as part of its interest rate risk management strategy. These interest rate products are designated as cash flow hedges. As of June 30, 2022, the Company had a total of nine interest rate swaps and caps with a total notional amount of \$750.0 million hedging specific wholesale funding positions.

For derivatives designated as cash flow hedges, the gain or loss on the derivatives is recorded in other comprehensive income (loss), net of tax, and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable rate wholesale funding positions. During the year ended June 30, 2022, the Company reclassified \$4.3 million as additional interest expense. During the next 12 months, the Company estimates that \$11.6 million will be reclassified as a reduction in interest expense.

The table below presents the pre-tax effects of the Company's derivative instruments on the Consolidated Statements of Income for the years ended June 30, 2022, 2021 and 2020:

	Year Ended June 30,		
	2022	2021	2020
	(In Thousands)		
Amount of gain (loss) recognized in other comprehensive income (loss)	\$ 35,844	\$ 10,825	\$ (21,264)
Amount of (loss) gain reclassified from accumulated other comprehensive income (loss) to interest expense	(4,273)	(8,281)	1,870

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 12 – Derivative Instruments and Hedging Activities (continued)**

**Offsetting Derivatives**

The tables below present a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives in the Consolidated Statement of Financial Condition as of June 30, 2022 and June 30, 2021, respectively. The net amounts presented for derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Consolidated Statement of Financial Condition.

June 30, 2022						
Gross Amount Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset		Net Amount	
			Financial Instruments	Cash Collateral Received		
(In Thousands)						
<b>Assets:</b>						
Interest rate contracts	\$ 41,223	\$ -	\$ 41,223	\$ -	\$ -	\$ 41,223
<b>Total</b>	<u>\$ 41,223</u>	<u>\$ -</u>	<u>\$ 41,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,223</u>

Gross Amount Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset		Net Amount
			Financial Instruments	Cash Collateral Posted	
(In Thousands)					
<b>Liabilities:</b>					
Interest rate contracts	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

June 30, 2021						
Gross Amount Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset		Net Amount	
			Financial Instruments	Cash Collateral Received		
(In Thousands)						
<b>Assets:</b>						
Interest rate contracts	\$ 6,847	\$ (5,015)	\$ 1,832	\$ -	\$ -	\$ 1,832
<b>Total</b>	<u>\$ 6,847</u>	<u>\$ (5,015)</u>	<u>\$ 1,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,832</u>

Gross Amount Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Not Offset		Net Amount
			Financial Instruments	Cash Collateral Posted	
(In Thousands)					
<b>Liabilities:</b>					
Interest rate contracts	\$ 5,688	\$ (5,015)	\$ 673	\$ -	\$ (673)
<b>Total</b>	<u>\$ 5,688</u>	<u>\$ (5,015)</u>	<u>\$ 673</u>	<u>\$ -</u>	<u>\$ (673)</u>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 12 – Derivative Instruments and Hedging Activities (continued)**

**Credit Risk-Related Contingent Features**

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations and could be required to terminate its derivative positions with the counterparty. The Company also has agreements with its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well-capitalized institution, then the Company could be required to terminate its derivative positions with the counterparty. As of June 30, 2022, none of the Company's derivatives were in a net liability position.

As required under the enforceable master netting arrangement with its derivatives counterparties, at June 30, 2022, the Company was not required to post financial collateral. By comparison, at June 30, 2021, the Company posted financial collateral of \$673,000 that was not included as an offsetting amount.

In addition to the derivative instruments noted above, the Company's pipeline of loans held for sale at June 30, 2022 and June 30, 2021, included \$20.3 million and \$48.4 million, respectively, of in process loans whose terms included interest rate locks to borrowers, which are considered free-standing derivative instruments whose fair values are not material to our financial condition or results of operations.

**Note 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, Directors' Consultation and Retirement Plan, Atlas Bank Retirement Income Plan and Supplemental Executive Retirement Plan:

	<b>Year Ended June 30,</b>			<b>Affected Line Item in the Consolidated Statements of Income</b>
	<b>2022</b>	<b>2021</b>	<b>2020</b>	
	<b>(In Thousands)</b>			
Service cost	\$ 547	\$ 106	\$ 78	Salaries and employee benefits
Interest cost	279	262	326	Other expense
Amortization of unrecognized loss	80	83	19	Other expense
Expected return on assets	(110)	(113)	(112)	Other expense
Net periodic benefit cost	<u>\$ 796</u>	<u>\$ 338</u>	<u>\$ 311</u>	

The other components of net periodic benefit cost are required to be presented in the Consolidated Statements of Income separately from the service cost component. The table above details the affected line items within the Consolidated Statements of Income related to the net periodic benefit costs for the periods noted.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

**ESOP**

In conjunction to the Company’s initial public stock offering in February 2005, the Bank established an ESOP for all eligible employees. The ESOP purchased 2,409,764 shares of Company’s common stock with proceeds of a loan from the Company to the ESOP. In connection with the completion of the Company’s mutual to stock conversion in May 2015, the ESOP purchased an additional 3,612,500 shares of the Company’s common stock at a price of \$10.00 per share with the proceeds of a new loan from the Company to the ESOP. The Company refinanced the outstanding principal and interest balance of \$3.8 million and borrowed an additional \$36.1 million to purchase the additional shares. The Company makes discretionary contributions to the ESOP equaling principal and interest payments owed on the ESOP’s loan to the Company. Such payments may be reduced by the amount of dividends paid on shares of the Company’s common stock held by the ESOP. The outstanding loan principal balance at June 30, 2022 was \$28.2 million.

ESOP shares pledged as collateral are initially recorded as unearned ESOP shares in the Consolidated Statements of Financial Condition. ESOP compensation expense was approximately \$2.5 million, \$2.1 million and \$2.4 million for the years ended June 30, 2022, 2021 and 2020, respectively, representing the fair value of shares allocated or committed to be released during the year.

At June 30, 2022 and 2021, the ESOP shares were as follows:

	June 30,	
	2022	2021
	(In Thousands)	
Shares purchased by ESOP	6,022	6,022
Less: Shares allocated	3,363	3,162
Less: Shares committed to be released	100	100
<b>Remaining unearned ESOP shares</b>	<b>2,559</b>	<b>2,760</b>
<b>Fair value of unearned ESOP shares</b>	<b>\$ 28,430</b>	<b>\$ 32,982</b>

**Employee Stock Ownership Plan Benefit Equalization Plan (“ESOP BEP”)**

The Bank has a non-qualified plan to compensate its executive officers who participate in the Bank’s ESOP for certain benefits lost under such plan by reason of benefit limitations imposed by the Internal Revenue Code (“IRC”). The ESOP BEP expense was approximately \$40,000, \$37,000 and \$24,000 for the years ended June 30, 2022, 2021 and 2020, respectively. The liability totaled approximately \$20,000 and \$18,000 at June 30, 2022 and 2021, respectively.

**Employees’ Savings and Profit Sharing Plan**

The Bank sponsors the Employees’ Savings and Profit Sharing Plan and Trust (the “Plan”), pursuant to Section 401(k) of the Internal Revenue Code, for all eligible employees. Employees may elect to contribute up to 75% of their compensation subject to the limitations imposed by the Internal Revenue Code. The Bank will contribute a matching contribution up to 3.5% of an eligible employee’s salary deferral contribution, provided the eligible employee has contributed 6%. The Plan expense amounted to approximately \$1.4 million, \$1.3 million and \$1.1 million for the years ended June 30, 2022, 2021 and 2020, respectively.

**Multi-Employer Retirement Plan**

The Bank participates in the Pentegra Defined Benefit Plan for Financial Institutions (“The Pentegra DB Plan”), a tax-qualified defined-benefit pension plan. The Pentegra DB Plan’s Employer Identification Number is 13-5645888 and the Plan Number is 001. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the IRC. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

The Pentegra DB Plan is non-contributory and covers all eligible employees. In April 2007, the Board of Directors of the Bank approved, effective July 1, 2007, freezing all future benefit accruals under the Pentegra DB Plan.

Funded status (market value of plan assets divided by funding target) of the Pentegra DB Plan based on valuation reports as of July 1, 2021 and 2020 was 113.78% and 102.31%, respectively. Total contributions, made to the Pentegra DB Plan, which include contributions from all participating employers and not just the Company, as reported on Form 5500, were \$248.6 million and \$253.2 million for the plan years ended June 30, 2021 and 2020, respectively. The Bank's contributions to the Pentegra DB Plan were not more than 5% of the total contributions to the Pentegra DB Plan. During the years ended June 30, 2022, 2021 and 2020, the total expense recorded for the Pentegra DB Plan was approximately \$372,000, \$329,000 and \$340,000, respectively.

