AMB Credit Report - Banking Professional

620010 Kearny Federal Savings Bank *As of September 23, 2010*

COMPANY INFORMATION

AMB Ultimate Parent Name: Kearny Financial Corporation **AMB Ultimate Parent #:** 624367

Address: 614 Kearny Avenue
Kearny, NJ 07032

Telephone: **N/A**
Fax: **N/A**
Web: **www.kearnyfederalsavings.com**

AMB #: **620010**
RSSD #: **633378**

Report Revision Date: 06/17/2010 [1]

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the Financial Strength of the Kearny Federal Savings Bank this bank is assigned a Best's Financial Strength Rating of a (Strong).

RATING RATIONALE

Rating Rationale: The ratings of Kearny Federal Savings Bank (the Bank) is based on a strong and historically-conservative community banking franchise despite operating in the highly-competitive New Jersey banking market, as well as a high-quality balance sheet with ample capitalization, and modest but consistently-stable earnings. The Bank has grown in the last decade, primarily by the completion of three sizable acquisitions. It is further pursuing opportunities that will allow it to grow and diversify its business from a typical mutual thrift model to more of a full service community bank. Facing the recent economic downturn and somewhat adverse local market conditions, including competition for loans, the Bank has maintained a notable level of discipline in its underwriting and pricing, trading-off pursuits of growth versus earnings protection in an unsteady market. The ratings for Kearny Financial and Kearny FSB further take into consideration the recent announcement of the pending acquisition of Central Jersey Bancorp (Oakhurst, NJ), based on initial preliminary information provided by management indicating future earnings and capital accretion, after initially lower capital ratios which nonetheless remain at strong levels. A.M. Best will continue to monitor the progress of this acquisition and its impact on the Bank.

Kearny Federal Savings Bank is well-positioned at a time when weaker banks are facing survival challenges in New Jersey and in the U.S. generally. It has a strong franchise, a strong balance sheet and good access to the public capital markets. The Bank benefits from a long-standing network of retail depositors and borrowers, and strong capital resulting from the holding company's 2005 minority stock offering. Capital levels were exceptional before the announced acquisition of Central Jersey Bancorp, and will remain strong post-acquisition. Conservative underwriting practices historically allowed the Bank to maintain a well-performing loan portfolio based mostly on residential 1-4 family mortgages. The Bank exhibited stable operating performance through the height of the financial crisis, albeit on lower margins and overall returns than peers reflecting management's moderate risk-moderate return strategy. Management has further implemented a strategic plan to diversify the Bank's business lines -- to include more business lending and non-maturity deposit gathering -- as well as incorporate the target's geographic markets.

Partially offsetting factors include the Bank's geographic concentration in its footprint in the northern New Jersey market, short-term challenges in expanding beyond its traditional customer bases, and the competitive banking market in New Jersey. The Bank's consistent but below-peer earnings reflect a combination of its conservative tradition and a relatively higher cost-of-funds. Funding costs are driven by fixed-maturity CDs whose costs are not offset, given the Bank's lower yields on an asset mix that emphasizes lower-yielding residential mortgage loans. As the Bank seeks more business lending opportunities and non-maturity deposits, and as it competes for public investors' capital, it may increasingly face competition from other publicly-held New Jersey mutual savings banks that are similarly well-positioned. There is, therefore, a degree of execution risk associated with the aforementioned planned business model diversification, concurrent with management succession, albeit largely mitigated by the consistent track record of management of the Bank and its board.

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Best's Financial Strength Rating: a **Outlook:** Stable

RECENT DEVELOPMENTS

On May 25, 2010, the Bank and its holding company, Kearny Financial Corp. (collectively as "Kearny Organization), entered into an agreement to acquire Central Jersey Bancorp and its wholly owned subsidiary of Central Jersey Bank (collectively as "Central Jersey"). The acquisition is to be paid in cash, for an estimated value of $72.3 million, and scheduled to be closed sometime in the fourth quarter of 2010. The agreement is subject to shareholder consent of Central Jersey, and other conditions as follows: Central Jersey will try to repay all TARP funds prior to the finalization of the acquisition; Central Jersey's nonperforming assets cannot exceed $20 million between March 31, 2010 and the closing date; if any conditions of the agreement are not met, Kearny organization may terminate the agreement and receive a termination fee of $2.8 million. This transaction is initially expected to be accretive to capital and earnings, based on management's expectations. While A. M. Best has received some information for a preliminary assessment, it is premature at this time to determine whether the transaction has any material positive or negative effect on its assigned rating of the organization. As management continues working to resolve problem credits within the acquired loan portfolio, A. M. Best will be reviewing the impact of the transaction to determine the rating impact, if any.

