PROVIDENT FINANCIAL SERVICES INC
Form 10-K
February 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2007

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 No. 1-31566

PROVIDENT FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**42-1547151**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
830 Bergen Avenue, Jersey City, New Jersey	**07306-4599**
(Address of Principal Executive Offices)	**(Zip Code)**

(201) 333-1000

(Registrant s Telephone Number)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	**New York Stock Exchange**
(Title of Class)	**(Name Of Exchange On Which Registered)**

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 x NO ¨

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

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 twelve 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 x NO ¨

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

As of February 15, 2008, there were 83,209,293 issued and 60,057,199 shares of the Registrant s Common Stock outstanding, including 442,523 shares held by the First Savings Bank Directors Deferred Fee Plan not otherwise considered outstanding under accounting principles generally accepted in the United States of America. The aggregate value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the Common Stock as of June 30, 2007, as quoted by the NYSE, was approximately $894.7 million.

DOCUMENTS INCORPORATED BY REFERENCE

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

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Forward Looking Statements

Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate, continue, or similar terms or variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which Provident Financial Services, Inc. (the Company) operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company s financial performance and could cause the Company s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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PART I

Item 1. Business
Provident Financial Services, Inc.

The Company is a Delaware corporation which, on January 15, 2003, became the holding company for The Provident Bank (the Bank), following the completion of the conversion of the Bank to a stock chartered savings bank. On January 15, 2003, the Company issued an aggregate of 59,618,300 shares of its common stock, par value $0.01 per share in a subscription offering and contributed $4.8 million in cash and 1,920,000 shares of its common stock to The Provident Bank Foundation, a charitable foundation established by the Bank. As a result of the conversion and related stock offering, the Company raised $567.2 million in net proceeds, of which $293.2 million was utilized to acquire all of the outstanding common stock of the Bank. The Company owns all of the outstanding common stock of the Bank, and as such, is a bank holding company subject to regulation by the Federal Reserve Board. On July 14, 2004, the Company completed its acquisition of First Sentinel Bancorp, Inc.

The Company completed the acquisition of First Morris Bank & Trust (First Morris) and the merger of First Morris with and into the Bank, as of April 1, 2007. As a result of the First Morris acquisition, the Company added nine branch locations in Morris County, New Jersey, acquired assets having a fair value of $554.2 million, including $332.5 million of net loans, $138.2 million of investment securities and $60.7 million of cash and cash equivalents, and assumed $509.0 million of deposits.

At December 31, 2007, the Company had total assets of $6.36 billion, net loans of $4.26 billion, total deposits of $4.22 billion, and total stockholders equity of $1.00 billion. The Company s mailing address is 830 Bergen Avenue, Jersey City, New Jersey 07306-4599, and the Company s telephone number is (201) 333-1000.

The Provident Bank

Originally established in 1839, the Bank is a New Jersey-chartered capital stock savings bank headquartered in Jersey City, New Jersey. The Bank is a community- and customer-oriented bank operating 85 full-service branch offices in the New Jersey counties of Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Somerset and Union, which the Bank considers its primary market area. The Bank emphasizes personal service and customer convenience in serving the financial needs of the individuals, families and businesses residing in its markets. The Bank attracts deposits from the general public in the areas surrounding its banking offices and uses those funds, together with funds generated from operations and borrowings, to originate commercial real estate loans, residential mortgage loans, commercial business loans and consumer loans. The Bank also invests in mortgage-backed securities and other permissible investments.

The following are highlights of The Provident Bank s operations:

Diversified Loan Portfolio. To improve asset yields and reduce its exposure to interest rate risk, the Bank diversifies its loan portfolio by emphasizing the origination of commercial real estate loans and commercial business loans. These loans generally have adjustable rates or shorter fixed terms and interest rates that are higher than the rates applicable to one- to four-family residential mortgage loans. However, these loans generally have a higher risk of loss than single-family residential mortgage loans.

Asset Quality. As of December 31, 2007, non-performing assets were $35.7 million or 0.56% of total assets, compared to $8.1 million or 0.14% of total assets at December 31, 2006. While the Bank s non-performing asset levels have been adversely impacted by the recent slowdown in the residential real estate market and the challenging economic environment, the Bank continues to focus on conservative underwriting criteria and on aggressive collection efforts.

Emphasis on Relationship Banking and Core Deposits. The Bank emphasizes the acquisition and retention of core deposit accounts, such as checking and savings accounts, and expanding customer relationships. Core

deposit accounts totaled $2.59 billion at December 31, 2007, representing 61.2% of total deposits. The Bank also focuses on increasing the number of households and businesses served and the number of bank products per customer.

Increasing Non-Interest Income. The Bank s emphasis on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. A primary source of non-interest income is derived from fees on core deposit accounts. The Bank also offers investment products, estate management and trust services to generate non-interest income. Total non-interest income was $35.5 million for the year ended December 31, 2007, compared with $32.0 million for the year ended December 31, 2006, and fee income was $24.5 million for the year ended December 31, 2007, compared with $23.3 million for the year ended December 31, 2006.

Managing Interest Rate Risk. Although the Bank s liabilities are more sensitive to changes in interest rates than its assets, the Bank manages its exposure to interest rate risk by emphasizing the origination and retention of adjustable rate and shorter-term loans. In addition, the Bank uses its investments in securities to manage interest rate risk. At December 31, 2007, 48.1% of the Bank s loan portfolio had a term to maturity of one year or less, or had adjustable interest rates. Moreover, at December 31, 2007, the Bank s securities portfolio, excluding equity securities, totaled $1.11 billion and had an average expected life of 3.96 years.

Capital Management. The Company repurchased 7.3 million shares of its common stock at a cost of $116.8 million and paid cash dividends totaling $24.8 million in 2007.

Available Information. The Company is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission (SEC). These respective reports are on file and a matter of public record with the SEC and may be read and copied at the SEC s Public Reference Room at 100 F Street, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC *(http://www.sec.gov)*. All filed SEC reports and interim filings can also be obtained from the Bank s website, *www.providentnj.com*, on the Investor Relations page, without charge from the Company.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2007, the Bank operated a network of 85 full-service banking offices throughout ten counties in northern and central New Jersey, comprised of 16 offices in Hudson County, 3 in Bergen, 6 in Essex, 1 in Mercer, 23 in Middlesex, 10 in Monmouth, 12 in Morris, 6 in Ocean, 5 in Somerset and 3 in Union Counties. The Bank also maintains The Provident Loan Center in Woodbridge, New Jersey as well as a satellite Loan Production office in Convent Station, New Jersey. The Bank s lending activities, though concentrated in the communities surrounding its offices, extend predominantly throughout the State of New Jersey.

The Bank s ten-county primary market area includes a mix of urban and suburban communities and has a diversified mix of industries including pharmaceutical and other manufacturing companies, network communications, insurance and financial services, and retail. According to the U.S. Census Bureau s most recent population estimates as of 2006, the Bank s ten-county market area has a population of 6.0 million, which was 69.1% of the state s total population. Because of the diversity of industries in the Bank s market area and, to a lesser extent, because of its proximity to the New York City financial markets, the area s economy can be significantly affected by changes in national and international economies. According to the U.S. Bureau of Labor Statistics, employment trends in New Jersey continued to moderate downward in 2007, witnessing a statistically insignificant decline in the total civilian labor force and an increase in the unemployment rate to 4.2% at December 31, 2007, compared to an adjusted rate of 3.9% at December 31, 2006.

Within its ten-county market area, the Bank had an approximate 2.51% share of bank deposits as of June 30, 2007, the latest date for which statistics are available, and an approximate 1.96% deposit share of the New Jersey market statewide.

COMPETITION

The Bank faces intense competition both in originating loans and attracting deposits. The northern and central New Jersey market area has a high concentration of financial institutions, including large money center and regional banks, community banks, credit unions, investment brokerage firms and insurance companies. The Bank faces direct competition for loans from each of these institutions as well as from mortgage companies, mortgage brokers and other loan origination firms operating in our market area. The Bank s most direct competition for deposits has come from the several commercial banks and savings banks in the market area, especially large regional banks which have obtained a major share of the available deposit market due in part to acquisitions and consolidations. Many of these banks have substantially greater financial resources than the Bank and offer services that the Bank does not provide. In addition, the Bank faces significant competition for deposits from the mutual fund industry and from investors direct purchases of short-term money market securities and other corporate and government securities.

The Bank competes in this environment by maintaining a diversified product line, including mutual funds, annuities and other investment services made available through its investment subsidiary. Relationships with customers are built and maintained through the Bank s branch network, its deployment of branch and off-site ATMs, and its telephone and web-based banking services.

LENDING ACTIVITIES

Historically, the Bank s principal lending activity has been the origination of fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located within its primary market area. Since 1997, the Bank has taken a more balanced approach to the composition of the loan portfolio by increasing its emphasis on originating commercial real estate loans and commercial business loans.

Residential mortgage loans are primarily underwritten to standards that allow the sale of the loans to the secondary markets, primarily to the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). To manage interest rate risk, the Bank generally sells the 20-year and 30-year fixed-rate residential mortgages that it originates. The Bank retains a majority of the originated adjustable rate mortgages for its portfolio.

The Bank originates commercial real estate loans that are secured by income-producing properties such as multi-family residences, office buildings, and retail and industrial properties. Generally, these loans have terms of either 5 or 10 years.

The Bank provides construction loans for both single family and condominium projects intended for sale and projects that will be retained as investments by the borrower. The Bank underwrites most construction loans for a term of three years or less. The majority of these loans are underwritten on a floating rate basis. The Bank recognizes that there is higher risk in construction lending than permanent lending. As such, the Bank takes certain precautions to mitigate this risk, including the retention of an outside engineering firm to perform site plan and cost reviews and to review all construction advances made against work in place and a limitation on how and when loan proceeds are advanced. In most cases, for the single family/condominium projects, the Bank limits its exposure against houses or units that are not under contract. Similarly, commercial construction loans usually have commitments for significant pre-leasing, or funds are held back until the leases are finalized.

The Bank originates consumer loans that are secured, in most cases, by a borrower s assets. Home equity loans and home equity lines of credit that are primarily secured by a second mortgage lien on the borrower s

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residence comprise the largest category of the Bank s consumer loan portfolio. The Bank s consumer loan portfolio also includes marine loans that are secured by a first lien on recreational boats. The marine loans are generated by boat dealers located on the East Coast of the United States. To a lesser extent, the Bank originates personal unsecured loans, primarily as an accommodation to customers. All loans, whether originated directly or purchased, are underwritten to the Bank s lending standards.

Commercial loans are loans to businesses of varying size and type within the Bank s market. The Bank s underwriting standards for commercial loans less than $100,000 utilize an industry-recognized automated credit scoring system. The Bank lends to established businesses, and the loans are generally secured by business assets such as equipment, receivables, inventory, real estate or marketable securities. On occasion, the Bank makes unsecured commercial loans. Most commercial lines of credit are made on a floating interest rate basis and most term loans are made on a fixed interest rate basis, usually with terms of five years or less.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of the loan portfolio in dollar amounts and in percentages (after deductions for deferred fees and costs, unearned discounts and premiums and allowances for losses) as of the dates indicated.

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential mortgage loans	$ 1,705,747	40.08%	$ 1,623,374	43.28%	$ 1,773,288	47.83%	$ 1,866,614	50.82%	$ 1,044,788	47.12%
Commercial mortgage loans	847,907	19.93	701,519	18.70	594,788	16.04	653,312	17.78	427,341	19.28
Multi-family mortgage loans	67,546	1.59	69,356	1.85	77,112	2.08	85,785	2.34	90,045	4.06
Construction loans	309,569	7.27	282,898	7.54	289,453	7.81	188,902	5.14	99,072	4.47
Total mortgage loans	2,930,769	68.87	2,677,147	71.37	2,734,641	73.76	2,794,613	76.08	1,661,246	74.93
Mortgage warehouse loans									4,148	0.19
Commercial loans	712,062	16.73	503,786	13.43	436,285	11.77	386,151	10.51	268,864	12.13
Consumer loans	644,134	15.14	592,948	15.80	556,645	15.02	514,296	14.00	300,825	13.57
Total other loans	1,356,196	31.87	1,096,734	29.23	992,930	26.79	900,447	24.51	573,837	25.89
Premiums on purchased loans	9,793	0.23	11,285	0.30	13,190	0.35	14,421	0.39	5,411	0.24
Unearned discounts	(661)	(0.02)	(875)	(0.02)	(1,110)	(0.03)	(1,309)	(0.04)	(1,547)	(0.07)
Net deferred costs (fees)	194	0.00	(627)	(0.02)	(529)	(0.01)	(961)	(0.02)	(1,580)	(0.07)
Allowance for loan losses	(40,782)	(0.95)	(32,434)	(0.86)	(31,980)	(0.86)	(33,766)	(0.92)	(20,631)	(0.92)
Total loans, net	$ 4,255,509	100.00%	$ 3,751,230	100.00%	$ 3,707,142	100.00%	$ 3,673,445	100.00%	$ 2,216,736	100.00%

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Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2007, regarding the maturities of loans in the loan portfolio. Demand loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due within one year.