**Atlas Bank Retirement Income Plan (“ABRIP”)**

Through the merger with Atlas Bank, the Company acquired a non-contributory defined benefit pension plan covering all eligible employees of Atlas Bank. Effective January 31, 2013, the ABRIP was frozen by Atlas Bank. All benefits for eligible participants accrued in the ABRIP to the freeze date have been retained. The benefits are based on years of service and employee's compensation. The ABRIP is funded in conformity with funding requirements of applicable government regulations.

The following tables set forth the ABRIP's funded status and net periodic benefit cost:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(In Thousands)</b>	
<b>Change in benefit obligation:</b>		
Projected benefit obligation - beginning	\$ 2,149	\$ 2,285
Interest cost	62	61
Actuarial gain	(247)	(49)
Benefit payments	(148)	(148)
Projected benefit obligation - ending	<u>\$ 1,816</u>	<u>\$ 2,149</u>
<b>Change in plan assets:</b>		
Fair value of assets - beginning	\$ 3,220	\$ 3,299
Actual return on assets	(165)	69
Benefit payments	(148)	(148)
Fair value of assets - ending	<u>\$ 2,907</u>	<u>\$ 3,220</u>
<b>Reconciliation of funded status:</b>		
Projected benefit obligation	\$ (1,816)	\$ (2,149)
Fair value of assets	2,907	3,220
<b>Funded status included in other assets</b>	<u>\$ 1,091</u>	<u>\$ 1,071</u>
<b>Accumulated benefit obligation</b>	<u>\$ (1,816)</u>	<u>\$ (2,149)</u>
<b>Valuation assumptions</b>		
Discount rate	4.50%	3.00%
Salary increase rate	N/A	N/A

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(In Thousands)</b>		
<b>Net periodic benefit cost:</b>			
Interest cost	\$ 62	\$ 61	\$ 77
Expected return on assets	(110)	(113)	(112)
Amortization of net loss	21	22	4
<b>Total expense (benefit)</b>	<b>\$ (27)</b>	<b>\$ (30)</b>	<b>\$ (31)</b>
<b>Valuation assumptions</b>			
Discount rate	3.00%	2.75%	3.75%
Long term rate of return on plan assets	3.50%	3.50%	3.50%

The Bank does not expect to contribute to the ABRIP in the year ending June 30, 2023.

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

	<b>Benefit Payments</b>	
	<b>(In Thousands)</b>	
<b>Years ending June 30:</b>		
2023	\$	146
2024		144
2025		145
2026		146
2027		142
2028-2032		648

At June 30, 2022 and 2021, unrecognized net loss of \$475,000 and \$496,000, respectively, was included in accumulated other comprehensive income (loss).

The assets of the ABRIP are invested in a Guaranteed Deposit Fund (“GDF”) with Prudential Financial, Inc. The GDF is a group annuity fund invested in public and private-issue debt securities through various sub-accounts. The underlying assets are valued based on quoted prices for similar assets with similar terms and other observable market data and have no redemption restrictions. The investments in the plan were monitored to ensure that they complied with the investment policies set forth in the plan document. The plan’s assets were reviewed periodically by management, which included an analysis of the asset allocation and the performance of the GDF prepared by Prudential Financial, Inc.

The overall investment objective of the ABRIP is to ensure safety of principal and seek an attractive rate of return. The GDF utilizes a full spectrum of fixed income asset classes to provide the opportunity to maximize portfolio returns and diversification.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

The fair value of the ABRIP's assets at June 30, 2022 and 2021 by asset category (see Note 18 for the definitions of levels), are as follows:

June 30, 2022				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(In Thousands)				
Prudential Guaranteed Deposit Fund	\$ -	\$ 2,907	\$ -	\$ 2,907

June 30, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(In Thousands)				
Prudential Guaranteed Deposit Fund	\$ -	\$ 3,220	\$ -	\$ 3,220

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

**Benefit Equalization Plan (“BEP”)**

The Bank has an unfunded non-qualified plan to compensate executive officers of the Bank who participate in the Bank’s qualified defined benefit plan for certain benefits lost under such plans by reason of benefit limitations imposed by Sections 415 and 401 of the IRC. There were approximately \$241,000, \$239,000 and \$237,000 in contributions made to and benefits paid under the BEP during each of the years ended June 30, 2022, 2021 and 2020, respectively.

The following tables set forth the BEP’s funded status and components of net periodic benefit cost:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(In Thousands)</b>	
<b>Change in benefit obligation:</b>		
Projected benefit obligation - beginning	\$ 2,999	\$ 3,206
Interest cost	86	85
Actuarial gain	(252)	(53)
Benefit payments	(241)	(239)
Projected benefit obligation - ending	\$ 2,592	\$ 2,999
<b>Change in plan assets:</b>		
Fair value of assets - beginning	\$ -	\$ -
Contributions	241	239
Benefit payments	(241)	(239)
Fair value of assets - ending	\$ -	\$ -
<b>Reconciliation of funded status:</b>		
Accumulated benefit obligation	\$ (2,592)	\$ (2,999)
Projected benefit obligation	\$ (2,592)	\$ (2,999)
Fair value of assets	-	-
<b>Funded status included in other liabilities</b>	<b>\$ (2,592)</b>	<b>\$ (2,999)</b>
<b>Valuation assumptions</b>		
Discount rate	4.50%	3.00%
Salary increase rate	N/A	N/A

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(In Thousands)</b>		
<b>Net periodic benefit cost:</b>			
Interest cost	\$ 86	\$ 85	\$ 112
Amortization of net actuarial loss	71	75	56
<b>Total expense</b>	<b>\$ 157</b>	<b>\$ 160</b>	<b>\$ 168</b>
<b>Valuation assumptions</b>			
Discount rate	3.00%	2.75%	3.75%
Salary increase rate	N/A	N/A	N/A

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

It is estimated that contributions of approximately \$240,000 will be made during the year ending June 30, 2023.

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

	<u>Benefit Payments</u>
	<u>(In Thousands)</u>
<b>Years ending June 30:</b>	
2023	\$ 240
2024	236
2025	232
2026	227
2027	222
2028-2032	1,017

In April 2007, the Board of Directors of the Bank approved, effective July 1, 2007, freezing all future benefit accruals under the BEP related to the Bank's defined benefit pension plan.

At June 30, 2022 and 2021, unrecognized net loss of \$707,000 and \$1.0 million, respectively, was included in accumulated other comprehensive income (loss).

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

**Postretirement Welfare Plan**

The Bank has an unfunded postretirement group term life insurance plan covering all eligible employees. The benefits are based on age and years of service. During the years ended June 30, 2022, 2021 and 2020, contributions and benefits paid totaled \$12,000, \$12,000 and \$11,000, respectively.

The following tables set forth the accrued accumulated postretirement benefit obligation and the net periodic benefit cost:

	June 30,		
	2022	2021	
	(In Thousands)		
<b>Change in benefit obligation:</b>			
Projected benefit obligation - beginning	\$ 1,108	\$ 991	
Service cost	116	106	
Interest cost	33	27	
Actuarial gain	(160)	(4)	
Premiums/claims paid	(12)	(12)	
Projected benefit obligation - ending	\$ 1,085	\$ 1,108	
<b>Change in plan assets:</b>			
Fair value of assets - beginning	\$ -	\$ -	
Contributions	12	12	
Premiums/claims paid	(12)	(12)	
Fair value of assets - ending	\$ -	\$ -	
<b>Reconciliation of funded status:</b>			
Projected benefit obligation	\$ (1,085)	\$ (1,108)	
Fair value of assets	-	-	
<b>Funded status included in other liabilities</b>	\$ (1,085)	\$ (1,108)	
<b>Valuation assumptions</b>			
Discount rate	4.50%	3.00%	
Salary increase rate	3.25%	3.25%	
	Years Ended June 30,		
	2022	2021	2020
	(In Thousands)		
<b>Net periodic benefit cost:</b>			
Service cost	\$ 116	\$ 106	\$ 78
Interest cost	33	27	26
Amortization of net actuarial gain	(12)	(14)	(41)
<b>Total expense</b>	\$ 137	\$ 119	\$ 63
<b>Valuation assumptions</b>			
Discount rate	3.00%	2.75%	3.75%
Salary increase rate	3.25%	3.25%	3.25%

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

It is estimated that contributions of approximately \$50,000 will be made during the year ending June 30, 2023.