RATING HISTORY

06/17/2010 a

KEY FINANCIAL INDICATORS

Fiscal Year End	Total Assets ($000)	Total Equity ($000)	Equity / Total Assets	ROAA	ROAE	Asset Growth
2005	$2,023,650	$451,583	22.32	0.80	3.98	7.25
2006	$2,011,720	$450,507	22.39	0.26	1.15	-0.59
2007	$1,999,671	$428,969	21.45	0.13	0.57	-0.60
2008	$2,036,034	$442,428	21.73	0.35	1.63	1.82
2009	$2,191,434	$457,863	20.89	0.25	1.17	7.63
06/2009	$2,111,503	$451,223	21.37	0.23	1.07	2.70
06/2010	$2,327,541	$463,273	19.90	0.34	1.66	10.26

BUSINESS REVIEW

Kearny Financial Corporation and Kearny Federal Savings Bank have long had a presence in Northern New Jersey as a conservative mutual thrift. The organization currently is expanding over the next several years to become a more fully diversified community bank. The Bank's management team and Board of Directors have demonstrated a consistent track record of performance and a long tradition of conservatism in growing its operation. Three acquisitions over the last decade have allowed the Bank to grow to $2.25 billion of total assets. Organic growth also has been consistent, though it has been hampered in the last two years by soft economic and market conditions, as well as by high competition for loans and deposits in the New Jersey market.

Kearny Federal Savings Bank ("Kearny" or "the Bank"), a federally-chartered stock savings bank, is a wholly owned subsidiary of Kearny Financial Corporation (KFC), a Nasdaq-listed holding company with no significant operations of its own. KFC, formed in 2001, conducted a minority stock offering in February 2005, partially demutualizing the company as well as raising a significant amount of capital. As of March 31, 2010, approximately 74% of the outstanding shares of KFC are owned by Kearny Mutual Holding Company (MHC), with the remaining shares held primarily by institutional investors.

Kearny Federal Savings Bank is a thrift institution that began operations in 1884 in Kearny, New Jersey as a mutual savings and loan association. Most recently, the Bank has grown via acquisitions, notably 1st Bergen Bancorp in 1999, Pulaski Bancorp in 2002 and West Essex Bancorp in 2003. Following these acquisitions, in 2004 KFC centralized its operations to a new headquarters in Fairfield,

BUSINESS REVIEW

NJ. The Bank's entire 27 branch network is within the highly-concentrated and competitive New Jersey banking market, with banking operations in Bergen, Essex, Hudson, Middlesex, Morris, Passaic, and Union counties in Northern New Jersey, and Ocean County in Southern New Jersey.

The management team and Board of Directors are well represented by long-standing local bankers in the New Jersey market, independent local business executives and community leaders. Bank officers average around 30 years of experience in banking and around 25 years of tenure with the Bank, mostly through retention from past acquisitions. Board Directors have a diverse background of local banking, independent business operation and community leadership. Length of service with the Bank is similar to that of management. Both the Board and the management team have shown a consistent tradition of conservatism in the management and stewardship of the Bank's operation.

The Bank faces competition on various fronts for both retail loans and deposits and in the capital markets. Among retail competitors in New Jersey, Kearny shares the market with a number of national and regional commercial banks, savings banks, thrifts, and credit unions. The most recent FDIC Summary of Deposit data indicates a combined deposit market share that is ranked 17th in the counties the Bank operates within, and ranked 22nd in all of New Jersey. Among the other publicly traded new Jersey banks that Kearny competes with, are Beneficial Mutual Bancorp, Northfield Bancorp, Roma Financial Corp, Oritani Financial Group, Investors Savings Bancorp and Viewpoint Financial Group. A few of these competitors are currently outpacing their peers in many respects, from recent earnings performance to strategic longer-term franchise enhancements. These institutions pose special challenges as competitors to all banks in the State.