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years	Ten Through Twenty Years	Beyond Twenty Years	Total
				(In thousands)			
Residential mortgage loans	$ 4,510	$ 2,983	$ 23,084	$ 129,995	$ 533,018	$ 1,012,157	$ 1,705,747
Commercial mortgage loans	76,268	71,639	62,412	478,986	148,477	10,125	847,907
Multi-family mortgage loans	1,218	755	1,690	42,700	19,534	1,649	67,546
Construction loans	247,319	60,600	1,650				309,569
Total mortgage loans	329,315	135,977	88,836	651,681	701,029	1,023,931	2,930,769
Commercial loans	179,239	84,471	69,047	260,731	113,666	4,908	712,062
Consumer loans	88,555	30,413	45,036	104,223	375,907		644,134
Total loans	$ 597,109	$ 250,861	$ 202,919	$ 1,016,635	$ 1,190,602	$ 1,028,839	$ 4,286,965

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2007, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2008. Adjustable-rate loans are included based on contractual maturities.

	Due After December 31, 2008		
	Fixed	Adjustable	Total
		(In thousands)	
Residential mortgage loans	$ 908,386	$ 792,851	$ 1,701,237
Commercial mortgage loans	493,072	278,567	771,639
Multi-family mortgage loans	41,844	24,484	66,328
Construction loans	9,150	53,100	62,250
Total mortgage loans	1,452,452	1,149,002	2,601,454
Commercial loans	253,598	279,225	532,823
Consumer loans	518,407	37,172	555,579
Total loans	$ 2,224,457	$ 1,465,399	$ 3,689,856

Residential Mortgage Lending. A principal lending activity of the Bank is to originate loans secured by first mortgages on one- to four-family residences in the State of New Jersey. The Bank originates residential mortgages primarily through commissioned mortgage representatives, the internet and its branch offices. The Bank originates both fixed-rate and adjustable-rate mortgages. Residential mortgage lending represents the largest single component of the total loan portfolio. As of December 31, 2007, $1.71 billion or 39.8% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 53.6% were fixed-rate and 46.4% were adjustable-rate loans.

The Bank originates fixed-rate fully amortizing residential mortgage loans, with the principal and interest due each month, that have maturities ranging from 10 to 30 years. The Bank also originates fixed-rate residential mortgage loans with maturities of 15, 20 and 30 years that require the payment of principal and interest on a biweekly basis. Fixed-rate jumbo residential mortgage loans (loans over the maximum that one of the government-sponsored agencies will purchase) are originated with maturities of up to 30 years. Adjustable-rate mortgage loans are offered with a fixed-rate period of 1, 3, 5, 7 or 10 years prior to the first annual interest rate adjustment. The standard adjustment formula is the one-year constant maturity Treasury rate plus 2 3/4%, adjusting annually with a 2% maximum annual adjustment and a 6% maximum adjustment over the life of the loan.

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Residential loans are primarily underwritten to Freddie Mac and Fannie Mae standards. The Bank s standard maximum loan to value ratio is 80%. However, working through mortgage insurance companies, the Bank underwrites loans for sale to Freddie Mac or Fannie Mae programs that will finance up to 100% of the value of the residence. Generally all fixed-rate loans with terms of 20 years or more, as well as loans with a loan-to-value ratio of 97% or more, are sold into the secondary market with servicing rights retained. Fixed-rate residential mortgage loans retained in the Bank s portfolio generally include loans with a term of 15 years or less and biweekly payment loans with a term of 25 years or less. The Bank retains the majority of the originated adjustable-rate mortgages for its portfolio.

Loans are sold without recourse, generally with servicing rights retained by the Bank. The percentage of loans sold into the secondary market will vary depending upon interest rates and the Bank s strategies for reducing exposure to interest rate risk. In 2007, $8.9 million, or 4.6% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2007 were long-term, fixed-rate mortgages.

The retention of adjustable-rate mortgages, as opposed to longer-term, fixed-rate residential mortgage loans, helps reduce the Bank s exposure to interest rate risk. However, adjustable-rate mortgages generally pose credit risks different from the credit risks inherent in fixed-rate loans primarily because as interest rates rise, the underlying debt service payments of the borrowers rise, thereby increasing the potential for default. To minimize this risk, borrowers of one- to four-family, one- and three-year adjustable-rate loans are qualified at the maximum rate which would be in effect after the first interest rate adjustment. The Bank believes that these credit risks, which have not had a material adverse effect on the Bank to date, generally are less onerous than the interest rate risks associated with holding 20- and 30-year fixed-rate loans in its loan portfolio.

The Bank has for many years offered discounted rates on loans to low- to moderate-income individuals. Loans originated in this category over the last five years have totaled $173.4 million. The Bank also offers a special rate program for first time homebuyers under which originations have totaled over $23.5 million for the past five years.

Commercial Real Estate Loans. The Bank originates loans secured by mortgages on various commercial income producing properties, including office buildings, retail and industrial properties. Commercial real estate and construction loans have increased to 28.6% of the portfolio at December 31, 2007, from 27.9% of the portfolio at December 31, 2006. A substantial majority of the Bank s commercial real estate loans are secured by properties located in the State of New Jersey.

The Bank originates commercial real estate loans with adjustable rates and with fixed interest rates for a period that is generally five to ten years or less, which then adjust after the initial period. Typically these loans are written for maturities of ten years or less and have an amortization schedule of 20 or 25 years. As a result, the typical amortization schedule will result in a substantial principal payment upon maturity. The Bank generally underwrites commercial real estate loans to a maximum 75% advance against either the appraised value of the property, or its purchase price (for loans to fund the acquisition of real estate), whichever is less. The Bank generally requires minimum debt service coverage of 1.25 times. There is a potential risk that the borrower may be unable to pay off or refinance the outstanding balance at the loan maturity date. The Bank typically lends to experienced owners or developers who have knowledge and contacts in the commercial real estate market.

Among the reasons for the Bank s continued emphasis on commercial real estate lending is the desire to invest in assets bearing interest rates that are generally higher than interest rates on residential mortgage loans and more sensitive to changes in market interest rates. Commercial real estate loans, however, entail significant additional credit risk as compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on commercial real estate loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and thus may be more significantly impacted by adverse conditions in the real estate market or in the economy generally.

The Bank performs more extensive diligence in underwriting commercial real estate loans than loans secured by owner occupied one- to four-family residential properties due to the larger loan amounts and the riskier nature of such loans. The Bank attempts to understand and control the risk in several ways, including inspection of all such properties and the review of the overall financial condition of the borrower and guarantors, which may include, for example, the review of the rent rolls and the verification of income. If applicable, a tenant analysis and market analysis are part of the underwriting. For commercial real estate secured loans in excess of $750,000 and for all other commercial real estate loans where it is appropriate, the Bank employs environmental experts to inspect the property and ascertain any potential environmental risks.

The Bank requires a full independent appraisal for commercial real estate. The appraiser must be selected from the Bank s approved list. The Bank also employs an independent review appraiser to ensure that the appraisal meets the Bank s standards. The underwriting guidelines generally provide that the loan-to-value ratio shall not exceed 75% of the appraised value and the debt service coverage should be at least 1.25 times. In addition, financial statements are required annually for review. The Bank s policy also requires that a property inspection of commercial mortgages over $1.0 million be completed at least every 18 months.

The Bank s largest commercial mortgage loan as of December 31, 2007 was a $29.0 million loan secured by a first mortgage on an established, 378 room, full-service hotel in Elizabeth, New Jersey. The Bank s share of the total loan is $24.0 million, all of which was outstanding at December 31, 2007. A participation in the remaining $5.0 million was sold to another lending institution. The loan was performing in accordance with its terms and conditions as of December 31, 2007.

Multi-family Lending. The Bank underwrites loans secured by apartment buildings that have five or more units. The Bank classifies multi-family lending as a component of the commercial real estate lending portfolio. The underwriting standards and procedures that are used to underwrite commercial real estate loans are used to underwrite multi-family loans.

Construction Loans. The Bank originates commercial construction loans. Commercial construction lending includes both new construction of residential and commercial real estate projects and the reconstruction of existing structures.

The Bank s commercial construction financing takes two forms: projects for sale (single family/condominiums) and projects that are constructed for investment purposes (rental property). To mitigate the speculative nature of construction loans, the Bank generally requires significant pre-leasing on rental properties and requires that a percentage of the single-family residences or condominiums be under contract to support construction loan advances.

The Bank underwrites most construction loans for a term of three years or less. The majority of the Bank s construction loans are floating-rate loans with a maximum 75% loan-to-value ratio for the completed project. The Bank employs professional engineering firms to assist in the review of construction cost estimates and make site inspections to determine if the work has been completed prior to the advance of funds for the project.

Construction lending generally involves a greater degree of risk than one- to four-family mortgage lending. Repayment of a construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject project and the successful marketing of the sale or lease of the project. Construction delays, slower than anticipated absorption or the financial impairment of the builder may impair the borrower s ability to repay the loan.

For all construction loans, the Bank requires an independent appraisal, which includes information on market rents and/or comparable sales and competing projects. The Bank also attempts to obtain personal guarantees and conducts environmental due diligence as appropriate.

The Bank also employs other means to control the risk of the construction lending process. For single family/condominium financing, the Bank generally requires payment for the release of a unit that exceeds the amount of the loan advance attributable to such unit. On commercial construction projects that the developer holds for rental, the Bank typically holds back funds for tenant improvements until a lease is executed.

The Bank s largest construction loan as of December 31, 2007 was a $28.0 million construction mortgage loan secured by a first mortgage on a 100% pre-leased, 126,000 square foot medical office building under construction in New Brunswick, New Jersey. The borrower is an experienced developer in the State of New Jersey. As of December 31, 2007, the loan had an outstanding balance of $16.2 million and was performing in accordance with its terms and conditions.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 16.6% of the loan portfolio at December 31, 2007. The majority of the Bank s commercial loan customers are local businesses with revenues of less than $50.0 million. The Bank offers commercial loans for equipment purchases, lines of credit or letters of credit, as well as loans where the borrower is the sole occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial loans are fully amortized over a five-year period.

The Bank also underwrites Small Business Administration (SBA) guaranteed loans and guaranteed or assisted loans through various state, county and municipal programs. These governmental guarantees are typically used in cases where the borrower requires additional credit support. The Bank attained Preferred Lender status with the SBA in 2006, allowing a more streamlined application and approval process.

The underwriting of a commercial loan is based upon a review of the financial statements of the prospective borrower and guarantors. In most cases the Bank obtains a general lien on accounts receivable and inventory, along with the specific collateral such as real estate or equipment, as appropriate.

For commercial loans less than $100,000, the Bank uses an automated underwriting system, which includes a nationally recognized credit scorecard to assist in its decision-making process. For larger commercial loans, a traditional approach of reviewing all the financial information and collateral in greater detail by seasoned lenders is utilized.

Commercial business loans generally bear higher interest rates than residential mortgage loans, but they also involve a higher risk of default since their repayment is generally dependent on the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. The Bank s largest commercial loan was a $25.0 million line of credit to a financial services firm. As of December 31, 2007, the line had an outstanding balance of $10.0 million and was performing in accordance with its terms and conditions.

Consumer Loans. The Bank offers a variety of consumer loans to individuals. Consumer loans represented 15.0% of the loan portfolio at December 31, 2007. Home equity loans and home equity lines of credit constituted 75.4% of the consumer loan portfolio as of December 31, 2007. Indirect marine loans comprised 17.7% of the consumer loan portfolio, and indirect auto loans comprised 5.2% of the consumer loan portfolio at December 31, 2007, respectively. The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, automobile loans and recreational vehicle loans. Effective September 30, 2007, the Bank no longer purchases indirect auto loans.