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

	<b>Benefit Payments</b>
	<b>(In Thousands)</b>
<b>Years ending June 30:</b>	
2023	\$ 50
2024	60
2025	69
2026	85
2027	94
2028-2032	577

At June 30, 2022 and 2021, unrecognized net gain of \$377,000 and \$230,000, respectively, were included in accumulated other comprehensive income (loss).

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

The Bank has an unfunded retirement plan for non-employee directors. The benefits are payable based on term of service as a director. In December 2015, the Board of Directors of the Bank approved freezing all future benefit accruals under the DCRP effective December 31, 2015.

During the years ended June 30, 2022, 2021 and 2020, contributions and benefits paid totaled \$49,000, \$69,000 and \$60,000, respectively.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

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

	<b>June 30,</b>		
	<b>2022</b>	<b>2021</b>	
	<b>(In Thousands)</b>		
<b>Change in benefit obligation:</b>			
Projected benefit obligation - beginning	\$ 3,116	\$ 3,269	
Interest cost	92	89	
Actuarial gain	(513)	(173)	
Benefit payments	(49)	(69)	
Projected benefit obligation - ending	\$ 2,646	\$ 3,116	
<b>Change in plan assets:</b>			
Fair value of assets - beginning	\$ -	\$ -	
Contributions	49	69	
Benefit payments	(49)	(69)	
Fair value of assets - ending	\$ -	\$ -	
<b>Reconciliation of funded status:</b>			
Accumulated benefit obligation	\$ (2,646)	\$ (3,116)	
Projected benefit obligation	\$ (2,646)	\$ (3,116)	
Fair value of assets	-	-	
<b>Funded status included in other liabilities</b>	<b>\$ (2,646)</b>	<b>\$ (3,116)</b>	
<b>Valuation assumptions</b>			
Discount rate	4.50%	3.00%	
Salary increase rate	N/A	N/A	
<b>Years Ended June 30,</b>			
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(In Thousands)</b>		
<b>Net periodic benefit cost:</b>			
Interest cost	\$ 92	\$ 89	\$ 110
<b>Total expense</b>	<b>\$ 92</b>	<b>\$ 89</b>	<b>\$ 110</b>
<b>Valuation assumptions</b>			
Discount rate	3.00%	2.75%	3.75%
Salary increase rate	N/A	N/A	N/A



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

It is estimated that contributions of approximately \$71,000 will be made during the year ending June 30, 2023.

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

	<b>Benefit Payments</b>
	<b>(In Thousands)</b>
<b>Years ending June 30:</b>	
2023	\$ 71
2024	92
2025	134
2026	153
2027	171
2028-2032	1,238

At June 30, 2022 and 2021, unrecognized net gain of \$716,000 and \$203,000, respectively, was included in accumulated other comprehensive income (loss).

**Supplemental Executive Retirement Plan (“SERP”)**

On June 16, 2021, the Bank approved the SERP, effective as of July 1, 2021. The SERP is a non-qualified deferred compensation plan which provides participants with a retirement benefit equal to the present value of an annual benefit of 50% of the participant’s highest annual base salary.

The following tables set forth the SERP’s funded status and net periodic benefit cost:

	<b>June 30,</b>
	<b>2022</b>
	<b>(In Thousands)</b>
<b>Change in benefit obligation:</b>	
Projected benefit obligation - beginning	\$ -
Service cost	431
Interest cost	6
Projected benefit obligation - ending	\$ 437
<b>Reconciliation of funded status:</b>	
Projected benefit obligation	\$ (437)
Fair value of assets	-
<b>Funded status included in other liabilities</b>	<b>\$ (437)</b>
<b>Valuation assumptions</b>	
Discount rate	3.00%
Salary increase rate	4.00%

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 13 – Benefit Plans (continued)**

	<b>Year Ended June 30,</b>
	<b>2022</b>
	<b>(In Thousands)</b>
<b>Net periodic benefit cost:</b>	
Service cost	\$ 431
Interest cost	6
<b>Total expense</b>	<b>\$ 437</b>
<b>Valuation assumptions</b>	
Discount rate	3.00%
Salary increase rate	4.00%

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

	<b>Benefit Payments</b>
	<b>(In Thousands)</b>
<b>Years ending June 30:</b>	
2023	\$ -
2024	-
2025	-
2026	-
2027	-
2028-2032	437

**Note 14 – Stock Based Compensation**

***Kearny Financial Corp. 2021 Equity Incentive Plan (“2021 Plan”)***

At the Company’s 2021 Annual Meeting of Stockholders held on October 28, 2021, the stockholders approved the 2021 Plan which provides for the grant of stock options, restricted stock and restricted stock units (“RSUs”). The 2021 Plan authorized the issuance of up to 7,500,000 shares (the “Share Limit”); provided, however that the Share Limit is reduced, on a one-for-one-basis, for each share of common stock subject to a stock option grant, and on a three-for-one basis for each share of common stock issued pursuant to restricted stock awards or RSUs.

During the year ended June 30, 2022, the Company granted 251,905 RSUs comprised of 181,588 service-based RSUs and 70,317 performance-based RSUs. The service-based RSUs will vest in three tranches over a period of 2.6 years and the performance-based RSUs will cliff vest upon the achievement of performance measures over the three-year period ending June 30, 2024. The total number of performance-based RSUs that will vest, if any, will depend on whether and to what extent the performance measures are achieved. Common stock will be issued from authorized shares upon the vesting of the RSUs. At June 30, 2022, there were 6,744,285 shares remaining available for future grants of stock options, restricted stock or RSUs under the 2021 Plan, subject to the limitations noted above.

***Kearny Financial Corp. 2016 Equity Incentive Plan (“2016 Plan”)***

No grants were made under the 2016 Plan during the year ended June 30, 2022. As of October 28, 2021, the 2016 Plan was frozen and the Company no longer makes grants under the 2016 Plan.

Stock options granted under the 2016 Plan vest in equal installments over a five-year service period. Stock options were granted at an exercise price equal to the fair value of the Company’s common stock on the grant date based on the closing market price and have an expiration period of 10 years. No stock options were granted during the years ended June 30, 2022, 2021 and 2020.

There were no restricted stock awards granted during the year ended June 30, 2022. There were 53,706 restricted stock awards granted during the year ended June 30, 2021. There were no restricted stock awards granted during the year ended June 30, 2020.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 14 – Stock Based Compensation (continued)**

**2021 Plan and 2016 Plan**

The following table presents stock-based compensation expense for the years ended June 30, 2022, 2021 and 2020:

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Stock option expense	\$ 849	\$ 1,823	\$ 1,838
Restricted stock expense	2,049	3,850	4,041
Restricted stock unit expense	896	-	-
Total stock-based compensation expense	<u>\$ 3,794</u>	<u>\$ 5,673</u>	<u>\$ 5,879</u>

During the years ended June 30, 2022, 2021 and 2020, the income tax benefit attributed to our stock-based compensation expense was \$1.0 million, \$1.6 million and \$1.6 million, respectively.

**Stock Options**

The following is a summary of the Company's stock option activity and related information for its option plans for the year ended June 30, 2022:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
	<b>(In Thousands)</b>			<b>(In Thousands)</b>
<b>Outstanding at June 30, 2021</b>	3,253	\$ 14.97	5.5 years	\$ 177
Granted	-	-		-
Exercised	-	-		-
Forfeited	-	-		-
<b>Outstanding at June 30, 2022</b>	<u>3,253</u>	<u>\$ 14.97</u>	4.5 years	<u>\$ 61</u>
<b>Exercisable at June 30, 2022</b>	<u>3,133</u>	<u>\$ 15.03</u>	4.4 years	<u>\$ 61</u>

The Company generally issues shares from authorized but unissued shares upon the exercise of vested options.

There were no vested options exercised during the year ended June 30, 2022. A total of 41,412 vested options, with an aggregate intrinsic value of \$158,000, were exercised during the year ended June 30, 2021. In fulfillment of these exercises, the Company issued 41,412 shares from authorized but unissued shares. There were no vested options exercised during the year ended June 30, 2020.

The cash proceeds from stock option exercises during the year ended June 30, 2021 totaled approximately \$373,000. A portion of such exercises represented disqualifying dispositions of incentive stock options for which the Company recognized \$47,000 in income tax benefit.