For over 125 years, Kearny has developed a franchise strength and customer loyalty within its traditional market demographics. Many of the Bank's depositors are generally older customers who show an affinity toward certificates of deposits. In contrast, the Bank's home mortgage borrowers are generally of a younger profile. Efforts are being made to cross-sell products to each of these groups to further enhance their relationship with and loyalty to the Bank.

Like most thrifts, the Bank's retail lending business is anchored by fixed-rate, 15-30 year single family first mortgage loans, with a large additional position in U.S. Agency mortgage backed securities secured by this type of loan. Kearny also offers non-teaser adjustable rate 1st lien mortgages and primarily fixed-rate junior lien mortgages. The real estate-secured commercial and multifamily portfolio is primarily fixed-rate, however a notable portion of this portfolio are balloon mortgages. Income from the loan portfolio is almost entirely interest-based.

The deposit base consists of primarily of non-brokered fixed-rate, fixed-maturity time deposits, of which most have balances below $100 thousand, and over half mature within 12 months. Among non-maturity demand deposits, passbook savings accounts and transaction accounts are the most prevalent, while non-interest bearing deposits are maintained at a small but stable level. Many of the Bank's deposit products pay interest rates at or above typical market levels that have kept the inflow of deposits steady over recent quarters.

As indicated above, the Bank has introduced new products both on the credit as well as the deposit sides of its balance sheet to diversify into business lending and non-maturity deposits within its existing geographic footprints. The Bank has ramped up its calling efforts and internal credit administration and approval processes accordingly as part of the plan. The management team has been working closely with the Board for the necessary commitments required by the expansion plan.

EARNINGS

The Bank delivers consistent and reliable core earnings, based primarily on net interest income generated from its long-standing franchise base of loyal depositors and mortgage holders, indicative of a moderate risk lending strategy accompanied by relatively lower-than-average but fairly stable margins. The Bank's asset mix and liability mix currently consist primarily of residential mortgages and CD's, but plans already are underway to expand beyond these bases toward both business loans and non-maturity deposits. The Bank's current business model does not lend itself to significant noninterest income generation. As part of its traditional

EARNINGS

low-risk low-margin business model, the Bank's earnings are of high quality. A low credit risk burden and high reliability of the customer bases underpin earnings quality, though earnings lag the Bank's peers in both margins and overall returns on assets. To enhance its franchise strength, the Bank has introduced new products, within both credit and deposit offerings. The Bank is also expanding further its geographic reach into Monmouth County as well as into additional sites within its existing footprint in Ocean County, through the recently-completed acquisition of Central Jersey Bancorp.

Kearny's history of steady net interest income draws primarily from 1-4 family residential mortgage loans and U.S. Agency MBS, both of which have yields that adequately reflect their risk profile and are in line with peers earnings on similar products. However, without the aid of higher-yielding assets - such as commercial real estate and corporate loans typical of more diversified community banks -- Kearny's margins are below peers of similar asset size. Combined yields on earning assets are likely to increase going forward, due to the Bank's steps to strategically target higher-yielding loan products such as commercial and multifamily real estate and commercial business lending.

Beyond the spread earned on the credit extension provided by the Bank to its customers, there is also a component of margin earned by the Bank on the funding mismatch between assets and liabilities. Kearny acts primarily as a source of long-term mortgage credit products with short-term deposit funding sources. As expected from such a liability-sensitive institution, net interest margins have widened due to declines in interest rates and the recent return of a steeper-yield-curve environment. Net interest spread has trended upward, driven by total interest expense declines that have been outpacing declines in interest income. These declining funding costs are also reflected in the net interest margin, which recently has shown gradual improvement.

For the past eight quarters, the Bank's efficiency ratio has remained reasonably consistent with its peers, actually reflecting growth in net interest income based on declines in deposit interest expense. The factors have resulted in an efficiency ratio typically within 70-80%. Noninterest expense has grown only slightly in the past year, but may increase due to occupancy expense increases while the bank rebuilds a branch, and increased advertising expenses associated with promoting a new rewards checking product. However, the Bank also is growing its top line revenues through its expansion plans and its recent acquisition. Based on preliminary projections, the acquisition is accretive to earnings in the first fiscal year 2010, with proportionally greater additions to core earnings that more than offset increases in loan loss provisioning and overhead expenses. A.M. Best will monitor the progress of the acquisition and the Bank's rating profile.