Interest rates on home equity loans are fixed for a term not to exceed 20 years and the maximum loan amount is $500,000. A portion of the home equity loan portfolio includes first lien product loans, under which the Bank has offered special rates to borrowers who refinance first mortgage loans on the home equity (first lien) basis. The Bank s home equity lines are made at floating interest rates and the Bank provides lines of credit of up to $350,000. The approved home equity lines and utilization amounts as of December 31, 2007 were $206.6 million and $80.5 million, respectively.

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The Bank purchases marine loans from established dealers and brokers located on the East Coast of the United States, which are underwritten to the Bank s pre-established underwriting standards. The maximum marine loan is $1.0 million. All marine loans are collateralized by a first lien on the vessel.

The Bank s consumer loan portfolio contains other types of loans such as loans on automobiles, motorcycles, recreational vehicles and personal loans, which represent 1.8% of the portfolio. Personal unsecured loans are originated primarily as an accommodation to existing customers.

Consumer loans generally entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or that are secured by assets that tend to depreciate, such as automobiles, boats and recreational vehicles. Collateral repossessed by the Bank from a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance, and the remaining deficiency may warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent upon the borrower s continued financial stability, and this is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

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Loan Originations, Purchases, and Repayments. The following table sets forth the Bank s loan origination, purchase and repayment activities for the periods indicated.

	Year Ended December 31,		
	2007	2006	2005
		(In thousands)	
Originations:			
Residential mortgage	$ 192,141	$ 95,753	$ 152,826
Commercial mortgage	215,214	186,004	61,474
Multi-family mortgage	18,666	226	5,402
Construction	236,128	254,116	273,750
Commercial	421,345	391,161	407,685
Consumer	202,662	251,941	271,899
Subtotal of loans originated	1,286,156	1,179,201	1,173,036
Loans purchased	79,131	57,170	137,412
Total loans originated	1,365,287	1,236,371	1,310,448
Loans acquired from First Morris:			
Residential mortgage	73,913		
Commercial mortgage	28,490		
Multi-family mortgage			
Construction	15,273		
Commercial	158,766		
Consumer	58,867		
Total loans acquired from First Morris	335,309		
Loans sold or securitized	8,862	17,687	36,167
Repayments:			
Residential mortgage	249,252	284,475	346,453
Commercial mortgage	128,356	79,272	119,977
Multi-family mortgage	20,983	7,982	14,075
Construction	228,267	260,671	173,199
Commercial	341,635	322,636	356,649
Consumer	206,399	212,889	225,018
Total repayments	1,174,892	1,167,925	1,235,371
Total reductions	1,183,754	1,185,612	1,271,538
Other items, net (1)	(4,215)	(6,217)	(6,999)
Net increase	$ 512,627	$ 44,542	$ 31,911

(1) Other items include charge-offs, deferred fees and expenses, discounts and premiums.

Loan Approval Procedures and Authority. The Bank s Board of Directors approves the Lending Policy on an annual basis as well as on an interim basis as modifications are warranted. The Lending Policy sets the Bank s lending authority for each type of loan. The Bank s lending officers are assigned dollar authority limits based upon their experience and expertise.

The largest individual lending authority is $5.0 million, which only the Chief Executive Officer and the Chief Lending Officer have. Loans in excess of $5.0 million, or which when combined with existing credits of the borrower or related borrowers exceed $5.0 million, are presented to the management Credit Committee. The Credit Committee currently consists of six senior officers and requires a majority vote for credit approval. The Credit Committee has a $15.0 million approval authority and the Loan Committee of the Board of Directors of the Bank has approval authority exceeding $15.0 million. All credit approvals by the Loan Committee are reported to the Board of Directors of the Bank.

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The Bank has adopted a risk rating system as part of the risk assessment of its loan portfolio. The Bank s commercial real estate and commercial lending officers are required to assign a risk rating to each loan in their portfolio at origination. When the lender learns of important financial developments, the risk rating is reviewed accordingly. Similarly, the Credit Committee can adjust a risk rating. Quarterly, management s Credit Risk Management Committee meets to review all loans rated a watch or worse. In addition, the Loan Review Department, which is independent of the lending areas, validates the risk ratings. The risk ratings play an important role in the establishment of the loan loss provision and to confirm the adequacy of the allowance for loan losses.

Loans to One Borrower. The regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of the Bank s unimpaired capital and surplus. As of December 31, 2007, the regulatory lending limit was $59.9 million. The Bank s current internal policy limit on total loans to a borrower or related borrowers that constitute a group exposure is up to $55.0 million for loans with a risk rating of 2 or better, $50.0 million for loans with a risk rating of 3 and $45.0 million for loans with a risk rating of 4. The Bank reviews these group exposures on a quarterly basis. The Bank also sets additional limits on size of loans by loan type. At December 31, 2007, the Bank s largest total lending relationship with an individual borrower and its related entities was $64.0 million, consisting of two lines of credit and eight commercial mortgage loans all with a risk rating of 3. Six of the commercial mortgage loans are secured by mortgages on two existing skilled nursing homes located in New Jersey. The remaining two commercial mortgage loans are secured by mortgages on a 44,000 square foot office building which is leased to related entities of the borrower and located in Fort Lee, New Jersey. The two lines of credit are secured by the business assets of the two nursing homes. The borrower is one of New Jersey s premier providers of long-term care, assisted living, and rehabilitation services for over 30 years. Management has determined that this exception to the internal policy limit is manageable and is mitigated by the borrower s diverse revenue mix as well as its reputation and proven successful track record in the industry. This lending relationship was approved as an exception to the internal policy limits by the Loan Committee of the Board of Directors and reported to the Board of Directors of the Bank, and conformed with the regulatory limit applicable to the Bank at the time of loan origination. As of December 31, 2007, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2007, the Bank had $1.17 billion in loans outstanding to its 50 largest borrowers and their related entities.

ASSET QUALITY

General. One of the Bank s key objectives has been and continues to be to maintain a high level of asset quality. In addition to maintaining sound credit standards for new loan originations, the Bank employs proactive collection and workout processes in dealing with delinquent or problem loans. The Bank actively markets properties that it acquires through foreclosure or otherwise in the loan collection process.

Collection Procedures. In the case of residential mortgage and consumer loans, the collections personnel in the Bank s Asset Recovery Department are responsible for collection activities from the sixteenth day of delinquency. Collection efforts include automated notices of delinquency, telephone calls, letters and other notices to the delinquent borrower. Foreclosure proceedings and other appropriate collection activities such as repossession of collateral are commenced within at least 90 to 120 days after the loan is delinquent. Periodic inspections of real estate and other collateral are conducted throughout the collection process. The collection procedures for Federal Housing Association (FHA) and Veteran s Administration (VA) one- to four- family mortgage loans follow the collection guidelines outlined by those agencies.

Real estate and other assets taken by foreclosure or in connection with a loan workout are held as foreclosed assets. The Bank carries other real estate owned and other foreclosed assets at the lower of their cost or their fair market value less estimated selling costs. The Bank attempts to sell the property at foreclosure sale or as soon as practical after the foreclosure sale through a proactive marketing effort.

The collection procedures for commercial real estate and commercial loans include sending periodic late notices and letters to a borrower once a loan is past due. The Bank attempts to make direct contact with a borrower once a loan is 16 days past due, usually by telephone. The Chief Lending Officer reviews all commercial real estate and commercial loan delinquencies on a weekly basis. Generally, delinquent commercial real estate and commercial loans are transferred to the Asset Recovery Department for further action if the delinquency is not cured within a reasonable period of time, typically 60 to 90 days. The Chief Lending Officer has the authority to transfer performing commercial real estate or commercial loans to the Asset Recovery Department if, in his opinion, a credit problem exists or is likely to occur.

Loans deemed uncollectible are proposed for charge-off on a monthly basis. The charge-off recommendation is then submitted to Executive Management for approval.

Delinquent Loans and Non-performing Loans and Assets. The Bank s policies require that the Chief Lending Officer continuously monitor the status of the loan portfolios and report to the Board of Directors on a monthly basis. These reports include information on impaired loans, delinquent loans, criticized and classified assets, and foreclosed assets. An impaired loan is defined as a loan for which it is probable, based on current information, that the Bank will not collect amounts due under the contractual terms of the loan agreement. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans. Impaired loans are individually identified and reviewed to determine that each loan s carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows. As of December 31, 2007, there were 7 impaired loans totaling $24.8 million.

Interest income stops accruing on loans when interest or principal payments are 90 days in arrears or earlier when the timely collectibility of such interest or principal is doubtful. When the accrual of interest on a loan is stopped, the loan is designated as a non-accrual loan and the outstanding interest previously credited is reversed. A non-accrual loan is returned to accrual status when factors indicating doubtful collection no longer exist and the loan has been brought current.

Federal and state regulations as well as the Bank s policy require the Bank to utilize an internal risk rating system as a means of reporting problem and potential problem assets. Under this system, the Bank classifies problem and potential problem assets as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are required to be designated special mention.

General valuation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When the Bank classifies one or more assets, or portions thereof, as substandard or doubtful, the Bank may establish a specific allowance for loan losses in an amount deemed prudent by management. When the Bank classifies one or more assets, or portions thereof, as loss, the Bank is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge-off such amount.

The Bank s determination as to the classification of assets and the amount of the valuation allowances is subject to review by the FDIC and the New Jersey Department of Banking and Insurance, each of which can require the establishment of additional general or specific loss allowances. In December 2006, the FDIC, in

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conjunction with the other federal banking agencies, issued an interagency policy statement on the allowance for loan and lease losses. The policy statement provides updated guidance for financial institutions on both the responsibilities of the board of directors and management for the maintenance of adequate allowances, and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement reaffirms that institutions should have effective loan review systems and controls to identify, monitor and address asset quality problems; that loans deemed uncollectible are promptly charged off; and that the institution s process for determining an adequate level for its valuation allowance is based on a comprehensive, adequately documented, and consistently applied analysis of the institution s loan and lease portfolio. While management believes that on the basis of information currently available to it, the allowance for loans losses is adequate as of December 31, 2007, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

Assets are classified in accordance with the risk rating system described above. At December 31, 2007, $42.7 million of assets were classified as substandard which consisted of $4.2 million in residential loans, $24.1 million in commercial and multi-family mortgage loans, $11.7 million in commercial loans, $2.3 million in consumer loans and $375,000 in construction loans. At that same date, there were no loans classified as doubtful or loss. As of December 31, 2007, $94.6 million of loans were designated special mention.

The following table sets forth delinquencies in the loan portfolio as of the dates indicated.

	At December 31, 2007				At December 31, 2006				At December 31, 2005			
	60-89 Days		90 Days or More		60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
	(Dollars in thousands)											
Residential mortgage loans	17	$ 4,109	27	$ 4,228	14	$ 2,023	38	$ 4,426	27	$ 1,692	40	$ 3,956
Commercial mortgage loans			10	3,452								
Multi-family mortgage loans			1	742			1	742				
Construction loans			3	375			2	569				
Total mortgage loans	17	4,109	41	8,797	14	2,023	41	5,737	27	1,692	40	3,956
Commercial loans	11	590	7	498	8	1,112	4	508	4	110	7	843
Consumer loans	59	2,270	30	2,297	40	1,327	39	1,304	35	1,769	59	1,206
Total loans	87	$ 6,969	78	$ 11,592	62	$ 4,462	84	$ 7,549	66	$ 3,571	106	$ 6,005

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Non-Accrual Loans and Non-Performing Assets. The following table sets forth information regarding non-accrual loans and other non-performing assets. There were no troubled debt restructurings as defined in Statement of Financial Accounting Standards (SFAS) No. 114 at any of the dates indicated. Loans are generally placed on non-accrual status when they become 90 days or more past due or if they have been identified as presenting uncertainty with respect to the collectibility of interest or principal.

	At December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$ 4,228	$ 4,426	$ 3,956	$ 4,184	$ 3,395
Commercial mortgage loans	21,918				151
Multi-family mortgage loans	742	742			
Construction loans	375	569			217
Mortgage warehouse loans					223
Commercial loans	5,083	234	843	862	1,016
Consumer loans	2,298	1,304	1,206	1,149	1,126
Total non-accruing loans	34,644	7,275	6,005	6,195	6,128
Accruing loans delinquent 90 days or more		274			
Total non-performing loans	34,644	7,549	6,005	6,195	6,128
Foreclosed assets	1,041	528	670	140	41
Total non-performing assets	$ 35,685	$ 8,077	$ 6,675	$ 6,335	$ 6,169
Total non-performing assets as a percentage of total assets	0.56%	0.14%	0.11%	0.10%	0.14%
Total non-performing loans to total loans	0.81%	0.20%	0.16%	0.17%	0.27%

If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $956,000 during the year ended December 31, 2007. At December 31, 2007, there were no commitments to lend additional funds to borrowers whose loans were on non-accrual status.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects an evaluation of the probable losses in the loan portfolio. The allowance for loan losses is maintained through provisions for loan losses that are charged to income. Charge-offs against the allowance for loan losses are taken on loans where it is determined the collection of loan principal is unlikely. Recoveries made on loans that have been charged-off are credited to the allowance for loan losses.