Expected future compensation expense relating to the 120,000 non-vested options outstanding as of June 30, 2022 is \$212,000 over a weighted average period of 1.5 years.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 14 – Stock Based Compensation (continued)**

***Restricted Stock***

Restricted shares awarded under the 2016 Plan generally vest in equal installments over a five-year service period. In addition to the requisite service period, the vesting of certain restricted shares awarded to management are also conditioned upon the achievement of one or more objective performance factors established by the Compensation Committee of the Company's Board of Directors. In accordance with the terms of the 2016 Plan, such factors may be based on the performance of the Company as a whole or on any one or more business units of the Company or its subsidiaries. Performance factors may be measured relative to a peer group, an index or certain financial targets established in the Company's strategic business plan and budget.

The Company fully achieved the applicable performance targets for fiscal 2021 and therefore all eligible performance-based restricted shares successfully vested during the year ended June 30, 2022.

The performance factors and underlying cost basis of the remaining unvested performance-based restricted shares are generally expected to be determined annually concurrent with the anniversary date of the original grants.

For service based awards management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period. For performance vesting awards management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period; however, if the corporate performance goals to which the vesting of such shares are tied are not achieved, recognized compensation expense is adjusted accordingly.

The following is a summary of the Company's restricted share award activity for the year ended June 30, 2022:

	<u>Vesting Contingent on Service Conditions</u>		<u>Vesting Contingent on Performance and Service Conditions</u>	
	<u>Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
	(In Thousands)		(In Thousands)	
<b>Non-vested at June 30, 2021</b>	264	\$ 14.54	160	\$ 14.27
Granted	-	-	-	-
Vested	(189)	15.01	(99)	14.85
Forfeited	-	-	-	-
<b>Non-vested at June 30, 2022</b>	<u>75</u>	<u>\$ 13.34</u>	<u>61</u>	<u>\$ 13.33</u>

During the years ended June 30, 2022, 2021 and 2020, the total fair value of vested restricted shares were \$4.3 million, \$4.2 million and \$4.2 million, respectively. Expected future compensation expense relating to the 136,166 non-vested restricted shares at June 30, 2022 is \$1.4 million over a weighted average period of 3.9 years.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 14 – Stock Based Compensation (continued)**

***Restricted Stock Units***

RSUs awarded under the 2021 Plan generally vest in equal installments over a specified service period. In addition to the requisite service period, the vesting of certain RSUs are also conditioned upon the achievement of one or more objective performance measures established by the Compensation Committee of the Company’s Board of Directors. In accordance with the terms of the 2021 Plan, such measures may be based on the performance of the Company as a whole or on any one or more business units of the Company or its subsidiaries. Performance measures may be measured relative to a peer group, an index or certain financial targets established in the Company’s strategic business plan and budget.

For service-based RSUs, the Company recognizes compensation expense for the fair value of RSUs on a straight-line basis over the requisite service period of each tranche. For performance-based RSUs, the Company recognizes compensation expense for the fair value of RSUs on a straight-line basis over the requisite service period; however, the compensation will be adjusted accordingly based on the achievement of the performance measures.

The following is a summary of the Company’s RSU activity for the year ended June 30, 2022:

	<u>Vesting Contingent on Service Conditions</u>		<u>Vesting Contingent on Performance and Service Conditions</u>	
	<u>Restricted Stock Units</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Restricted Stock Units</u>	<u>Weighted Average Grant Date Fair Value</u>
	(In Thousands)		(In Thousands)	
<b>Non-vested at June 30, 2021</b>	-	\$ -	-	\$ -
Granted	182	13.68	70	13.68
Vested	-	-	-	-
Forfeited	-	-	-	-
<b>Non-vested at June 30, 2022</b>	<u>182</u>	<u>\$ 13.68</u>	<u>70</u>	<u>\$ 13.68</u>

Expected future compensation expense relating to the 251,905 non-vested RSUs at June 30, 2022 is \$2.5 million over a weighted average period of 2.1 years.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 15 – Stockholders’ Equity**

**Regulatory Capital**

Federal banking regulators impose various restrictions or requirements on the ability of savings institutions to make capital distributions, including cash dividends. A savings institution that is a subsidiary of a savings and loan holding company, such as the Bank, must file an application or a notice with federal banking regulators at least 30 days before making a capital distribution. A savings institution must file an application for prior approval of a capital distribution if: (i) it is not eligible for expedited treatment under the applications processing rules of federal banking regulators; (ii) the total amount of all capital distributions, including the proposed capital distribution, for the applicable calendar year would exceed an amount equal to the savings institution’s net income for that year to date plus the institution’s retained net income for the preceding two years; (iii) it would not adequately be capitalized after the capital distribution; or (iv) the distribution would violate an agreement with federal banking regulators or applicable regulations. Federal banking regulators may disapprove a notice or deny an application for a capital distribution if: (i) the savings institution would be undercapitalized following the capital distribution; (ii) the proposed capital distribution raises safety and soundness concerns; or (iii) the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

During the fiscal year ended June 30, 2022, an application for capital distribution from the Bank to the Company was approved by federal banking regulators in the amount of \$100.0 million, which was paid by the Bank to the Company in September 2021. Also, during the fiscal year ended June 30, 2022, an application for quarterly capital distributions from the Bank to the Company was approved by federal banking regulators. The amount of dividends payable is based on 75 percent of quarterly net income of the Bank.

During the years ended June 30, 2022, 2021 and 2020, dividends paid by the Bank to the Company, in conjunction with quarterly capital distributions, as discussed above, totaled \$56.7 million, \$43.9 million and \$30.0 million, respectively.

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

The minimum capital level requirements applicable to both the Bank and the consolidated Company include: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The Bank and the consolidated Company are also required to maintain a “capital conservation buffer” of 2.5% above the regulatory minimum capital ratios which results in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

At June 30, 2022 and 2021, the regulatory capital ratios, of both the Company and the Bank were in excess of the levels required by federal banking regulators to be classified as “well-capitalized” under regulatory guidelines.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 15 – Stockholders’ Equity (continued)**

The following tables present information regarding the Bank’s regulatory capital levels at June 30, 2022 and 2021:

	<b>At June 30, 2022</b>					
	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
	<b>(Dollars in Thousands)</b>					
Total capital (to risk-weighted assets)	\$ 672,274	13.10 %	\$ 410,429	8.00 %	\$ 513,036	10.00 %
Tier 1 capital (to risk-weighted assets)	642,336	12.52 %	307,822	6.00 %	410,429	8.00 %
Common equity tier 1 capital (to risk-weighted assets)	642,336	12.52 %	230,866	4.50 %	333,473	6.50 %
Tier 1 capital (to adjusted total assets)	642,336	8.70 %	295,163	4.00 %	368,954	5.00 %

	<b>At June 30, 2021</b>					
	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
	<b>(Dollars in Thousands)</b>					
Total capital (to risk-weighted assets)	\$ 761,883	17.22 %	\$ 353,970	8.00 %	\$ 442,462	10.00 %
Tier 1 capital (to risk-weighted assets)	726,737	16.42 %	265,477	6.00 %	353,970	8.00 %
Common equity tier 1 capital (to risk-weighted assets)	726,737	16.42 %	199,108	4.50 %	287,600	6.50 %
Tier 1 capital (to adjusted total assets)	726,737	10.23 %	284,114	4.00 %	355,142	5.00 %

The following tables present information regarding the consolidated Company’s regulatory capital levels at June 30, 2022 and 2021:

	<b>At June 30, 2022</b>			
	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
	<b>(Dollars in Thousands)</b>			
Total capital (to risk-weighted assets)	\$ 778,253	15.17 %	\$ 410,515	8.00 %
Tier 1 capital (to risk-weighted assets)	748,315	14.58 %	307,886	6.00 %
Common equity tier 1 capital (to risk-weighted assets)	748,315	14.58 %	230,914	4.50 %
Tier 1 capital (to adjusted total assets)	748,315	10.14 %	295,290	4.00 %

	<b>At June 30, 2021</b>			
	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
	<b>(Dollars in Thousands)</b>			
Total capital (to risk-weighted assets)	\$ 872,823	19.65 %	\$ 355,274	8.00 %
Tier 1 capital (to risk-weighted assets)	837,677	18.86 %	266,456	6.00 %
Common equity tier 1 capital (to risk-weighted assets)	837,677	18.86 %	199,842	4.50 %
Tier 1 capital (to adjusted total assets)	837,677	11.76 %	284,877	4.00 %

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 15 – Stockholders’ Equity (continued)**

**Stock Repurchase Plans**

On September 20, 2021, the Company announced the completion of the seventh repurchase plan. On September 22, 2021, the Company announced the authorization of an eighth stock repurchase plan to repurchase up to 7,602,021, or 10% of the shares then outstanding.