PROFITABILITY TESTS

Fiscal Year End	ROAA	ROAE	Trading Inc / Net Operating Inc	Overhead Exp / Total Operating Inc	Net Operating Inc / Avg Earning Assets	Net Interest Income / Avg Earning Assets	Total Cost of Funds
2005	0.80	3.98	...	73.36	0.75	2.73	2.19
2006	0.26	1.15	...	90.39	0.25	2.58	2.90
2007	0.13	0.57	...	91.00	0.21	2.46	3.40
2008	0.35	1.63	...	78.58	0.57	2.68	3.12
2009	0.25	1.17	...	79.12	0.52	2.78	2.47
06/2009	0.23	1.07	...	81.18	0.53	2.78	2.64
06/2010	0.34	1.66	...	75.69	0.60	2.79	1.96

ASSET QUALITY

The Bank has demonstrated consistently strong asset quality despite currently challenging economic conditions, underscoring its moderate-risk moderate-return strategy, its conservative credit underwriting and risk management practices, and the low risk profile of

ASSET QUALITY

its customer base. Recent increases in delinquencies have been in line with banks across the industry, but overall levels still remain low relative to total balance sheet exposures and well within capital and earnings coverage.

Historically conservative underwriting standards have kept nonperforming assets to a minimum for several years. A review of loan underwriting policies and guidelines demonstrates that Kearny has a detailed knowledge of a borrower's financial position throughout the lending process. Along with internal loan review processes, an independent third-party CPA firm conducts quarterly loan reviews alternating between commercial and residential loan portfolios, both to independently assess portfolio risk and to evaluate the Bank's internal control systems. The Bank maintains reasonable LTV requirements and has only a handful of exceptions due to declining property values. In 2009, the Bank revised a number of its loan policies, including the loan workout and troubled debt restructuring policies to incorporate recent revisions of regulatory debt restructuring guidelines. These revisions generally allow the Bank to conduct delinquent loan workouts or restructurings, based on standard eligibility criteria, for borrowers that demonstrate an ability to repay the loans. Management also has worked with the Board to allow some mitigating factor exceptions in the underwriting process, however even with these exceptions the Bank maintains very high standards for potential borrowers.

There are concentrations of exposures within the loan portfolio; however these are driven by the thrift business model and the overall franchise of the Bank, rather than by speculation or yield-seeking. There is no discernable concentration in high-risk assets or activities -- such as commercial real estate or construction lending - that is prevalent among many community banks. While most of Kearny's total earning assets are real estate risk-related, less than two-thirds of these are residential mortgage loans. The rest are U.S Agency MBS. Risk concentrations within the loan portfolio include a geographic concentration of 1-4 family mortgage loans secured by New Jersey properties, and a less significant concentration within a few large borrowers. Kearny has made a significant push in recent quarters to reduce these concentrations by expanding into other types of loans [non 1-4 family mortgage loans].

A notable portion of the loan portfolio consists of loans purchased from a handful of providers. Although loan purchases are primarily collateralized by New Jersey real estate, the Bank uses purchased loans as a means of geographic diversification (30 other states), and also to supplement loan originations in order to reach growth targets. Loan purchase agreements allow the Bank to dissect pools of loans to find loans that conform to the Bank's underwriting standards and to review the actual underwriting files as if the Bank were originating the loan. To a lesser extent, the Bank also participates in multifamily and nonresidential loans through the Thrift Institutions Community Investment Corporation (TICIC), a subsidiary of the NJ Bankers Association. TICIC allows New Jersey banks to support Community Reinvestment Act compliance by providing affordable housing and senior housing.

The Bank recently has seen an uptick in nonperforming loans, but overall levels remain benign -- well within an acceptable range relative to capital and earnings. Past due loan levels indicate that the Bank is still performing well in comparison to its thrift peers, despite a general industry-wide deterioration in asset quality, and most recently is showing some signs of asset quality improvement. Loans originated by Kearny have demonstrated superior performance relative to purchased loans. Nonaccrual loan balances have recently declined, though are offset by increases in loans 90 or more days past due and slight declines in overall loan balances. The majority of nonperforming assets are loans 90 or more days past due and still accruing whose balance primarily represent mortgage loans purchased from Countrywide Home Loans (acquired by Bank of America) between 2006-2008. Bank of America continues to service the loans and advances principal and interest payments for the loans as part of the purchase agreement.