Management s evaluation of the adequacy of the allowance for loan losses includes the review of all loans on which the collectibility of principal may not be reasonably assured. For residential mortgage and consumer loans this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.

As part of its evaluation of the adequacy of the allowance for loan losses, each quarter management prepares a worksheet. This worksheet categorizes the entire loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating. The factors considered in assessing loan risk ratings include the following:

results of the routine loan quality reviews by the Loan Review Department and by outside third parties retained by the Loan Review Department;

general economic and business conditions affecting key lending areas;

- credit quality trends (including trends in non-performing loans, including anticipated trends based on market conditions);
- collateral values;
- loan volumes and concentrations;
- seasoning of the loan portfolio;
- specific industry conditions within portfolio segments;
- recent loss experience in particular segments of the loan portfolio; and
- duration of the current business cycle.

When assigning a risk rating to a loan, management utilizes the Bank s internal nine-point risk rating system. Loans deemed to be acceptable quality are rated one through four, with a rating of one established for loans with minimal risk. Loans that are deemed to be of questionable quality are rated five (watch) or six (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated seven, eight or nine, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings are then confirmed by the Loan Review Department, and for loans requiring Credit Committee approval, they are periodically reviewed by the Credit Committee in the credit renewal or approval process.

Each quarter the lending groups prepare individual Credit Risk Management Reports for the Credit Administration Department. These reports review all commercial loans and commercial mortgage loans that have been determined to involve above-average risk (risk rating of five or worse). The Credit Risk Management Reports contain the reason for the risk rating assigned to each loan, status of the loan and any current developments. These reports are submitted to a committee chaired by the Credit Administration Officer. Each loan officer reviews the loan and the corresponding credit risk management report with the committee and the risk rating is evaluated for appropriateness.

Based upon market conditions and the Bank s historical experience dealing with problem credits, the reserve factor for each risk rating by type of loan is established based on estimates of probable losses in the loan portfolio. The Bank uses a five-year moving average of charge-off and recovery experience as a tool to assist in the development of the reserve factors in determining the provision for loan losses.

The reserve factors applied to each loan risk rating are inherently subjective in nature. Reserve factors are assigned to each of the risk rating categories. This methodology permits adjustments to the allowance for loan losses in the event that, in management s judgment, significant conditions impacting the credit quality and collectibility of the loan portfolio as of the evaluation date are not otherwise adequately reflected in the analysis.

The provision for loan losses is established after considering the allowance for loan loss worksheet, the amount of the allowance for loan losses in relation to the total loan balance, loan portfolio growth, loan portfolio composition, loan delinquency trends and peer group analysis. As a result of this process, management has established an unallocated portion of the allowance for loan losses. The unallocated portion of the allowance for loan losses is warranted based on factors such as the geographic concentration of the loan portfolio, current economic conditions and the losses inherent in commercial lending, as these types of loans are typically riskier than residential mortgages.

Based on the composition of the loan portfolio, management believes the primary risks inherent in the portfolio are possible increases in interest rates, a possible decline in the economy and a possible decline in real estate market values. Management will continue to review the entire loan portfolio to determine the extent, if any, to which further additional loan loss provisions may be deemed necessary. The allowance for loan losses is

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maintained at a level that represents management s best estimate of probable losses related to specifically identified loans as well as probable losses inherent in the remaining loan portfolio. There can be no assurance that the allowance for loan losses will be adequate to cover all losses that may in fact be realized in the future or that additional provisions for loan losses will not be required.

Analysis of the Allowance for Loan Losses. The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Balance at beginning of period	$ 32,434	$ 31,980	$ 33,766	$ 20,631	$ 20,986
Charge offs:					
Residential mortgage loans	24	9	18	71	1,070
Commercial mortgage loans			22		
Multi-family mortgage loans					
Construction loans					
Mortgage warehouse loans					
Commercial loans	1,044	1,025	1,008	1,671	1,904
Consumer loans	2,127	1,800	2,986	4,619	1,412
Total	3,195	2,834	4,034	6,361	4,386
Recoveries:					
Residential mortgage loans	138	158	155	186	1,523
Commercial mortgage loans	13	14	93		
Multi-family mortgage loans					
Construction loans					
Mortgage warehouse loans					
Commercial loans	622	305	340	432	772
Consumer loans	1,415	1,491	1,060	2,353	576
Total	2,188	1,968	1,648	2,971	2,871
Net charge-offs	1,007	866	2,386	3,390	1,515
Provision for loan losses	6,530	1,320	600	3,600	1,160
Allowance of acquired institution	2,825			12,925	
Balance at end of period	$ 40,782	$ 32,434	$ 31,980	$ 33,766	$ 20,631
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.02%	0.07%	0.12%	0.08%
Allowance for loan losses to total loans	0.95%	0.86%	0.86%	0.91%	0.92%
Allowance for loan losses to non-performing loans	117.72%	429.65%	532.56%	545.05%	336.67%

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Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the allowance for loan losses by loan category for the periods indicated. This allocation is based on management s assessment, as of a given point in time, of the risk characteristics of each of the component parts of the total loan portfolio and is subject to changes as and when the risk factors of each such component part change. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may be taken, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Residential mortgage loans	$ 2,882	39.79%	$ 2,736	43.01%	$ 2,854	47.57%	$ 3,000	50.52%	$ 1,804	46.74%
Commercial mortgage loans	8,977	19.78	8,873	18.59	7,246	15.96	7,893	17.68	4,898	19.12
Multi-family mortgage loans	735	1.58	768	1.84	773	2.07	930	2.32	932	4.03
Construction loans	7,947	7.22	4,837	7.50	4,397	7.77	2,918	5.11	1,595	4.43
Mortgage warehouse loans									43	0.19
Commercial loans	10,841	16.61	6,311	13.35	5,676	11.70	7,400	10.45	5,278	12.03
Consumer loans	6,764	15.02	6,119	15.71	5,760	14.93	5,889	13.92	3,385	13.46
Unallocated	2,636		2,790		5,274		5,736		2,696	
Total	$ 40,782	100.00%	$ 32,434	100.00%	$ 31,980	100.00%	$ 33,766	100.00%	$ 20,631	100.00%

INVESTMENT ACTIVITIES

General. The Board of Directors annually approves the investment policy for the Bank and the Company. The Chief Financial Officer and the Treasurer are authorized by the Board to implement the investment policy and establish investment strategies. The President and Chief Operating Officer, Chief Financial Officer, Treasurer and Assistant Treasurer are authorized to make investment decisions consistent with the investment policy. Investment transactions for the Bank are reported to the Board of Directors of the Bank on a monthly basis.

The investment policy is designed to generate a favorable rate of return, consistent with established guidelines for liquidity, safety and diversification, and to complement the lending activities of the Bank. Investment decisions are made in accordance with the policy and are based on credit quality, interest rate risk, balance sheet composition, market expectations, liquidity, income and collateral needs.

The investment policy does not currently permit participation in hedging programs, interest rate swaps, options or futures transactions or the purchase of any securities that are below investment grade.

The investment strategy is to maximize the return on the investment portfolio consistent with guidelines that have been established for liquidity, safety, duration and diversification. The investment strategy also considers the Bank s and the Company s interest rate risk position as well as liquidity, loan demand and other factors. Acceptable investment securities include U. S. Treasury and Agency obligations, collateralized mortgage obligations (CMOs), corporate debt obligations, municipal bonds, mortgage-backed securities, commercial paper, mutual funds, bankers acceptances and federal funds. Securities purchased for the investment portfolio require a minimum credit rating of A by Moody s or Standard & Poor s.

Securities in the investment portfolio are classified as held to maturity, available for sale or held for trading. Securities that are classified as held to maturity are securities that the Bank or the Company has the intent and ability to hold until their contractual maturity date and are reported at cost. Securities that are classified as available for sale are reported at fair value. Available for sale securities include U.S. Treasury and Agency obligations, U.S. Agency and privately-issued CMOs, corporate debt obligations and equities. Sales of securities may occur from time to time in response to changes in market rates and liquidity needs and to facilitate balance sheet reallocation to effectively manage interest rate risk. At the present time, there are no securities that are classified as held for trading.

CMOs are a type of debt security issued by a special-purpose entity that aggregates pools of mortgages and mortgage-related securities and creates different classes of CMO securities with varying maturities and amortization schedules as well as a residual interest with each class possessing different risk characteristics. In contrast to mortgage-backed securities from which cash flow is received (and prepayment risk is shared) pro rata by all securities holders, the cash flow from the mortgages or mortgage-related securities underlying CMOs is paid in accordance with predetermined priority to investors holding various tranches of such securities or obligations. A particular tranche of CMOs may therefore carry prepayment risk that differs from that of both the underlying collateral and other tranches. Accordingly, CMOs attempt to moderate risks associated with conventional mortgage-related securities resulting from unexpected prepayment activity. In declining interest rate environments, the Bank attempts to purchase CMOs with principal lock-out periods, reducing prepayment risk in the investment portfolio. During rising interest rate periods, the Bank s strategy is to purchase CMOs that are receiving principal payments that can be reinvested at higher current yields. Investments in CMOs involve a risk that actual prepayments will differ from those estimated in pricing the security, which may result in adjustments to the net yield on such securities. Additionally, the market value of such securities may be adversely affected by changes in the market interest rates. Management believes these securities may represent attractive alternatives relative to other investments due to the wide variety of maturity, repayment and interest rate options available. All privately-issued CMOs in the investment portfolio are rated AAA at December 31, 2007. The Bank and the Company do not invest in collateralized debt obligations or mortgage-related securities secured by sub-prime loans.

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Amortized Cost and Fair Value of Securities. The following tables sets forth certain information regarding the amortized cost and fair values of the Company s securities as of the dates indicated.

	At December 31,					
	2007		2006		2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	$120,254	$ 119,894	$ 153,628	$ 151,054	$ 188,506	$ 186,290
State and municipal obligations	238,237	239,805	236,028	235,326	221,634	220,908
Equity securities					774	774
Total held-to-maturity	$ 358,491	$ 359,699	$ 389,656	$ 386,380	$ 410,914	$ 407,972
Available for Sale:						
U.S. Treasury obligations	$ 3,980	$ 4,035	$ 10,998	$ 10,971	$ 80,958	$ 80,378
State and municipal obligations	20,678	20,912	10,917	10,863	10,630	10,610
Mortgage-backed securities	646,056	645,622	693,274	681,803	902,629	887,188
FHLMC obligations	32,084	32,504	9,870	9,882		
FNMA obligations	10,006	10,072	10,016	9,987		
FHLB obligations	26,000	26,119	29,893	29,813	9,923	9,844
FFCB obligations	5,031	5,095				
Corporate obligations	3,977	3,984	11,999	11,999	61,292	61,368
Equity securities	22,822	21,272	25,837	25,576	32,627	33,569
Total available for sale	$ 770,634	$ 769,615	$ 802,804	$ 790,894	$ 1,098,059	$ 1,082,957
Average expected life of securities (1)	3.96 years		3.87 years		3.67 years	

(1) Average expected life is based on prepayment assumptions utilizing prevailing interest rates as of the reporting dates and does not include equity securities.

The aggregate carrying values and fair values of securities by issuer, where the aggregate book value of such securities exceeds ten percent of stockholders equity are as follows (in thousands):

	Carrying Value	Fair Value
At December 31, 2007:		
FNMA	$ 371,247	$ 370,481
FHLMC	386,897	385,840

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The following table sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Company s debt securities portfolio as of December 31, 2007. No tax equivalent adjustments were made to the weighted average yields. Amounts are shown at amortized cost for held to maturity securities and at fair value for available for sale securities.