During the year ended June 30, 2022, the Company repurchased a total of 10,221,525 shares of its common stock which were repurchased in conjunction with the Company’s seventh and eighth repurchase plans. Such shares were repurchased at a total cost of \$129.5 million and at an average cost of \$12.67 per share.

Including shares previously repurchased, the Company repurchased a total of 4,064,649 shares associated with the seventh repurchase plan at a total cost of \$50.5 million and at an average cost of \$12.43 per share.

During the year ended June 30, 2022, and in conjunction with the Company’s eighth repurchase program, the Company repurchased 7,276,876 shares at a cost of \$93.2 million and at an average cost of \$12.80 per share which represented 95.7% of the total shares authorized to be repurchased.

**Note 16 – Income Taxes**

The components of income taxes are as follows:

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(In Thousands)</b>		
<b>Current income tax expense:</b>			
Federal	\$ 12,720	\$ 12,051	\$ 6,745
State	7,057	5,058	4,877
	<u>19,777</u>	<u>17,109</u>	<u>11,622</u>
<b>Deferred income tax expense:</b>			
Federal	2,895	2,673	1,153
State	2,128	2,016	235
	<u>5,023</u>	<u>4,689</u>	<u>1,388</u>
Valuation allowance	-	(535)	(723)
<b>Total income tax expense</b>	<u>\$ 24,800</u>	<u>\$ 21,263</u>	<u>\$ 12,287</u>



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 16 – Income Taxes (continued)**

The following table presents a reconciliation between the reported income taxes for the periods presented and the income taxes which would be computed by applying the federal income tax rates applicable to those periods. The federal income tax rate of 21% was applicable for the years ended June 30, 2022, 2021 and 2020.

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(Dollars In Thousands)</b>		
Income before income taxes	\$ 92,347	\$ 84,496	\$ 57,252
Statutory federal tax rate	21%	21%	21%
Federal income tax expense at statutory rate	\$ 19,393	\$ 17,744	\$ 12,023
(Reduction) increases in income taxes resulting from:			
Tax exempt interest	(266)	(345)	(497)
State tax, net of federal tax effect	7,257	5,464	3,914
Incentive stock options compensation expense	45	85	78
Income from bank-owned life insurance	(1,281)	(1,255)	(1,314)
Disqualifying disposition on incentive stock options	-	(33)	-
Non-deductible merger-related expenses	-	49	148
Bargain purchase gain	-	(641)	-
Tax benefit arising from the adoption of the CARES Act provisions	-	-	(1,624)
Other items, net	(348)	730	282
	<u>24,800</u>	<u>21,798</u>	<u>13,010</u>
Valuation allowance	-	(535)	(723)
<b>Total income tax expense</b>	<b>\$ 24,800</b>	<b>\$ 21,263</b>	<b>\$ 12,287</b>
<b>Effective income tax rate</b>	<b><u>26.86%</u></b>	<b><u>25.16%</u></b>	<b><u>21.46%</u></b>

The effective income tax rate represents total income tax expense divided by income before income taxes. Retained earnings at June 30, 2022, includes approximately \$38.4 million of bad debt allowance, pursuant to the IRC, for which income taxes have not been provided. If such amount is used for purposes other than to absorb bad debts, including distributions in liquidation, it will be subject to income tax at the then current rate.

A tax position is recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the carryover period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and the projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined the following related to June 30, 2022 and 2021:

During the year ended June 30, 2021, the Company reversed a valuation allowance totaling \$535,000 which was associated with the realization of a capital loss carryforward.

It is more likely than not that all other deferred tax assets will be realized.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 16 – Income Taxes (continued)**

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

	June 30,	
	2022	2021
(In Thousands)		
<b>Deferred income tax assets:</b>		
Purchase accounting	\$ 6,327	\$ 8,417
Accumulated other comprehensive income		
Defined benefit plans	26	326
Derivatives	-	94
Unrealized loss on securities available for sale	34,104	-
Allowance for credit losses	13,809	17,376
Benefit plans	2,494	2,432
Compensation	2,023	1,616
Stock-based compensation	2,834	2,937
Uncollected interest	1,705	1,484
Depreciation	1,931	1,691
Net operating loss carryover	4	5
Capital loss carryforward	141	313
Other items	844	1,048
	66,242	37,739
Valuation allowance	-	-
	66,242	37,739
<b>Deferred income tax liabilities:</b>		
Deferred loan fees and costs	838	620
Accumulated other comprehensive income		
Derivatives	11,542	-
Unrealized gain on securities available for sale	-	2,882
Goodwill	4,510	4,560
Other items	2	354
	16,892	8,416
<b>Net deferred income tax asset</b>	<b>\$ 49,350</b>	<b>\$ 29,323</b>

The Company has various state and local NOL carryforwards which will begin to expire in the year ending June 30, 2025.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax of the state of New Jersey and various other states. The Company is generally no longer subject to examination by federal, state and local taxing authorities for tax years prior to June 30, 2019.

**Note 17 – Commitments**

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the borrower. At June 30, 2022 and 2021, the Bank had \$510.5 million and \$512.2 million in commitments to originate loans, including unused lines of credit.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 17 – Commitments (continued)**

The Bank is party to standby letters of credit through which it guarantees certain specific business obligations of its commercial customers. The balance of standby letters of credit at June 30, 2022 and 2021 were approximately \$130,000 and \$739,000, respectively.

In addition to the commitments noted above, at June 30, 2022, the Company's pipeline of loans held for sale included \$20.3 million of in-process loans whose terms included interest rate locks to borrowers that were paired with a best-efforts commitment to sell the loan to a buyer at a fixed price within a predetermined timeframe after the sale commitment is established.

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

**Note 18 – Fair Value of Financial Instruments**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or inputs that are derived principally from, or corroborated by, market data by correlation or other means.
- 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.

**Assets Measured on a Recurring Basis:**

The following methods and significant assumptions were used to estimate the fair values of the Company's assets measured at fair value on a recurring basis at June 30, 2022 and 2021:

**Investment Securities Available for Sale**

The Company's available for sale investment securities are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things. From time to time, the Company validates prices supplied by the independent pricing service by comparison to prices obtained from third-party sources or derived using internal models.

**Derivatives**

The Company has contracted with a third party vendor to provide periodic valuations for its interest rate derivatives to determine the fair value of its interest rate caps and swaps. The vendor utilizes standard valuation methodologies applicable to interest rate derivatives such as discounted cash flow analysis and extensions of the Black-Scholes model. Such valuations are based upon readily observable market data and are therefore considered Level 2 valuations by the Company.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 18 – Fair Value of Financial Instruments (continued)**

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

	June 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In Thousands)			
<b>Assets:</b>				
Debt securities available for sale:				
Obligations of state and political subdivisions	\$ -	\$ 28,435	\$ -	\$ 28,435
Asset-backed securities	-	166,557	-	166,557
Collateralized loan obligations	-	307,813	-	307,813
Corporate bonds	-	153,397	-	153,397
Total debt securities	-	656,202	-	656,202
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations	-	7,122	-	7,122
Residential pass-through securities	-	514,758	-	514,758
Commercial pass-through securities	-	166,011	-	166,011
Total mortgage-backed securities	-	687,891	-	687,891
Total securities available for sale	\$ -	\$ 1,344,093	\$ -	\$ 1,344,093
Interest rate contracts	\$ -	\$ 41,223	\$ -	\$ 41,223
Total assets	\$ -	\$ 1,385,316	\$ -	\$ 1,385,316

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 18 – Fair Value of Financial Instruments (continued)**