The Bank is well reserved in its methodology and practices with regard to its Allowance for Loan and Lease Losses (ALLL). Based on our review and further in-depth discussions with management on the risk profiles of the portfolio and historical as well as expected nonperforming asset and loss levels, A.M. Best views the Bank's reserves to be robust and in line with changing market conditions. The Bank has been increasing its loan loss provisioning in recent quarters, primarily due to an increase in delinquent and non-accrual FAS 114 loans. Management's internal loan risk rating, classification, and reporting systems recently have been better-aligned in preparation both for growth and for an expected greater diversity of loan types. The Bank has remedied its loan risk tracking system to one standard format across various portfolios from past acquisitions. As a result, the Bank's risk administration and management process is now more transparent to users (e.g., its Board and auditors).

ASSET QUALITY TESTS

Fiscal Year End	Loan Portfolio Growth	Loan Loss Provision / Avg Total Loans	Loan Loss Reserve / Gross Loan + OREO	Non-Pefr Loans / Gross Loans + OREO	Loan Charge-Offs / Avg Total Loans	Non-Perf Loans / Tangible Equity + LLR	Non-Perf Assets / Tangible Equity + LLR	Net Operating Inc / Non-Perf Loans
2005	23.31	0.02	0.88	0.20	0.00	0.33	0.33	5.13
2006	26.36	0.03	0.72	0.08	0.01	0.17	0.17	4.35
2007	21.14	0.04	0.63	0.12	0.00	0.32	0.32	3.43
2008	12.36	0.08	0.57	0.64	0.12	1.88	1.88	4.42
2009	-5.42	0.16	0.72	1.65	0.20	4.43	4.50	0.90
06/2009	1.73	0.04	0.62	0.71	0.05	1.96	1.96	1.43
06/2010	-3.30	0.23	0.85	1.73	0.31	4.48	4.49	0.73

LIQUIDITY

The Bank's liquidity levels have historically been more than sufficient. Recently the bank has experienced even higher levels of liquidity due to a combination of depressed loan demand and a steady inflow of deposits, especially certificates of deposits. Excess liquidity has been invested in short term securities until loan demand picks up. Liquidity policies generally are fairly conservative.

Management is working to shift the deposit mix to increase core deposits while becoming less time deposit sensitive. Kearny continues to show the propensity to attract deposits, even while reducing rates relative to competitors, primarily because of the long standing relationship between the Bank and its deposit base. Accomplishing the goals of increasing non maturity and non-interest bearing deposits could help reduce the Bank's relatively high cost of funds as compared to its peers. The Bank has expanded its line of deposit products to attract new depositors, in hopes of offering them additional loan or deposit products. The rates on a new rewards checking product are quite high compared to current CD rates and the cost of the Bank's other deposit products. However, this product is also partially a defense mechanism meant to attract deposits now and retain these deposits when interest rates rise.

The other main source of funds for the Bank is Federal Home Loan Bank advances, which the Bank obtained at a time when FHLB rates were believed to be competitive. Of the Bank's $210 million in FHLB advances, $10 million mature in 2011, with the remaining obligations not maturing until 2018. Currently, the weighted rate on the FHLB advances is a reasonable 3.87%. Liquidity policy stipulations rule out use of brokered deposits and wholesale borrowings from non-FHLB sources. Brokered deposits are permissible, but only as part of the Bank's Contingency Plan for liquidity, and only after other sources including cash, fed funds, borrowings and sales of AFS securities.

In addition to the above-mentioned balance sheet liquidity, there are a number of other sources available to the Bank under its current policy limits. The Bank has unpledged assets and capital to collateralize any borrowings in the event that it became necessary, as well as a line of credit at the FHLB of New York, and the ability to raise new equity if needed. Kearny does not currently sell or securitize loans from its growing loan portfolio, though this would be a potential option as well.