	At December 31, 2007									
	One Year or Less		More Than One Year to Five Years		More Than Five Years to Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield (1)
	(Dollars in thousands)									
Held to Maturity:										
Mortgage-backed securities	$	%	$	%	$ 21,405	4.49%	$ 98,849	4.92%	$ 120,254	4.84%
State and municipal obligations	7,386	4.10	57,713	3.75	115,027	3.81	58,111	3.89	238,237	3.82
Total held to maturity	$ 7,386	4.10%	$ 57,713	3.75%	$ 136,432	3.92%	$ 156,960	4.54%	$ 358,491	4.17%
Available for sale:										
U.S. Treasury obligations	$ 3,024	4.71%	$ 1,011	4.60%	$	%	$	%	$ 4,035	4.68%
State and municipal obligations	2,243	4.77	6,532	4.10	12,137	4.21			20,912	4.24
Mortgage-backed securities			7,515	4.67	188,006	4.58	450,101	4.99	645,622	4.87
Agency obligations	43,052	5.05	30,738	3.03					73,790	4.21
Corporate obligations			3,984	5.23					3,984	5.23
Total available for sale	$ 48,319	5.02%	$ 49,780	3.63%	$ 200,143	4.56%	$ 450,101	4.99%	$ 748,343	4.79%

(1) Yields are not tax equivalent.

SOURCES OF FUNDS

General. Primary sources of funds consist of principal and interest cash flows received from loans and mortgage-backed securities, contractual maturities on investments, deposits, Federal Home Loan Bank (FHLB) advances and proceeds from sales of loans and investments. These sources of funds are used for lending, investing and general corporate purposes, including acquisitions and common stock repurchases.

Deposits. The Bank offers a variety of deposits for retail and business accounts. Deposit products include savings accounts, checking accounts, interest-bearing checking accounts, money market deposit accounts and certificate of deposit accounts at varying interest rates and terms. The Bank also offers IRA and KEOGH accounts. Business customers are offered several checking account and savings plans, cash management services, remote deposit capture services, payroll origination services, escrow account management and business credit cards. The Bank s customer relationship management strategy focuses on relationship banking for retail and business customers to enhance the customer experience. Deposit activity is influenced by state and local economic conditions, changes in interest rates, internal pricing decisions and competition. Deposits are primarily obtained from the areas surrounding the Bank s branch locations. To attract and retain deposits, the Bank offers competitive rates, quality customer service and a wide variety of products and services that meet customers needs, including online banking. The Bank has no brokered deposits.

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Deposit pricing strategy is monitored monthly by the management Asset/Liability Committee. Deposit pricing is set weekly by the Bank s Treasury Department. When considering deposit pricing, the Bank considers competitive market rates, FHLB advance rates and rates on other sources of funds. Core deposits, defined as savings accounts, interest and non-interest bearing checking accounts and money market deposit accounts represented 61.2% of total deposits at December 31, 2007 and 59.2% of total deposits at December 31, 2006. As of December 31, 2007 and December 31, 2006, time deposits maturing in less than one year amounted to $1.43 billion and $1.32 billion, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2007.

	3 Months or Less	Over 3 to 6 Months	Maturity Over 6 to 12 Months	Over 12 Months	Total
			(In thousands)		
Certificates of deposit of $100,000 or more	$ 142,620	$ 155,737	$ 134,278	$ 47,471	$ 480,106
Certificates of deposit less than $100,000	271,352	388,941	335,875	163,196	1,159,364
Total certificates of deposit	$ 413,972	$ 544,678	$ 470,153	$ 210,667	$ 1,639,470

Certificates of Deposit Maturities. The following table sets forth certain information regarding certificates of deposit.

	Period to Maturity from December 31, 2007						At December 31,		
	Less Than One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	Five Years or More	2007	2006	2005
					(In thousands)				
Rate:									
0.00 to 0.99%	$ 3,755	$ 7	$ 2	$	$ 15	$	$ 3,779	$ 2,288	$ 3,799
1.00 to 2.00%	110	2			89		201	1,159	9,190
2.01 to 3.00%	14,864		3				14,867	47,829	621,407
3.01 to 4.00%	352,650	66,387	13,436	923	625	1,862	435,883	547,986	589,245
4.01 to 5.00%	957,822	25,543	30,675	12,821	20,616	5,874	1,053,351	539,810	179,423
5.01 to 6.00%	99,359	3,386	461	15,007	9,224	271	127,708	411,468	35,212
6.01 to 7.00%	201	513	1,945	732	141		3,532	8,821	9,547
Over 7.01%	42	18	4		38	47	149	141	131
Total	$ 1,428,803	$ 95,856	$ 46,526	$ 29,483	$ 30,748	$ 8,054	$ 1,639,470	$ 1,559,502	$ 1,447,954

Borrowed Funds. At December 31, 2007, the Bank had $1.08 billion of borrowed funds. Borrowed funds consist primarily of FHLB advances and repurchase agreements. Repurchase agreements are contracts for the sale of securities owned or borrowed by the Bank, with an agreement to repurchase those securities at an agreed-upon price and date. The Bank uses wholesale repurchase agreements, as well as retail repurchase agreements as an investment vehicle for its commercial sweep checking product. Bank policies limit the use of repurchase agreements to collateral consisting of U.S. Treasury obligations, U.S. government agency obligations or mortgage-related securities.

As a member of the FHLB of New York, the Bank is eligible to obtain advances upon the security of the FHLB common stock owned and certain residential mortgage loans, provided certain standards related to credit-worthiness have been met. FHLB advances are available pursuant to several credit programs, each of which has its own interest rate and range of maturities.

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The following table sets forth the maximum month-end balance and average monthly balance of FHLB advances and securities sold under agreements to repurchase for the periods indicated.

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Maximum Balance:			
FHLB advances	$ 522,544	$ 495,436	$ 679,726
FHLB line of credit	96,000	91,000	48,000
Securities sold under agreements to repurchase	537,315	434,483	466,244
Average Balance:			
FHLB advances	344,087	437,612	633,000
FHLB line of credit	49,657	46,033	1,693
Securities sold under agreements to repurchase	439,217	366,933	444,454
Weighted Average Interest Rate:			
FHLB advances	3.83%	3.50%	3.25%
FHLB line of credit	5.33	5.29	3.63
Securities sold under agreements to repurchase	4.32	3.86	2.95

The following table sets forth certain information as to borrowings at the dates indicated.

	At December 31,		
	2007	2006	2005
	(Dollars in thousands)		
FHLB advances	$ 522,544	$ 429,788	$ 530,982
FHLB line of credit	72,000	58,000	48,000
Securities sold under repurchase agreements	480,560	353,202	391,126
Total borrowed funds	$ 1,075,104	$ 840,990	$ 970,108
Weighted average interest rate of FHLB advances	3.92%	3.68%	3.27%
Weighted average interest rate of FHLB line of credit	4.17%	5.39%	4.21%
Weighted average interest rate of securities sold under agreements to repurchase	4.47%	4.16%	3.40%

FINANCIAL MANAGEMENT AND TRUST SERVICES

The Bank offers a full range of trust and financial management services primarily to individuals. These services include wealth management services, such as investment management and investment advisory accounts, as well as custody accounts. The Bank also serves as trustee for living and testamentary trusts. Trust officers also provide estate settlement services when the Bank has been named executor or guardian of an estate. At December 31, 2007, the book value of assets under administration was $351.6 million and the number of accounts under administration was 787.

SUBSIDIARY ACTIVITIES

Provident Investment Services, Inc. is a wholly-owned subsidiary of the Bank. It was established as a New Jersey corporation to provide life and health insurance in the State of New Jersey and conducts non-deposit investment product and insurance sales.

Provident Title, LLC was a joint venture in which the Bank had a 49% interest and Investor s Title Agency, Inc. had a 51% interest. Provident Title, LLC was licensed to sell title insurance in the State of New Jersey. Provident Title, LLC ceased doing business on August 31, 2005.

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Dudley Investment Corporation is a wholly-owned subsidiary of the Bank, which operates as a New Jersey Investment Company. Dudley Investment Corporation owns all of the outstanding common stock of Gregory Investment Corporation.

Gregory Investment Corporation is a wholly-owned subsidiary of Dudley Investment Corporation. Gregory Investment Corporation operates as a Delaware Investment Company. Gregory Investment Corporation owns all of the outstanding common stock of PSB Funding Corporation.

PSB Funding Corporation is a majority-owned subsidiary of Gregory Investment Corporation. It was established as a New Jersey corporation to engage in real estate activities (including the acquisition of mortgage loans from the Bank) that enable it to be taxed as a real estate investment trust for federal and New Jersey tax purposes.

FSB Financial LLC was an inactive wholly-owned subsidiary of the Bank that engaged in retail non-deposit investment product sales. FSB Financial LLC was liquidated in 2007.

First Sentinel Capital Trust I and First Sentinel Capital Trust II were special purpose business trusts established for the purpose of issuing $25.0 million of preferred capital securities. The Company owned 100% of the common securities of each entity. First Sentinel Capital Trust I and First Sentinel Capital Trust II were cancelled as of December 27, 2006, following the redemption of the related preferred capital securities.

TPB Realty, LLC, is a wholly-owned subsidiary of the Bank formed to invest in real estate development joint ventures principally targeted at meeting the housing needs of low- and moderate-income communities in the Bank s market. At December 31, 2007, TPB Realty had total assets of $2.4 million.

PERSONNEL

As of December 31, 2007, the Company had 865 full-time and 154 part-time employees. None of the Company s employees were represented by a collective bargaining group. The Company believes its relationship with its employees is good.

REGULATION

General

The Company, as a bank holding company controlling the Bank, is subject to the Bank Holding Company Act of 1956, as amended (BHCA), and the rules and regulations of the Federal Reserve Board under the BHCA. The Company is also subject to the provisions of the New Jersey Banking Act of 1948 (the New Jersey Banking Act) and the regulations of the Commissioner of the New Jersey Department of Banking and Insurance (Commissioner) under the New Jersey Banking Act applicable to bank holding companies. The Company and the Bank are required to file reports with, and otherwise comply with the rules and regulations of the Federal Reserve Board and the Commissioner. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company s compliance with various regulatory requirements. The Company files certain reports with, and otherwise complies with, the rules and regulations of the SEC under the federal securities laws and the listing requirements of the New York Stock Exchange.

The Bank is a New Jersey chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to extensive regulation, examination and supervision by the Commissioner as the issuer of its charter, and by the FDIC as the deposit insurer. The Bank must file reports with the Commissioner and the FDIC concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the FDIC conduct periodic examinations to assess the Bank s compliance with various regulatory requirements.

This regulation and supervision establishes a comprehensive framework of activities in which a savings bank can engage and is intended primarily for the protection of the deposit insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Any change in applicable laws and regulations, whether by the Commissioner, the FDIC, the Federal Reserve Board or through legislation, could have a material adverse impact on the Company and the Bank and their operations and stockholders.

New Jersey Banking Regulation

Activity Powers. The Bank derives its lending, investment and other activity powers primarily from the applicable provisions of the New Jersey Banking Act and its related regulations. Under these laws and regulations, savings banks, including the Bank, generally may, subject to certain limits, invest in:

(1) real estate mortgages;

(2) consumer and commercial loans;

(3) specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies;

(4) certain types of corporate equity securities; and

(5) certain other assets.

A savings bank may also invest pursuant to a leeway power that permits investments not otherwise permitted by the New Jersey Banking Act, subject to certain restrictions imposed by the FDIC. Leeway investments must comply with a number of limitations on the individual and aggregate amounts of leeway investments. A savings bank may also exercise trust powers upon approval of the Commissioner. New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers is limited by federal law and the related regulations.

Loans-to-One-Borrower Limitations. With certain specified exceptions, a New Jersey chartered savings bank may not make loans or extend credit to a single borrower and to entities related to the borrower in an aggregate amount that would exceed 15% of the bank s capital funds. A savings bank may lend an additional 10% of the bank s capital funds if secured by collateral meeting the requirements of the New Jersey Banking Act. The Bank currently complies with applicable loans-to-one-borrower limitations.

Dividends. Under the New Jersey Banking Act, a stock savings bank may declare and pay a dividend on its capital stock only to the extent that the payment of the dividend would not impair the capital stock of the savings bank. In addition, a stock savings bank may not pay a dividend unless the savings bank would, after the payment of the dividend, have a surplus of not less than 50% of its capital stock, or the payment of the dividend would not reduce the surplus. Federal law may also limit the amount of dividends that may be paid by a stock savings bank.

Minimum Capital Requirements. Regulations of the Commissioner impose on New Jersey chartered depository institutions, including the Bank, minimum capital requirements similar to those imposed by the FDIC on insured state banks.

Examination and Enforcement. The New Jersey Department of Banking and Insurance may examine the Company and the Bank whenever it deems an examination advisable. The Department examines the Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or

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unsound business practice and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Commissioner has ordered the activity to be terminated, to show cause at a hearing before the Commissioner why such person should not be removed.