	<b>June 30, 2021</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
	<b>(In Thousands)</b>			
<b>Assets:</b>				
Debt securities available for sale:				
Obligations of state and political subdivisions	\$ -	\$ 34,603	\$ -	\$ 34,603
Asset-backed securities	-	242,989	-	242,989
Collateralized loan obligations	-	189,880	-	189,880
Corporate bonds	-	158,351	-	158,351
Total debt securities	-	625,823	-	625,823
Mortgage-backed securities available for sale:				
Collateralized mortgage obligations	-	13,739	-	13,739
Residential pass-through securities	-	744,491	-	744,491
Commercial pass-through securities	-	292,811	-	292,811
Total mortgage-backed securities	-	1,051,041	-	1,051,041
Total securities available for sale	<u>\$ -</u>	<u>\$ 1,676,864</u>	<u>\$ -</u>	<u>\$ 1,676,864</u>
Interest rate contracts	\$ -	\$ 1,832	\$ -	\$ 1,832
Total assets	<u>\$ -</u>	<u>\$ 1,678,696</u>	<u>\$ -</u>	<u>\$ 1,678,696</u>
<b>Liabilities:</b>				
Interest rate contracts	\$ -	\$ 673	\$ -	\$ 673
Total liabilities	<u>\$ -</u>	<u>\$ 673</u>	<u>\$ -</u>	<u>\$ 673</u>

**Assets Measured on a Non-Recurring Basis:**

The following methods and assumptions were used to estimate the fair values of the Company's assets measured at fair value on a non-recurring basis at June 30, 2022 and 2021:

**Individually Analyzed Collateral Dependent Loans:**

The fair value of collateral dependent loans that are individually analyzed is determined based upon the appraised fair value of the underlying collateral, less costs to sell. Such collateral primarily consists of real estate and, to a lesser extent, other business assets. Management may also adjust appraised values to reflect estimated changes in market values or apply other adjustments to appraised values resulting from its knowledge of the collateral. Internal valuations may be utilized to determine the fair value of other business assets. For non-collateral-dependent loans, management estimates fair value using discounted cash flows based on inputs that are largely unobservable and instead reflect management's own estimates of the assumptions as a market participant would in pricing such loans. Individually analyzed collateral dependent loans are considered a Level 3 valuation by the Company.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 18 – Fair Value of Financial Instruments (continued)**

**Other Real Estate Owned**

Other real estate owned is recorded at estimated fair value, less estimated selling costs when acquired, thus establishing a new cost basis. Fair value is generally based on independent appraisals. These appraisals include adjustments to comparable assets based on the appraisers' market knowledge and experience. When an asset is acquired, the excess of the loan balance over fair value, less estimated selling costs, is charged to the allowance for credit losses. If further declines in the estimated fair value of the asset occur, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions.

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

	<b>June 30, 2022</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
	<b>(In Thousands)</b>			
<b>Collateral dependent loans:</b>				
Residential mortgage	\$ -	\$ -	\$ 2,035	\$ 2,035
Multi-family mortgage	-	-	7,517	7,517
Nonresidential mortgage	-	-	11,479	11,479
Total	\$ -	\$ -	\$ 21,031	\$ 21,031
<b>Other real estate owned, net:</b>				
Residential	\$ -	\$ -	\$ 178	\$ 178
Total	\$ -	\$ -	\$ 178	\$ 178
	<b>June 30, 2021</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
	<b>(In Thousands)</b>			
<b>Collateral dependent loans:</b>				
Residential mortgage	\$ -	\$ -	\$ 3,051	\$ 3,051
Multi-family mortgage	-	-	6,932	6,932
Nonresidential mortgage	-	-	8,679	8,679
Total	\$ -	\$ -	\$ 18,662	\$ 18,662
<b>Other real estate owned, net:</b>				
Residential	\$ -	\$ -	\$ 178	\$ 178
Total	\$ -	\$ -	\$ 178	\$ 178

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 18 – Fair Value of Financial Instruments (continued)**

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company has utilized adjusted Level 3 inputs to determine fair value:

<b>June 30, 2022</b>						
<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range</u>	<u>Weighted Average</u>		
(Dollars in Thousands)						
<b>Collateral dependent loans:</b>						
Residential mortgage	\$ 2,035	Market valuation of underlying collateral	(1) Adjustments to reflect current conditions/selling costs	(2) 7% - 10%	8.97%	
Multi-family mortgage	7,517	Market valuation of underlying collateral	(1) Adjustments to reflect current conditions/selling costs	(2) 10% - 12%	11.06%	
Nonresidential mortgage	11,479	Market valuation of underlying collateral	(1) Adjustments to reflect current conditions/selling costs	(2) 9% - 18%	12.72%	
<b>Total</b>	<u>\$ 21,031</u>					
<b>Other real estate owned, net:</b>						
Residential	\$ 178	Market valuation of underlying collateral	(3) Adjustments to reflect current conditions/selling costs	(2) 6.00%	6.00%	
<b>Total</b>	<u>\$ 178</u>					
<b>June 30, 2021</b>						
<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range</u>	<u>Weighted Average</u>		
(Dollars in Thousands)						
<b>Collateral dependent loans:</b>						
Residential mortgage	\$ 3,051	Market valuation of underlying collateral	(1) Adjustments to reflect current conditions/selling costs	(2) 7% - 13%	9.77%	
Multi-family mortgage	6,932	Market valuation of underlying collateral	(1) Adjustments to reflect current conditions/selling costs	(2) 10% - 11%	10.39%	
Nonresidential mortgage	8,679	Market valuation of underlying collateral	(1) Adjustments to reflect current conditions/selling costs	(2) 9% - 16%	14.48%	
<b>Total</b>	<u>\$ 18,662</u>					
<b>Other real estate owned, net:</b>						
Residential	\$ 178	Market valuation of underlying collateral	(3) Adjustments to reflect current conditions/selling costs	(2) 6.00%	6.00%	
<b>Total</b>	<u>\$ 178</u>					

- (1) The fair value basis of collateral dependent loans is generally determined based on an independent appraisal of the fair value of a loan's underlying collateral.
- (2) The fair value basis of collateral dependent loans and other real estate owned is adjusted to reflect management estimates of selling costs including, but not limited to, real estate brokerage commissions and title transfer fees.
- (3) The fair value basis of other real estate owned is generally determined based upon the lower of an independent appraisal of the property's fair value or the applicable listing price or contracted sales price.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 18 – Fair Value of Financial Instruments (continued)**

At June 30, 2022, collateral dependent loans valued using Level 3 inputs comprised loans with principal balance totaling \$24.6 million and valuation allowance of \$3.6 million reflecting an aggregate fair value of \$21.0 million. By comparison, at June 30, 2021, collateral dependent loans valued using Level 3 inputs comprised loans with principal balance totaling \$25.2 million and valuation allowances of \$6.5 million reflecting an aggregate fair value of \$18.7 million.

Once a loan is foreclosed, the fair value of the other real estate owned continues to be evaluated based upon the fair value of the repossessed real estate originally securing the loan. At June 30, 2022 and 2021, the Company held other real estate owned totaling \$178,000, respectively, whose carrying value was written down utilizing Level 3 inputs.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of June 30, 2022 and 2021:

	<b>June 30, 2022</b>				
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	<b>(In Thousands)</b>				
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 101,615	\$ 101,615	\$ 101,615	\$ -	\$ -
Investment securities available for sale	1,344,093	1,344,093	-	1,344,093	-
Investment securities held to maturity	118,291	108,118	-	108,118	-
Loans held-for-sale	28,874	28,831	-	28,831	-
Net loans receivable	5,370,787	5,215,079	-	-	5,215,079
FHLB Stock	47,144	-	-	-	-
Interest receivable	20,466	20,466	2	5,210	15,254
Interest rate contracts	41,223	41,223	-	41,223	-
<b>Financial liabilities:</b>					
Deposits	5,862,256	5,839,035	3,972,694	-	1,866,341
Borrowings	901,337	900,505	-	-	900,505
Interest payable on deposits	722	722	147	-	575
Interest payable on borrowings	1,611	1,611	-	-	1,611



**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 18 – Fair Value of Financial Instruments (continued)**

	June 30, 2021				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 67,855	\$ 67,855	\$ 67,855	\$ -	\$ -
Investment securities available for sale	1,676,864	1,676,864	-	1,676,864	-
Investment securities held to maturity	38,138	39,610	-	39,610	-
Loans held-for-sale	16,492	16,934	-	16,934	-
Net loans receivable	4,793,229	4,830,136	-	-	4,830,136
FHLB Stock	36,615	-	-	-	-
Interest receivable	19,362	19,362	1	4,238	15,123
Interest rate contracts	1,832	1,832	-	1,832	-
<b>Financial liabilities:</b>					
Deposits	5,485,306	5,490,923	3,607,560	-	1,883,363
Borrowings	685,876	701,419	-	-	701,419
Interest payable on deposits	145	145	96	-	49
Interest payable on borrowings	1,335	1,335	-	-	1,335
Interest rate contracts	673	673	-	673	-

**Commitments.** The fair value of commitments to fund credit lines and originate or participate in loans held in portfolio or loans held for sale 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, including those relating to loans held for sale that are considered derivative instruments for financial statement reporting purposes, the 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.