LIQUIDITY TESTS

Fiscal Year End	Core Deposits / Total Loans	Core Deposits / Total Assets	Net Loans / Total Earning Assets	(Volatile Liab - Temporary Invest) / (Loan + LT Invest)	Avg LT Funds + Illliquid Assets / Avg Earning Assets
2005	180.16	56.41	33.98	22.24	146.91
2006	144.38	57.37	43.24	24.59	140.08
2007	118.49	57.34	52.74	24.59	139.58
2008	102.64	54.77	58.32	26.06	141.56
2009	117.11	55.00	51.40	28.30	140.72
06/2009	110.06	54.52	53.92	28.46	140.64
06/2010	127.85	55.68	46.52	27.85	139.88

MARKET RISK

The Bank's exposure to market risk is limited to its investments and interest rate risk resulting from funding gap mismatches on its balance sheet. As is typical of many thrifts, the Bank's funding gap mismatch is geared toward a liability sensitive exposure in aggregate. The Bank has been focusing on improving its asset-liability management practices by lengthening CD maturities and investing in shorter term assets to narrow its gap position. These steps should reduce the effects of any potential short term rate rises in the future. As a result of these steps, the Bank's funding gap, in aggregate, has started to trend toward a more positive position, aided by recent increases in fixed rate prepayment speeds and an increase in the cash account.

While the Bank does not have a trading portfolio and avoids derivatives and off-balance sheet items, it also does not have a hedging program and is therefore exposed to a certain amount of interest rate risk. However, A.M. Best feels that capital levels provide a sufficient buffer to the Bank's interest rate risk exposure. The Bank manages its interest rate risk closely, using internal, third-party, and regulatory sources and multiple risk metrics to gauge its levels of interest rate risk. A review indicates that Kearny is near the top among its peers for post-shock test and strong enough for the level of interest rate risk to be considered "minimal risk" under OTS TB13a guidance.

With regard to investments, relatively low risk U.S. Agency MBS and Agency debt securities historically comprise nearly the entire securities portfolio. The remainder of the portfolio is remnants of previous acquisitions and consist of some single-issuer trust preferred securities with no other-than-temporary-impairment (OTTI), as well as some private label commercial mortgage obligation securities (CMOs) (less than 1% of investments) with a small amount of OTTI. Although there is a very small percentage of unrealized losses in the portfolio at this time, the Bank indicates that it has both the ability and the intent to hold temporarily impaired securities until their fair value improves above their amortized cost.

The Bank's investment policy prohibits the use of derivative MBS, options and futures, zero coupon and corporate bonds, commercial paper, and equity securities beyond what the Bank currently holds. The policy is designed to be flexible (giving designated Senior Management some discretion) but even small matters must be run past the Investment/IRR Committee. It is also the Bank's policy to invest in shorter term assets such as agency debentures as a means of further closing the Bank's gap position, with a preference toward instruments that generate cash flow over those that do not.

MARKET RISK INDICATORS

Fiscal Year End	Trading Assets / Total Assets	Trading Assets / Tangible Equity	Investment Securities / Total Assets	Investment Securities / Tangible Equity	Trading Revenue / Total Operating Inc

MARKET RISK INDICATORS

Fiscal Year End	Trading Assets / Total Assets	Trading Assets / Tangible Equity	Investment Securities / Total Assets	Investment Securities / Tangible Equity	Trading Revenue / Total Operating Inc
2005	...	...	59.62	327.78	...
2006	...	...	38.69	211.72	...
2007	...	...	36.61	211.20	...
2008	...	...	35.59	201.24	...
2009	...	...	37.05	216.20	...
06/2009	...	...	33.72	192.98	...
06/2010	...	...	42.38	258.88	...

CAPITALIZATION

Until very recently with the announced acquisition of Central Jersey Bancorp, Kearny has had a history of holding overly abundant capitalization, as high as in excess of twice the levels for well capitalized banks. While adding to the balance sheet strength profile of the bank, the high level of capital was in excess of the business requirement for the Bank, and presented it with the issue of more efficient deployments of capital as a resource. Based on preliminary information, A.M Best views the recent acquisition as more sustainable alignment of resources for the Bank.

The original circumstance leading to the previously excess capital was related to a minority stock offering in 2005 of KFC. The offering gave the Bank a large boost in capital, which was intended to support a growth plan over the course of the following years. However, the Bank was encountering headwinds in the marketplace as a result of the financial crisis and economic slowdown in New Jersey as occurring throughout the country. In 2010, the Bank was able to reach an agreement to acquire Central Jersey Bancorp, allowing it to better align its capital level with its business model and operation, while still remaining fairly strongly capitalized.

Capital levels are well above regulatory minimum requirements and are at the top of the peer group: the tier 1 capital ratio is almost 17% and the risk based capital ratios are in the upper 30% ranges. Almost half of assets to risk-weight are in the 0% and 20% R/W Category (most cash, Agency securities and Agency MBS). Intangibles assets consist almost entirely of goodwill, which is projected to increase following the Central Jersey acquisition.