Federal Banking Regulation

Capital Requirements. FDIC regulations require banks to maintain minimum levels of capital. The FDIC regulations define two tiers, or classes, of capital.

Tier 1 capital is comprised of:

- common stockholders equity, less net unrealized holding losses on available-for-sale equity securities with readily determinable fair values;
- non-cumulative perpetual preferred stock, including any related surplus; and
- minority interests in consolidated subsidiaries minus all intangible assets, other than qualifying servicing rights and any net unrealized loss on marketable equity securities.

The components of Tier 2 capital are comprised of:

- cumulative perpetual preferred stock;
- certain perpetual preferred stock for which the dividend rate may be reset periodically;
- hybrid capital instruments, including mandatorily convertible securities;
- term subordinated debt;
- intermediate term preferred stock;
- allowance for loan losses; and
- up to 45% of pre-tax net unrealized holding gains on available for sale equity securities with readily determinable fair market values.

The allowance for loan losses may be includible in Tier 2 capital up to a maximum of 1.25% of risk-weighted assets. Overall, the amount of Tier 2 capital that may be included in total capital cannot exceed 100% of Tier 1 capital. The FDIC regulations establish a minimum leverage capital requirement for banks in the strongest financial and managerial condition, with a rating of 1 (the highest examination rating of the FDIC for banks) under the Uniform Financial Institutions Rating System that are not anticipating or experiencing significant growth, of not less than a ratio of 3.0% of Tier 1 capital to total assets. For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the bank.

The FDIC regulations also establish a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital, which is defined as the sum of Tier 1 capital and Tier 2 capital, to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of a bank s risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

The federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of a bank s exposure to declines in the economic value of a bank s capital due to changes in interest rates when assessing such bank s capital adequacy. Under such a risk assessment, examiners will evaluate a bank s capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors. According to the agencies, applicable considerations include:

- the quality of the bank s interest rate risk management process;

- the overall financial condition of the bank; and

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the level of other risks at the bank for which capital is needed.
Institutions with significant interest rate risk may be required to maintain additional capital.

The following table shows the Bank s leverage ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio, at December 31, 2007:

	As of December 31, 2007		
	Capital	Percent of Assets (1)	Capital Requirements (1)
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 350,594	6.14%	4.00%
Tier 1 risk-based capital	350,594	8.83	4.00
Total risk-based capital	391,376	9.85	8.00

(1) For purposes of calculating Regulatory Tier 1 leverage capital, assets are based on adjusted total leverage assets. In calculating Tier 1 risk based capital and total risk-based capital, assets are based on total risk-weighted assets.

As the table shows, as of December 31, 2007, the Bank was considered adequately capitalized under FDIC guidelines.

Activity Restrictions on State-Chartered Banks. Federal law and FDIC regulations generally limit the activities and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by law or consented to by the FDIC.

Before making a new investment or engaging 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 to make such investment or engage in such activity. 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 insurance funds. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a financial subsidiary are subject to additional restrictions.

Federal law permits a state-chartered savings bank to engage, through financial subsidiaries, in any activity in which a national bank may engage through a financial subsidiary and on substantially the same terms and conditions. In general, the law permits a national bank that is well-capitalized and well-managed to conduct, through a financial subsidiary, any activity permitted for a financial holding company other than insurance underwriting, insurance investments, real estate investment or development or merchant banking. The total assets of all such financial subsidiaries may not exceed the lesser of 45% of the bank s total assets or $50 billion. The bank must have policies and procedures to assess the financial subsidiary s risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary s assets with the bank s and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. The Bank meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries.

Federal Home Loan Bank System. The Bank is a member of the FHLB system, which consists of twelve regional FHLBs, each subject to supervision and regulation by the Federal Housing Finance Board (FHFB). The FHLB provides a central credit facility primarily for member institutions. The Bank, as a member of the FHLB of New York, is required to purchase and hold shares of capital stock in that FHLB in an amount as required by that FHLB s capital plan and minimum capital requirements. The Bank is in compliance with these requirements.

Deposit Insurance. The Federal Deposit Insurance Reform Act of 2005 was signed into law on February 8, 2006. Among other things this legislation merged the Savings Association Insurance Fund and the Bank Insurance Fund into the Deposit Insurance Fund (DIF) as of March 15, 2006, increased the amount of deposit insurance from $100,000 to $130,000 with a cost of living adjustment to become effective in five years, and increased the amount of deposit insurance for certain retirement accounts to $250,000, also indexed for inflation.

The Act also authorized the FDIC to revise its risk-based assessment system. Effective as of January 1, 2007, insurance premiums are based on a number of factors, including the risk of loss that insured institutions pose to the DIF. The Act also replaced the minimum reserve ratio of 1.25% with a range between 1.15% and 1.50% of estimated insured deposits.

The FDIC may terminate the insurance of an institution s deposits upon a finding that the 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. Management is not aware of any practice, condition or violation that might lead to termination of the Bank s deposit insurance.

Enforcement. The FDIC has extensive enforcement authority over insured savings banks, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of law and to unsafe or unsound practices.

Transactions with Affiliates. Transactions between an insured bank, such as the Bank, and any of its affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and its implementing regulations. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. A subsidiary of a bank that is not also a depository institution, financial subsidiary or other entity defined by the regulation generally is not treated as an affiliate of the bank for purposes of Sections 23A and 23B.

Section 23A:

- limits the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such bank s capital stock and retained earnings, and limits all such transactions with all affiliates to an amount equal to 20% of such capital stock and retained earnings; and

- requires that all such transactions be on terms that are consistent with safe and sound banking practices.

The term covered transaction includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amounts. In addition, any covered transaction by a bank with an affiliate and any purchase of assets or services by a bank from an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those that would be provided to a non-affiliate.

Prohibitions Against Tying Arrangements. Banks are subject to statutory prohibitions on certain tying arrangements. A depository institution is prohibited, subject to certain exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or that the customer not obtain services of a competitor of the institution.

Privacy Standards. FDIC regulations require the Company and the Bank to disclose their privacy policies, including identifying with whom they share non-public personal information to customers at the time of establishing the customer relationship and annually thereafter.

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The FDIC regulations also require the Company and the Bank to provide their customers with initial and annual notices that accurately reflect their privacy policies and practices. In addition, the Company and the Bank are required to provide their customers with the ability to opt-out of having the Company and the Bank share their non-public personal information with unaffiliated third parties before they can disclose such information, subject to certain exceptions.

Community Reinvestment Act and Fair Lending Laws. All FDIC insured institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a state chartered savings bank, the FDIC is required to assess the institution s record of compliance with the Community Reinvestment Act. Among other things, the current Community Reinvestment Act regulations replace the prior process-based assessment factors with a new evaluation system that rates an institution based on its actual performance in meeting community needs. In particular, the current evaluation system focuses on three tests:

- a lending test, to evaluate the institution s record of making loans in its service areas;
- an investment test, to evaluate the institution s record of investing in community development projects, affordable housing, and programs benefiting low- or moderate-income individuals and businesses; and
- a service test, to evaluate the institution s delivery of services through its branches, ATMs and other offices.

An institution s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities, including, but not limited to, engaging in acquisitions and mergers. The Bank received a satisfactory Community Reinvestment Act rating in its most recently completed federal examination, which was conducted by the FDIC as of March 2005.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice.

Safety and Soundness Standards. Each federal banking agency, including the FDIC, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder.

In addition, FDIC regulations require a bank that is given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan to the FDIC. If, after being so notified, a bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC may issue an order directing corrective and other actions of the types to which a significantly undercapitalized institution is subject under the prompt corrective action provisions discussed below. If a bank fails to comply with such an order, the FDIC may seek to enforce such an order in judicial proceedings and to impose civil monetary penalties.

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Prompt Corrective Action. Federal law requires the FDIC and the other federal banking regulators to promptly resolve the problems of undercapitalized institutions. Federal law also establishes five categories, consisting of well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC s regulations define the five capital categories as follows:

An institution will be treated as well capitalized if:

- its ratio of total capital to risk-weighted assets is at least 10%;
- its ratio of Tier 1 capital to risk-weighted assets is at least 6%; and
- its ratio of Tier 1 capital to total assets is at least 5%, and it is not subject to any order or directive by the FDIC to meet a specific capital level.

An institution will be treated as adequately capitalized if:

- its ratio of total capital to risk-weighted assets is at least 8%; or
- its ratio of Tier 1 capital to risk-weighted assets is at least 4%; and
- its ratio of Tier 1 capital to total assets is at least 4% (3% if the bank receives the highest rating under the Uniform Financial Institutions Rating System) and it is not a well-capitalized institution.

An institution will be treated as undercapitalized if:

- its total risk-based capital is less than 8%; or
- its Tier 1 risk-based-capital is less than 4%; and
- its leverage ratio is less than 4% (or less than 3% if the institution receives the highest rating under the Uniform Financial Institutions Rating System).

An institution will be treated as significantly undercapitalized if:

- its total risk-based capital is less than 6%;
- its Tier 1 capital is less than 3%; or
- its leverage ratio is less than 3%.

An institution that has a tangible capital to total assets ratio equal to or less than 2% would be deemed critically undercapitalized. The FDIC is required, with some exceptions, to appoint a receiver or conservator for an insured state bank if that bank is critically undercapitalized. The FDIC may also appoint a conservator or receiver for an insured state bank on the basis of the institution s financial condition or upon the occurrence of certain events, including:

- insolvency, or when the assets of the bank are less than its liabilities to depositors and others;
- substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices;
- existence of an unsafe or unsound condition to transact business;
- likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; and
- insufficient capital, or the incurring or likely incurring of losses that will substantially deplete all of the institution s capital with no reasonable prospect of replenishment of capital without federal assistance.

Loans to a Bank s Insiders

Federal Regulation. A bank s loans to its executive officers, directors, any owner of 10% or more of its stock (each, an insider) and any of certain entities affiliated with any such person (an insider s related interest)

are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the Federal Reserve Board s Regulation O. Under these restrictions, the aggregate amount of the loans to any insider and the insider s related interests may not exceed the loans-to-one-borrower limit applicable to national banks, which is comparable to the loans-to-one-borrower limit applicable to loans by the Bank. All loans by a bank to all insiders and insiders related interests in the aggregate may not exceed the bank s unimpaired capital and unimpaired surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer s children and certain loans secured by the officer s residence, may not exceed at any one time the higher of 2.5% of the bank s unimpaired capital and unimpaired surplus or $25,000, but in no event more than $100,000. Regulation O also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the board of directors of the bank, with any interested directors not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider s related interests, would exceed either (1) $500,000; or (2) the greater of $25,000 or 5% of the bank s unimpaired capital and surplus. Generally, loans to insiders must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons, and not involve more than the normal risk of payment or present other unfavorable features.

An exception may be made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

In addition, federal law prohibits extensions of credit to a bank s insiders and their related interests by any other institution that has a correspondent banking relationship with the bank, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

The Bank does not, as a matter of policy, make loans to its directors or to their immediate family members and related interests.

New Jersey Regulation. Provisions of the New Jersey Banking Act impose conditions and limitations on the liabilities to a savings bank of its directors and executive officers and of corporations and partnerships controlled by such persons that are comparable in many respects to the conditions and limitations imposed on the loans and extensions of credit to insiders and their related interests under Regulation O, as discussed above. The New Jersey Banking Act also provides that a savings bank that is in compliance with Regulation O is deemed to be in compliance with such provisions of the New Jersey Banking Act.

Federal Reserve System

Under Federal Reserve Board regulations, the Bank is required to maintain non-interest earning reserves against its transaction accounts. The Federal Reserve Board regulations generally require that reserves of 3% must be maintained against aggregate transaction accounts over $9.3 million and up to $43.9 million, subject to adjustment by the Federal Reserve Board, and an initial reserve of $1.0 million plus 10% against that portion of total transaction accounts in excess of up to $43.9 million. The first $9.3 million of otherwise reservable balances, subject to adjustments by the Federal Reserve Board, are exempted from the reserve requirements. The Bank is in compliance with these requirements. Because required reserves must be maintained in the form of either vault cash, a non-interest bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce the Bank s interest-earning assets.

Internet Banking

Technological developments are significantly altering the ways in which most companies, including financial institutions, conduct their business. The growth of the Internet is prompting banks to reconsider

business strategies and adopt alternative distribution and marketing systems. The federal bank regulatory agencies have conducted seminars and published materials targeted to various aspects of internet banking, and have indicated their intention to reevaluate their regulations to ensure that they encourage banks efficiency and competitiveness consistent with safe and sound banking practices. There can be no assurance that the bank regulatory agencies will adopt new regulations that will not materially affect our internet operations or restrict any such further operations.