**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 fair value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments 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.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 19 – Comprehensive Income**

The components of accumulated other comprehensive (loss) income included in stockholders' equity are as follows:

	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(In Thousands)</b>	
Net unrealized (loss) gain on securities available for sale	\$ (118,031)	\$ 10,011
Tax effect	34,104	(2,882)
Net of tax amount	(83,927)	7,129
Fair value adjustments on derivatives	39,805	(312)
Tax effect	(11,542)	94
Net of tax amount	28,263	(218)
Benefit plan adjustments	(89)	(1,093)
Tax effect	26	326
Net of tax amount	(63)	(767)
<b>Total accumulated other comprehensive (loss) income</b>	<b>\$ (55,727)</b>	<b>\$ 6,144</b>

Other comprehensive (loss) income and related tax effects are presented in the following table:

	<b>Years Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(In Thousands)</b>		
Net unrealized (loss) gain on securities available for sale	\$ (128,601)	\$ (11,704)	\$ 22,758
Amortization of net unrealized holding loss on securities available for sale transferred to held to maturity <sup>(1)</sup>	-	-	596
Net realized loss (gain) on securities available for sale <sup>(2)</sup>	559	(767)	(2,251)
Fair value adjustments on derivatives	40,117	19,106	(23,134)
Benefit plans:			
Amortization of actuarial loss <sup>(3)</sup>	80	83	19
Net actuarial gain (loss)	924	236	(348)
Net change in benefit plan accrued expense	1,004	319	(329)
Other comprehensive (loss) income before taxes	(86,921)	6,954	(2,360)
Tax effect	25,050	(2,067)	778
<b>Total other comprehensive (loss) income</b>	<b>\$ (61,871)</b>	<b>\$ 4,887</b>	<b>\$ (1,582)</b>

- (1) Represents amounts reclassified out of accumulated other comprehensive (loss) income and included in interest income on taxable securities.
- (2) Represents amounts reclassified out of accumulated other comprehensive (loss) income and included in gain on sale of securities on the Consolidated Statements of Income.
- (3) Represents amounts reclassified out of accumulated other comprehensive (loss) income and included in the computation of net periodic pension expense. See Note 13 – Benefit Plans for additional information.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 20 – Revenue Recognition**

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Company’s sources of noninterest income for the years ended June 30, 2022, 2021 and 2020. Sources of revenue outside the scope of ASC 606 are noted as such.

	Years Ended June 30,		
	2022	2021	2020
	(In Thousands)		
Non-interest income:			
Deposit-related fees and charges	\$ 1,733	\$ 1,412	\$ 1,626
Loan-related fees and charges <sup>(1)</sup>	847	485	425
(Loss) gain on sale and call of securities <sup>(1)</sup>	(559)	767	2,250
Gain on sale of loans <sup>(1)</sup>	2,539	5,574	3,186
Gain (loss) on sale and write down of other real estate owned	5	-	(28)
Income from bank owned life insurance <sup>(1)</sup>	6,167	6,267	6,225
Electronic banking fees and charges (interchange income)	1,626	1,717	1,245
Bargain purchase gain <sup>(1)</sup>	-	3,053	-
Miscellaneous <sup>(1)</sup>	1,576	1,751	194
<b>Total non-interest income</b>	<b>\$ 13,934</b>	<b>\$ 21,026</b>	<b>\$ 15,123</b>

(1) Not within the scope of ASC 606.

A description of the Company’s revenue streams accounted for under ASC 606 is as follows:

**Service Charges on Deposit Accounts**

The Company earns fees from deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed at the point in the time the Company fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer’s account balance.

**Gains/Losses on Sales of OREO**

The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. Gain/Losses on the sales of OREO falls within the scope of ASC 606, if the Company finances the transaction. Under ASC 606, if the Company finances the sale of OREO to the buyer, the Company is required to assess whether the buyer is committed to perform their obligations under the contract and whether the collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. Generally, the Company does not finance the sale of OREO properties.

**Interchange Income**

The Company earns interchange fees from debit and credit card holder transactions conducted through various payment networks. Interchange fees from cardholder transactions are recognized daily, concurrently with the transaction processing services provided by an outsourced technology solution.

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 21 – Parent Only Financial Information**

Kearny Financial Corp. operates its wholly owned subsidiary Kearny Bank and the Bank's wholly-owned subsidiary CJB Investment Corp. The consolidated earnings of the subsidiaries are recognized by the Company using the equity method of accounting. Accordingly, the consolidated earnings of the subsidiaries are recorded as increases in the Company's investment in the subsidiaries. The following are the condensed financial statements for Kearny Financial Corp. (Parent Company only) as of June 30, 2022 and 2021, and for each of the years in the three-year period ended June 30, 2022.

**Condensed Statements of Financial Condition**

	June 30,	
	2022	2021
	(In Thousands)	
<b><u>Assets</u></b>		
Cash and amounts due from depository institutions	\$ 77,750	\$ 66,191
Investment securities available for sale	-	15,000
Loans receivable	28,201	29,959
Investment in subsidiary	788,021	932,004
Other assets	448	624
<b>Total Assets</b>	<b>\$ 894,420</b>	<b>\$ 1,043,778</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
Other liabilities	420	834
Stockholders' equity	894,000	1,042,944
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 894,420</b>	<b>\$ 1,043,778</b>

**Condensed Statements of Income and Comprehensive Income**

	Years Ended June 30,		
	2022	2021	2020
	(In Thousands)		
Dividends from subsidiary	\$ 156,728	\$ 178,918	\$ 30,039
Interest income	1,508	1,993	2,108
Equity in undistributed earnings of subsidiaries	(88,452)	(114,969)	14,984
<b>Total income</b>	69,784	65,942	47,131
Directors' compensation	530	308	332
Other expenses	1,976	2,660	1,853
<b>Total expense</b>	2,506	2,968	2,185
<b>Income before income taxes</b>	67,278	62,974	44,946
Income tax expense	(269)	(259)	(19)
<b>Net income</b>	<b>\$ 67,547</b>	<b>\$ 63,233</b>	<b>\$ 44,965</b>
<b>Comprehensive income</b>	<b>\$ 5,676</b>	<b>\$ 68,120</b>	<b>\$ 43,383</b>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 21 – Parent Only Financial Information (continued)**

**Condensed Statements of Cash Flows**

	Years Ended June 30,		
	2022	2021	2020
	(In Thousands)		
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 67,547	\$ 63,233	\$ 44,965
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	88,452	114,969	(14,984)
Decrease (increase) in other assets	176	484	(583)
(Decrease) increase in other liabilities	(184)	160	(50)
<b>Net Cash Provided by Operating Activities</b>	<b>155,991</b>	<b>178,846</b>	<b>29,348</b>
<b>Cash Flows from Investing Activities:</b>			
Repayment of loan to ESOP	1,758	1,702	1,645
Proceeds from the maturity of investment securities available for sale	15,000	-	-
Outlays for business acquisitions	-	(9,008)	-
Other, net	-	118	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>16,758</b>	<b>(7,188)</b>	<b>1,645</b>
<b>Cash Flows from Financing Activities:</b>			
Exercise of stock options	-	373	-
Cash dividends paid	(30,693)	(28,648)	(24,121)
Repurchase and cancellation of common stock of Kearny Financial Corp.	(129,520)	(119,021)	(69,782)
Cancellation of shares repurchased on vesting to pay taxes	(977)	(803)	(1,083)
<b>Net Cash Used In Financing Activities</b>	<b>(161,190)</b>	<b>(148,099)</b>	<b>(94,986)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>11,559</b>	<b>23,559</b>	<b>(63,993)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>66,191</b>	<b>42,632</b>	<b>106,625</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 77,750</b>	<b>\$ 66,191</b>	<b>\$ 42,632</b>

**KEARNY FINANCIAL CORP. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Note 22 – Net Income per Common Share (EPS)**

Basic EPS is based on the weighted average number of common shares actually outstanding, including both vested and unvested restricted stock awards, adjusted for 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 or unvested RSUs, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. Shares issued and reacquired during any period are weighted for the portion of the period they were outstanding.