The Bank recently declared a multi-million dollar cash dividend to KFC for the purposes of funding further stock repurchases and dividends by the holding company and other corporate holding company purposes. Buybacks of shares in the marketplace have also helped the Bank's stock price. Retained earnings growth, given current profitability trends, will generate less capital than a share issuance. With still a large capital position, the Bank demonstrated a equity capital to total assets ratio in the top 5 percent of its peer group. There is no debt at the holding company level so there is no double leverage. The only borrowings at the operating level for the Bank are the aforementioned $210 million of Federal Home Loan Bank advances.

CAPITALIZATION AND LEVERAGE TESTS

Fiscal Year End	Regulatory Capital: Tier I Ratio	Regulatory Capital: Total Ratio	Regulatory Capital: Tier I Leverage Ratio	Tangible Com Equity / (RWA + Sec A)	Retained Earnings / Avg Equity
2005	48.52	49.76	18.78	18.19	3.98
2006	45.63	46.34	19.28	18.27	1.15
2007	38.72	39.41	18.04	17.33	-7.19
2008	37.89	38.41	18.27	17.69	1.63

CAPITALIZATION AND LEVERAGE TESTS

Fiscal Year End	Regulatory Capital: Tier I Ratio	Regulatory Capital: Total Ratio	Regulatory Capital: Tier I Leverage Ratio	Tangible Com Equity / (RWA + Sec A)	Retained Earnings / Avg Equity
2009	37.92	38.39	17.45	17.14	1.17
06/2009	38.44	38.96	17.89	17.47	1.07
06/2010	37.54	37.98	16.44	16.37	-0.96

HISTORY

Date Incorporated: 1884 **Date Commenced:** 1884 **Domicile:** New Jersey

OFFICERS

Chief Executive Officer, John N. Hopkins; President, Senior Vice President and Chief Operating Officer, Craig L. Montanaro; Executive Vice President and Chief Financial Officer, William C. Ledgerwood; Senior Vice President and Chief Lending Officer, Patrick M. Joyce; Senior Vice President and Secretary, Sharon Jones; Senior Vice President, Treasurer and Chief Investment Officer, Albert E. Gossweiler; Senior Vice President, Erika Sacher Parisi.

DIRECTORS

Theodore J. Aanensen, John N. Hopkins, John J. Mazur, Jr. (Chairman), Joseph P. Mazza, Matthew T. McClane, John F. McGovern, Leopold W. Montanaro, Henry S. Parow, John F. Regan.

620010 Kearny Federal Savings Bank *As of September 23, 2010*

FINANCIAL SUMMARY ($000)

	Quarterly Balances		Year End Balances				
	06/2010	06/2009	2009	2008	2007	2006	CAGR
Consolidated Assets							
Cash, Fed Funds & Repos Sold	172,694	202,155	194,746	69,428	150,376	282,924	38.24
Securities	986,342	711,971	812,027	724,722	732,094	778,365	-7.36
Total Loans	1,013,713	1,045,846	1,029,080	1,086,510	967,590	799,418	14.87
Loan Loss Reserves	8,561	6,434	7,375	6,229	6,143	5,755	7.01
Net Loans	1,005,152	1,039,412	1,021,705	1,080,281	961,447	793,663	14.94
Trading Assets	...	...	...	...	...	...	...
Investments in Unconsolidated Subs	...	...	...	...	...	...	...
Goodwill	82,263	82,285	82,270	82,299	82,335	82,873	-0.45
Other Intangibles	...	...	...	...	...	...	...
Fixed Assets	34,989	35,495	35,624	35,270	34,671	35,929	1.42
Other Assets	46,101	40,185	45,062	44,034	38,748	37,966	7.31
Total Assets	**2,327,541**	**2,111,503**	**2,191,434**	**2,036,034**	**1,999,671**	**2,011,720**	**3.04**
Consolidated Liabilities							
Total Deposits	1,629,437	1,427,029	1,502,359	1,357,380	1,320,420	1,484,853	0.07
Noncore Deposits	333,418	275,920	297,156	242,211	173,899	330,684	-1.65
Core Deposits	1,296,019	1,151,109	1,205,203	1,115,169	1,146,521	1,154,169	0.53
Other Borrowings	221,198	222,533	221,875	228,174	242,569	55,801	22.04
Subordinated Debt	...	...	...	...	...	...	...
Other Liabilities	13,633	10,718	9,337	8,052	7,713	20,559	4.81
Total liabilities	**1,864,268**	**1,660,280**	**1,733,571**	**1,593,606**	**1,570,702**	**1,561,213**	**1.79**
Consolidated Shareholder's Equity							
Perpetual Preferred stock	...	...	...	...	...	...	...
Common shareholders equity	2,182	2,182	2,182	2,182	2,182	2,182	365.34
Surplus	165,947	164,171	164,976	163,146	161,026	158,605	...
Accum. Other Comprehensive Inc.	16,628	8,634	10,713	3,991	662	-5,442	-1.90
Retained Earnings	288,215	287,389	290,418	284,989	278,434	309,952	0.10
Other Equity	...	...	...	...	...	...	...
Total Shareholders' Equity	463,273	451,223	457,863	442,428	428,969	450,507	8.77
Minority interest-equity	...	...	...	...	...	...	...
Total liabilities and capital	**2,327,541**	**2,111,503**	**2,191,434**	**2,036,034**	**1,999,671**	**2,011,720**	**3.04**