The USA PATRIOT Act

The USA PATRIOT Act was signed into law on October 26, 2001 and was renewed on March 9, 2006. The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act included measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III imposed affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

The bank regulatory agencies have increased the regulatory scrutiny of the Bank Secrecy Act and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, the federal bank regulatory agencies must consider the effectiveness of financial institutions engaging in a merger transaction in combating money laundering activities. The Bank has adopted policies and procedures which are in compliance with these requirements.

Holding Company Regulation

Federal Regulation. The Company is regulated as a bank holding company. Bank holding companies are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for the Bank. As of December 31, 2007, the Company s total capital and Tier 1 capital ratios exceed these minimum capital requirements.

The following table shows the Company s leverage ratio, Tier 1 risk-based capital ratio and the total risk-based capital ratio as of December 31, 2007:

	As of December 31, 2007		
	Capital	Percent of Assets (1)	Capital Requirements (1)
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 475,284	8.29%	4.00%
Tier 1 risk-based capital	475,284	11.90	4.00
Total risk-based capital	516,066	12.92	8.00

(1) For purposes of calculating Regulatory Tier 1 leverage capital, assets are based on adjusted total leverage assets. In calculating Tier 1 risk-based capital and total risk-based capital, assets are based on total risk-weighted assets.

As the table shows, as of December 31, 2007, the Company was well capitalized under Federal Reserve Bank guidelines.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under

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the prompt corrective action provisions discussed above, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of such an undercapitalized bank. If the undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the Federal Reserve Board may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution without the prior approval of the Federal Reserve Board.

As a bank holding company, the Company is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval will be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company.

A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months will be equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Such notice and approval is not required for a bank holding company that would be treated as well capitalized under applicable regulations of the Federal Reserve Board, is well-managed, and that is not the subject of any unresolved supervisory issues.

In addition, a bank holding company which does not qualify as a financial holding company under applicable federal law is generally prohibited from engaging in, or acquiring direct or indirect control of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be permissible. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking as to be permissible are:

- making or servicing loans;
- performing certain data processing services;
- providing discount brokerage services; or acting as fiduciary, investment or financial advisor;
- leasing personal or real property;
- making investments in corporations or projects designed primarily to promote community welfare; and
- acquiring a savings and loan association.

Bank holding companies that do qualify as a financial holding company may engage in activities that are financial in nature or incident to activities which are financial in nature. The Company has not elected to qualify as a financial holding company under federal regulations, although it may seek to do so in the future. Bank holding companies may qualify to become a financial holding company if:

- each of its depository institution subsidiaries is well capitalized ;
- each of its depository institution subsidiaries is well managed ;

each of its depository institution subsidiaries has at least a satisfactory Community Reinvestment Act rating at its most recent examination; and

the bank holding company has filed a certification with the Federal Reserve Board that it elects to become a financial holding company.

Under federal law, depository institutions are liable to the FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. This law would potentially be applicable to the Company if it ever acquired as a separate subsidiary, a depository institution in addition to the Bank.

New Jersey Regulation. Under the New Jersey Banking Act, a company owning or controlling a savings bank is regulated as a bank holding company. The New Jersey Banking Act defines the terms company and bank holding company as such terms are defined under the BHCA. Each bank holding company controlling a New Jersey chartered bank or savings bank must file certain reports with the Commissioner and is subject to examination by the Commissioner.

Acquisition of Control. Under federal law and under the New Jersey Banking Act, no person may acquire control of the Company or the Bank without first obtaining approval of such acquisition of control from the Federal Reserve Board and the Commissioner.

Federal Securities Laws. The Company s common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act of 2002, the Company s Chief Executive Officer and Chief Financial Officer each certify that the Company s quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under the Sarbanes-Oxley Act of 2002 have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company s internal controls; they have made certain disclosures to the Company s auditors and the audit committee of the board of directors about the Company s internal controls; and they have included information in the Company s quarterly and annual reports about their evaluation and whether there have been significant changes in the Company s internal controls or in other factors that could significantly affect internal controls.

Delaware Corporation Law

The Company is incorporated under the laws of the State of Delaware. As a result, the rights of its stockholders are governed by the Delaware General Corporate Law.

TAXATION

Federal Taxation

General. The Company is subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company.

Method of Accounting. For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its consolidated federal income tax returns.

Bad Debt Reserves. Prior to the Small Business Protection Act of 1996 (the 1996 Act), the Bank was permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at taxable income. The Bank was required to use the

direct charge-off method to compute its bad debt deduction beginning with its 1996 federal income tax return. Savings institutions were required to recapture any excess reserves over those established as of December 31, 1987 (base year reserve).

Taxable Distributions and Recapture. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income should the Bank fail to meet certain asset and definitional tests. Federal legislation has eliminated these recapture rules.

Retained earnings at December 31, 2007 included approximately $51.8 million for which no provisions for income tax had been made. This amount represents an allocation of income to bad debt deductions for tax purposes only. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to shareholders. At December 31, 2007, the Bank had an unrecognized tax liability of $21.2 million with respect to this reserve.

Corporate Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended (the Code), imposes an alternative minimum tax (AMT) at a rate of 20% on a base of regular taxable income plus certain tax preferences (alternative minimum taxable income or AMTI). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company has not been subject to the alternative minimum tax and has no such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2007, the Company had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations.

State Taxation

New Jersey State Taxation. The Company and the Bank file New Jersey Corporation Business Tax returns. Generally, the income of financial institutions in New Jersey, which is calculated based on federal taxable income subject to certain adjustments, is subject to New Jersey tax.

The Company and the Bank pay the greater of the corporate business tax (CBT) (at 9% of taxable income) or the Alternative Minimum Assessment (AMA) tax. There are two methods for calculating the AMA tax, the gross receipts method or the gross profits method. Under the gross receipts method, the tax is calculated by multiplying the gross receipts by the applicable factor, which ranges from 0.125% to 0.4%. Under the gross profits method, the tax is calculated by multiplying the gross profits by the applicable factor, which ranges from 0.25% to 0.8%. The taxpayer has the option of choosing either the gross receipts or gross profits method, but once an election is made, the taxpayer must use the same method for the next four tax years. The AMA tax is creditable against the CBT in a year in which the CBT is higher, limited to the AMA for that year, and limited to an amount such that the tax is not reduced by more than 50% of the tax otherwise due and other statutory minimums. The AMA tax for each taxpayer may not exceed $5.0 million per year and the sum of the AMA for each member of an affiliated group may not exceed $20.0 million per year for members of an affiliated group with five or more taxpayers. For tax years beginning after June 30, 2006, the AMA tax shall be zero.

New Jersey tax law does not and has not allowed for a taxpayer to file a tax return on a combined or consolidated basis with another member of the affiliated group where there is common ownership. However, under the new tax legislation, if the taxpayer cannot demonstrate by clear and convincing evidence that the tax filing discloses the true earnings of the taxpayer on its business carried on in the State of New Jersey, the New

Jersey Director of the Division of Taxation may, at the director s discretion, require the taxpayer to file a consolidated return of the entire operations of the affiliated group or controlled group, including its own operations and income.

Delaware State Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file annual returns and pay annual fees and a franchise tax to the State of Delaware.

Item 1A. Risk Factors.

In addition to factors discussed in the description of our business and elsewhere in this Annual Report on Form 10-K, the following are risk factors that could adversely affect our future results of operations and our financial condition.

Recent Developments in the Housing Sector and Related Markets and the Economy May Adversely Affect Our Business and Financial Results

Throughout the course of 2007, the housing market experienced a variety of worsening economic conditions, due in large part to the collapse of the sub-prime mortgage market. While we did not invest in sub-prime mortgages and related investments, our lending business is tied, in large part, to the housing market. The housing slump may result in reduced demand for the construction of new housing, declining or flat home prices, and increased delinquencies on construction and residential and commercial mortgage loans. These conditions may also cause a reduction in loan demand, and an increase in our non-performing assets, net charge-offs and provisions for loan losses. These negative economic conditions could adversely impact our prospects for growth, asset and goodwill valuations and our results of operations.

Our Commercial Real Estate, Multi-Family, and Commercial Loans Expose Us to Increased Lending Risks

Our strategy continues to be to increase our commercial mortgage loans, commercial loans and construction loans. These loans are generally regarded as having a higher risk of default and loss than single-family residential mortgage loans, because repayment of these loans often depends on the successful operation of a business or of the underlying property. In addition, our construction loans, commercial mortgage loans and commercial loans have significantly larger average loan balances compared to our single-family residential mortgage loans. At December 31, 2007, the average loan size for a commercial mortgage loan was $2.3 million, for a commercial loan was $277,000, and for a construction loan was $4.0 million, compared to an average loan size of $190,000 for a single-family residential mortgage loan. Also, many of our borrowers of these types of loans have more than one loan outstanding with us. Consequently, any adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to one single-family residential mortgage loan.

Our Continuing Concentration of Loans in Our Primary Market Area May Increase Our Risk

Our success depends primarily on the general economic conditions in northern and central New Jersey. Unlike some larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in northern and central New Jersey. The local economic conditions in northern and central New Jersey have a significant impact on our construction loans, commercial mortgage loans and commercial loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control, including the sub-prime mortgage market collapse, would impact these local economic conditions and could negatively affect the financial results of our banking operations. Additionally, because we have a significant amount of real estate loans, decreases in real estate values and a slowdown in real estate sales may also have a negative effect on the ability of many of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings and overall financial condition.

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We target our business development and marketing strategy for loans to serve primarily the banking and financial services needs of small- to medium-sized businesses in northern and central New Jersey. These small- to medium-sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact these businesses, our results of operations and financial condition may be adversely affected.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease

Our borrowers may not repay their loans according to the terms of the loans, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income.

Our emphasis on the continued diversification of our loan portfolio through the origination of commercial mortgage loans, commercial loans, and construction loans has been one of the more significant factors we have taken into account in evaluating our allowance for loan losses and provision for loan losses. In the event we were to further increase the amount of such types of loans in our portfolio, we may decide to make additional or increased provisions for loans losses, which could adversely affect our earnings.

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

Changes in Interest Rates Could Adversely Affect Our Results of Operations and Financial Condition

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations are affected substantially by our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Changes in interest rates could have an adverse affect on net interest income because, as a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would result in a decrease in our average interest rate spread and net interest income, which would have a negative effect on our profitability. In the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no actions to mitigate the effect of such change, we are projecting that our net interest income would decrease 2.9% or $4.7 million.

Changes in interest rates also affect the value of our interest-earning assets, and in particular our securities portfolio. Generally, the value of securities fluctuates inversely with changes in interest rates. At December 31, 2007, our available for sale securities portfolio totaled $769.6 million. Unrealized gains and losses on securities available for sale are reported as a separate component of stockholders equity. Decreases in the fair value of securities available for sale resulting from increases in interest rates therefore could have an adverse effect on stockholders equity.

We are also subject to prepayment and reinvestment risk related to interest rate movements. Changes in interest rates can affect the average life of loans and mortgage related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage related securities, as borrowers refinance to reduce

borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest such prepayments at rates that are comparable to the rates on existing loans or securities.

We Operate in a Highly Regulated Environment and May be Adversely Affected by Changes in Laws and Regulations

We are subject to extensive regulation, supervision and examination by the New Jersey Department of Banking and Insurance, our chartering authority, and by the Federal Deposit Insurance Corporation, as insurer of our deposits. As a bank holding company, Provident Financial Services, Inc. is subject to regulation and oversight by the Board of Governors of the Federal Reserve System. Such regulation and supervision govern the activities in which a bank and its holding company may engage and are intended primarily for the protection of the insurance fund and depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and the adequacy of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on The Provident Bank, Provident Financial Services, Inc., and our operations.

Strong Competition Within Our Market Area May Limit Our Growth and Profitability

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. In particular, over the past decade, New Jersey has experienced the effects of substantial banking consolidation, and large out-of-state competitors have grown significantly. There are also a number of strong locally-based competitors in our market. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we do, and may offer certain services that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our market area.

Item 1B. Unresolved Staff Comments

There are no unresolved comments from the staff of the SEC to report.

Item 2. Properties

Property

At December 31, 2007, the Bank conducted business through 85 full-service branch offices located in Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Somerset and Union Counties, New Jersey. The aggregate net book value of premises and equipment was $79.1 million at December 31, 2007.