The following schedule shows the Company's earnings per share calculations for the periods presented:

	<b>For the Year Ended June 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
	<b>(In Thousands, Except Per Share Data)</b>		
Net income	\$ 67,547	\$ 63,233	\$ 44,965
Weighted average number of common shares outstanding - basic	70,911	82,387	82,409
Effect of dilutive securities	22	4	21
Weighted average number of common shares outstanding- diluted	70,933	82,391	82,430
Basic earnings per share	\$ 0.95	\$ 0.77	\$ 0.55
Diluted earnings per share	\$ 0.95	\$ 0.77	\$ 0.55

Stock options for 3,115,000, 3,246,138 and 3,115,000 shares of common stock were not considered in computing diluted earnings per share at June 30, 2022, 2021 and 2020, respectively, because they were considered anti-dilutive. In addition, 251,905 RSUs were not considered in computing diluted earnings per share at June 30, 2022 because the RSUs were considered anti-dilutive.

## SIGNATURES

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

### KEARNY FINANCIAL CORP.

Dated: August 26, 2022

By: /s/ Craig L. Montanaro  
Craig L. Montanaro  
President and Chief Executive Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on August 26, 2022 on behalf of the Registrant and in the capacities indicated.

/s/ Craig L. Montanaro  
Craig L. Montanaro  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

/s/ Keith Suchodolski  
Keith Suchodolski  
Senior Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

/s/ Theodore J. Aanensen  
Theodore J. Aanensen  
Director

/s/ Raymond E. Chandonnet  
Raymond E. Chandonnet  
Director

/s/ John N. Hopkins  
John N. Hopkins  
Director

/s/ Catherine A. Lawton  
Catherine A. Lawton  
Director

/s/ John J. Mazur, Jr.  
John J. Mazur, Jr.  
Director

/s/ Joseph P. Mazza  
Joseph P. Mazza  
Director

/s/ John F. McGovern  
John F. McGovern  
Director

/s/ Leopold W. Montanaro  
Leopold W. Montanaro  
Director

/s/ Christopher Petermann  
Christopher Petermann  
Director

/s/ Charles J. Pivrotto  
Charles J. Pivrotto  
Director

/s/ John F. Regan  
John F. Regan  
Director

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## BOARD OF DIRECTORS

**Craig L. Montanaro**  
*President/Chief Executive Officer*

**John J. Mazur, Jr.**  
*Chairman*

**Theodore J. Aanensen**  
**Raymond E. Chandonnet**  
**John N. Hopkins**  
**Catherine A. Lawton**

**Dr. Joseph P. Mazza**  
**John F. McGovern**  
**Leopold W. Montanaro**

**Christopher Petermann**  
**Charles J. Pivrotto**  
**John F. Regan**

## KEARNY OFFICERS

### EXECUTIVE LEADERSHIP

**Craig L. Montanaro\***  
*President/Chief Executive Officer*

**Keith Suchodolski\***  
*Senior Executive Vice President  
Chief Financial Officer*

**Anthony V. Bilotta, Jr.\***  
*Executive Vice President  
Chief Banking Officer*

**Thomas D. DeMedici\***  
*Executive Vice President  
Chief Credit Officer*

**John V. Dunne\***  
*Executive Vice President  
Chief Risk Officer*

**Patrick M. Joyce\***  
*Executive Vice President  
Chief Lending Officer*

**Erika K. Parisi\***  
*Executive Vice President  
Chief Administrative Officer*

**Timothy A. Swansson\***  
*Executive Vice President  
Chief Technology and  
Innovation Officer*

### SENIOR VICE PRESIDENTS

**Redwan Ahmed**  
*Director of Information Technology*

**Jack D. Anastasi**  
*Government and Small  
Business Banking Leader*

**Jeffrey Apostolou**  
*Director of Residential Lending*

**Cassia J. Beierle, Esq.**  
*General Counsel*

**Gary F. Brozowski**  
*Director of Commercial RE Lending*

**Sean M. Byrnes**  
*Chief Accounting Officer*

**Gail Corrigan\***  
*Corporate Secretary*

**Linda D. Hanlon**  
*Project Management  
Administrator*

**Kenneth Helmrich**  
*BSA/OFAC Officer*

**Matthew Lindenberg**  
*Chief Marketing Officer*

**Cheryl L. Lyons**  
*Loan Servicing  
Assistant Secretary*

**Kimberly T. Manfreda**  
*Director of Human Resources  
Assistant Secretary*

**Marianne McGoldrick**  
*Senior Credit Officer*

**Robert L. Melchionne**  
*Director of C & I Lending*

**Frank A. Milley**  
*Chief Investment Officer  
Treasurer*

**Heather Moskal**  
*Retail Banking Leader*

**Veronica M. Ross**  
*Treasury Management Leader*

**Janine M. Specht**  
*Director of Digital Banking*

**Michael Valente**  
*Risk Officer*

**Mary E. Webb**  
*Director of Banking Services*

### FIRST VICE PRESIDENTS

**Andrew Antanaitis**  
*Special Assets Manager*

**Daniel Benker**  
*Facilities and  
Administrative Services*

**Lynn Carnevale**  
*Assistant Secretary*

**Grace Cruz-Beyer**  
*Portfolio Risk Manager*

**Carmine J. DiSomma**  
*Director of Internal Audit*

**Gina Donohue**  
*Mortgage Underwriter/  
Assistant Secretary*

**Jacqueline Gibbs**  
*Fair Lending Officer*

**Timothy Green**  
*Information Security Officer*

**Jennifer Hawley**  
*Retail Administrative Officer*

**Michael Healy**  
*Security Officer*

**Donald Jacquin**  
*Commercial RE Team Leader South*

**Earl Jornadal**  
*Project and Vendor  
Management Services*

**Robert Kim**  
*SBA Operations Manager*

**Johanna Maggiore**  
*Loan Originations*

**Michael Mangione**  
*Retail Sales and  
Development Leader*

**Suzanne Marcialis**  
*Controller*

**Silvia Merino-Topley**  
*Chief Compliance Officer*

**Lisa Pontrelli**  
*Assistant Secretary*

**Michael Reilly**  
*Director of Investment Services*

**Christopher Rozewski**  
*Director of Data Analytics*

**Richard Ruff**  
*Director of SEC Reporting*

**Michael A. Shriner**  
*Market President*

**Kenneth Stevenson**  
*Commercial RE Team Leader North*

**Jennifer Treshock**  
*Operations*

*\*Officer of Kearny Financial Corp.*

## SHAREHOLDER INFORMATION

### ANNUAL MEETING

The annual meeting of stockholders of Kearny Financial Corp. will be a virtual meeting conducted via webcast only on Thursday, October 27, 2022 at 10:00 a.m., Eastern Time. To be admitted, please visit: <https://meetnow.global/MXAM545>. To join the meeting as a registered stockholder you must enter the control number found on your proxy card, notice or proxy material notification email. Stockholders who own shares through an intermediary, such as a bank or broker, and wish to join the meeting, should follow the instructions on how to attend the virtual annual meeting that are included in our proxy statement.

### STOCK LISTING

The common stock is traded over-the-counter on the NASDAQ Global Select Market under the ticker symbol KRNY. As of August 29, 2022, the closing price of the KRNY common stock was \$11.50.

**Shareholder Inquiries:**  
**Taryn Rockwell**  
*Shareholder Relations Liaison/  
Assistant Secretary*  
(973) 244-4503  
[trockwell@kearnybank.com](mailto:trockwell@kearnybank.com)

**Capital Market Inquiries:**  
**Keith Suchodolski**  
*Senior Executive Vice President/CFO*  
(973) 244-4034  
[ksuchodolski@kearnybank.com](mailto:ksuchodolski@kearnybank.com)

**Auditor**  
**Crowe LLP**  
*354 Eisenhower Parkway, Suite 2050  
Livingston, NJ 07039*

**Legal Counsel**  
**Luse Gorman, PC**

**Transfer Agent**  
**Computershare Investor Services**  
*P.O. Box 505000  
Louisville, KY 40233-5000  
1-800-368-5948*

**Number of Shares  
Outstanding**  
*As of August 29, 2022  
Kearny Financial Corp.  
had 68,180,318 shares  
of common stock  
outstanding.*



**kearny**  
financial corp.

120 Passaic Avenue  
Fairfield, NJ 07004  
NASDAQ - KRNY