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620010 Kearny Federal Savings Bank *As of September 23, 2010*

SUMMARY OF OPERATIONS

	Year To Date		Year End Balances				
	06/2010	06/2009	2009	2008	2007	2006	CAGR
Consolidated Profitability							
Total Interest Income	46,279	47,798	94,574	99,005	95,656	91,663	3.77
Total Interest Expense	17,478	21,393	40,899	49,472	51,506	44,479	7.09
Net Interest Income	28,801	26,405	53,675	49,533	44,150	47,184	1.60
Total Non Interest Income	1,255	1,253	2,487	2,892	2,694	2,398	8.96
Service Charges, Fees & Commissions	877	891	1,771	1,996	1,902	1,717	4.33
Investment Banking Revenue	...	...	...	...	...	...	...
Fiduciary Income	...	...	...	...	...	...	...
Net G/L from Trading Activities	...	...	...	...	...	...	...
Other G/L on sales and securitization	-5	-8	-28	133	0	4	...
Insurance Commissions and Fees	...	...	...	...	...	...	...
Other noninterest income	383	370	744	763	792	677	31.81
Total Operating Income	30,056	27,658	56,162	52,425	46,844	49,582	1.87
Noninterest expenses	22,748	22,453	44,436	41,195	42,629	44,817	6.74
Salaries and Employee Benefits	15,004	14,224	28,948	27,827	29,041	30,365	7.15
Amortization of intangibles	7	14	29	37	538	636	-45.89
Fixed assets expenses	4,546	4,570	8,896	8,564	8,301	7,990	6.58
Other noninterest expenses	3,191	3,645	6,563	4,767	4,749	5,826	7.89
Net operating cash flow	7,308	5,205	11,726	11,230	4,215	4,765	-9.31
Loan loss prov (net of chargeoffs)	1,153	208	1,672	768	389	210	70.22
Net Operating Income	6,155	4,997	10,054	10,462	3,826	4,555	-11.95
Realized Securities Gains/(Losses)	456	-714	-867	-420	-92	1,089	...
Pretax profit	6,611	4,283	9,187	10,042	3,734	5,644	-13.53
Applicable Income Taxes	2,814	1,884	3,925	2,941	1,252	467	-5.59
Net After-Tax Operating Income	3,797	2,399	5,262	7,101	2,482	5,177	-17.50
Extraordinary income	...	...	...	...	...	...	...
Net income	3,797	2,399	5,262	7,101	2,482	5,177	-17.50

620010 Kearny Federal Savings Bank

As of September 23, 2010

* Denotes Under Review Best's Rating

The Report Revision Date[1] represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date.

A Best's Financial Strength Rating is an opinion of the relative ability of a bank to meet its ongoing financial obligations to depositors. It is based on a comprehensive quantitative and qualitative evaluation of a company's capitalization, asset quality, management, earnings, liquidity and sensitivity to market risk. The ratings are not assigned to specific deposit accounts or contracts and do not address the ability of the bank to repay any other financial obligation issued by the bank. The Financial Strength Rating is not a recommendation to buy, sell or hold financial obligations of a bank, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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