Item 3. Legal Proceedings

The Company is involved in various legal actions and claims arising in the normal course of its business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company s financial condition and results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company s stockholders during the fourth quarter of the year ended December 31, 2007.

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PART II

Item 5. Market For Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company s common stock trades on the New York Stock Exchange (NYSE) under the symbol PFS . Trading in the Company s common stock commenced on January 16, 2003.

As of December 31, 2007, there were 83,209,293 shares of the Company s common stock issued and 59,646,936 shares outstanding and 6,281 stockholders of record.

The table below shows the high and low closing prices reported on the NYSE for the Company s common stock, as well as, the cash dividends paid per common share during the periods indicated.

		2007			2006	
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 18.42	$ 16.75	$ 0.10	$ 18.96	$ 18.00	$ 0.09
Second Quarter	17.59	15.76	0.10	18.61	17.65	0.10
Third Quarter	17.73	13.87	0.11	18.88	17.50	0.10
Fourth Quarter	17.49	13.92	0.11	18.78	18.01	0.10

On January 23, 2008, the Board of Directors declared a quarterly cash dividend of $0.11 per common share, which was paid on February 28, 2008, to common stockholders of record as of the close of business on February 15, 2008. The Company s Board of Directors intends to review the payment of dividends quarterly and plans to continue to maintain a regular quarterly cash dividend in the future, subject to financial condition, results of operations, tax considerations, industry standards, economic conditions, regulatory restrictions that affect the payment of dividends by the Bank to the Company and other relevant factors.

The Company is subject to the requirements of Delaware law that generally limit dividends to an amount equal to the difference between the amount by which total assets exceed total liabilities and the amount equal to the aggregate par value of the outstanding shares of capital stock. If there is no difference between these amounts, dividends are limited to net income for the current and/or immediately preceding year.

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Stock Performance Graph

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company s common stock for the period beginning January 16, 2003, the first date that the Company s common stock traded, as reported by the New York Stock Exchange (at a closing price of $15.50 per share on such date), through December 31, 2007, (b) the cumulative total return on stocks included in the Russell 2000 Index over such period, and (c) the cumulative total return of the SNL Thrift Index over such period. The SNL Thrift Index, produced by SNL Financial LC, contains all thrift institutions traded on the New York, American and NASDAQ stock exchanges. The initial offering price of the Company s common stock in the mutual-to-stock conversion of The Provident Bank, which was completed on January 15, 2003, was $10.00 per share. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an assumed investment of $100.

			Period Ending			
Index	**1/16/2003**	**12/31/2003**	**12/31/2004**	**12/31/2005**	**12/31/2006**	**12/31/2007**
Provident Financial Services, Inc.	100.00	122.81	127.53	124.08	124.18	101.32
Russell 2000	100.00	142.80	168.97	176.67	209.12	205.84
SNL Thrift Index	100.00	137.31	152.99	158.38	184.62	110.76

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The following table reports information regarding purchases of the Company s common stock during the fourth quarter of 2007 and the stock repurchase plan approved by the Company s Board of Directors:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2007 Through October 31, 2007	1,068,600	$ 15.70	1,068,600	3,605,307
November 1, 2007 Through November 30, 2007	862,700	14.82	862,700	2,742,607
December 1, 2007 Through December 31, 2007	491,381	14.21	491,381	2,251,226
Total	2,422,681	15.08	2,422,681	

(1) On October 24, 2007, the Company s Board of Directors approved the purchase of up to 3,107,077 shares of its common stock under a seventh general repurchase program which commenced upon completion of the previous repurchase program. The repurchase program has no expiration date.

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Item 6. Selected Financial Data

The summary information presented below at or for each of the periods presented is derived in part from and should be read in conjunction with the consolidated financial statements of the Company presented in Item 8. On January 15, 2003, the Bank completed its conversion from a mutual savings bank to a stock savings bank, and in connection therewith the Company sold 59,618,300 shares of common stock which resulted in $567.2 million of net proceeds, of which $293.2 million was utilized to acquire all of the outstanding common stock of the Bank. In addition, the Company contributed $4.8 million in cash and 1,920,000 shares of its common stock to The Provident Bank Foundation.

			At December 31,		
	2007	2006	2005	2004	2003
			(In thousands)		
Selected Financial Condition Data:					
Total assets	$ 6,359,391	$ 5,742,964	$ 6,052,374	$ 6,433,322	$ 4,284,878
Loans, net (1)	4,255,509	3,751,230	3,707,142	3,673,445	2,216,736
Investment securities held to maturity	358,491	389,656	410,914	445,633	517,789
Securities available for sale	769,615	790,894	1,082,957	1,406,340	1,151,829
Deposits	4,224,820	3,826,463	3,921,458	4,050,473	2,695,976
Borrowed funds	1,075,104	840,990	970,108	1,166,064	736,328
Stockholders equity	1,000,794	1,019,156	1,076,295	1,136,776	817,119

			For the Year Ended December 31,		
	2007	2006	2005	2004	2003
			(In thousands)		
Selected Operations Data:					
Interest income	$ 302,577	$ 282,139	$ 276,462	$ 229,543	$ 184,506
Interest expense	147,699	117,611	95,007	67,185	54,633
Net interest income	154,878	164,528	181,455	162,358	129,873
Provision for loan losses	6,530	1,320	600	3,600	1,160
Net interest income after provision for loan losses	148,348	163,208	180,855	158,758	128,713
Non-interest income	35,537	31,951	29,221	29,151	23,834
Non-interest expense	133,013	118,273	124,178	119,334	126,779
Income before income tax expense	50,872	76,886	85,898	68,575	25,768
Income tax expense	13,492	23,201	27,399	19,274	7,024
Net income	$ 37,380	$ 53,685	$ 58,499	$ 49,301	$ 18,744
Earnings Per Share:					
Basic earnings per share (2)	$ 0.63	$ 0.88	$ 0.89	$ 0.80	$ 0.31
Diluted earnings per share (2)	$ 0.63	$ 0.87	$ 0.88	$ 0.80	$ 0.31

(1) Loans are shown net of allowance for loan losses, deferred fees and unearned discount.

(2) Basic and diluted earnings per share for the year ended December 31, 2003 include the results of operations from January 15, 2003, the date the Company became the holding company for the Bank and the date the Bank completed its conversion, in the amount of $17,755,000.

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	At or For the Year Ended December 31,				
	2007	2006	2005	2004	2003
Selected Financial and Other Data (1)					
Performance Ratios:					
Return on average assets	0.62%	0.92%	0.94%	0.93%	0.46%
Return on average equity	3.63	5.17	5.32	5.06	2.31
Average net interest rate spread	2.52	2.80	3.01	3.09	2.91
Net interest margin (2)	2.96	3.23	3.34	3.40	3.37
Average interest-earning assets to average interest-bearing liabilities	1.16	1.18	1.18	1.22	1.32
Non-interest income to average total assets	0.59	0.55	0.47	0.55	0.58
Non-interest expenses to average total assets	2.19	2.02	2.00	2.24	3.08
Efficiency ratio (3)	69.85	60.20	58.94	62.31	66.87
Asset Quality Ratios:					
Non-performing loans to total loans	0.81%	0.20%	0.16%	0.17%	0.27%
Non-performing assets to total assets	0.56	0.14	0.11	0.10	0.14
Allowance for loan losses to non-performing loans	117.72	429.65	532.56	545.05	336.67
Allowance for loan losses to total loans	0.95	0.86	0.86	0.91	0.92
Capital Ratios:					
Leverage capital (4)	8.29%	11.21%	11.98%	11.88%	18.81%
Total risk based capital (4)	12.92	15.79	18.45	19.80	31.44
Average equity to average assets	16.95	17.77	17.68	18.34	19.73
Other Data:					
Number of full-service offices	85	75	76	78	54
Full time equivalent employees	942	877	892	926	717

(1) Averages presented are daily averages.
(2) Net interest income divided by average interest earning assets.
(3) Represents the ratio of non-interest expense divided by the sum of net interest income and non-interest income.
(4) Leverage capital ratios are presented as a percentage of tangible assets. Risk-based capital ratios are presented as a percentage of risk-weighted assets.

	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Efficiency Ratio Calculation:					
Net interest income	$ 154,878	$ 164,528	$ 181,455	$ 162,358	$ 129,873
Non-interest income	35,537	31,951	29,221	29,151	23,834
Total income	$ 190,415	$ 196,479	$ 210,676	$ 191,509	$ 153,707
Non-interest expense	$ 133,013	$ 118,273	$ 124,178	$ 119,334	$ 126,779
Less: Provident Bank Foundation donation					(24,000)
Adjusted non-interest expense	$ 133,013	$ 118,273	$ 124,178	$ 119,334	$ 102,779
Expense/income	69.85%	60.20%	58.94%	62.31%	66.87%

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

General

On January 15, 2003, the Company became the holding company for the Bank, following the completion of the conversion of the Bank to a stock-chartered bank. The Company issued an aggregate of 59,618,300 shares of its common stock in a subscription offering to eligible depositors. Concurrent with the conversion, the Company contributed an additional 1,920,000 shares of its common stock and $4.8 million in cash to The Provident Bank Foundation, a charitable foundation established by the Bank.

The Company conducts business through its subsidiary, the Bank, a community- and customer-oriented bank operating 85 full-service branches in ten counties throughout northern and central New Jersey.

The Company completed its acquisition of First Morris Bank & Trust (First Morris) and the merger of First Morris with and into the Bank, as of April 1, 2007. As a result of the First Morris acquisition, the Company added nine branch locations in Morris County, New Jersey, acquired assets having a fair value of $554.2 million, including $332.5 million of net loans, $138.2 million of investment securities and $60.7 million of cash and cash equivalents, and assumed $509.0 million of deposits.

Strategy

The Bank, established in 1839, is the oldest bank in the state of New Jersey. The Bank offers a full range of retail and commercial loan and deposit products, and emphasizes personal service and convenience as part of its Customer Relationship Management strategy.

The Bank s strategy is to grow profitably through a commitment to credit quality and expanding market share by acquiring, retaining and expanding customer relationships, while carefully managing interest rate risk.

In recent years, the Bank has focused on commercial real estate, construction, multi-family and commercial loans as part of its strategy to diversify the loan portfolio and reduce interest rate risk. These types of loans generally have adjustable rates that initially are higher than residential mortgage loans and generally have a higher rate of risk. The Bank s credit policy focuses on quality underwriting standards and close monitoring of the loan portfolio. At year-end 2007, retail loans accounted for 54.8% of the loan portfolio and commercial loans accounted for 45.2%. The Company intends to continue to diversify the loan portfolio and to focus on commercial real estate and commercial and industrial lending relationships.

The Company s Customer Relationship Management strategy focuses on increasing core accounts and expanding relationships through its branch network, online banking and telephone banking touch points. The Company continues to evaluate opportunities to increase market share by expanding within existing and contiguous markets. Core deposits, consisting of all savings and demand deposit accounts, are generally a stable, relatively inexpensive source of funds. At December 31, 2007, core deposits were 61.2% of total deposits.

A significant amount of capital was raised in the conversion of the Bank to a stock-chartered bank in 2003. Management has developed a capital management strategy to effectively utilize excess capital and improve return on equity and earnings per share growth. The Company s capital management strategy includes the following components: payment of cash dividends; stock repurchases; acquisitions; and use of wholesale leverage. The Company declared and paid its first cash dividend in the second quarter of 2003, and has since increased the quarterly cash dividend per share seven times for a total of 175.0%. The Company s Board of Directors approved the most recent quarterly cash dividend of $0.11 per common share paid on February 28, 2008.

In 2007, the Company repurchased 7.3 million shares of its common stock at an average cost of $16.09 per share. At December 31, 2007, approximately 2.3 million shares remained eligible for repurchase under the current common stock repurchase authorization.

The Company s results of operations are primarily dependent upon net interest income, the difference between interest earned on interest-earning assets and the interest paid on interest-bearing liabilities. Changes in interest rates could have an adverse effect on net interest income, because as a general matter, the Company s interest-bearing liabilities reprice or mature more quickly than its interest-earning assets. An increase in interest rates generally would result in a decrease in the Company s average interest rate spread and net interest income, which could have a negative effect on profitability. The Company generates non-interest income such as income from retail and business account fees, loan servicing fees, loan origination fees, appreciation in the cash surrender value of Bank-owned life insurance, income from loan or securities sales, fees from trust services and investment product sales and other fees. The Company s operating expenses consist primarily of compensation and benefits expense, occupancy and equipment expense, data processing expense, the amortization of intangible assets, marketing and advertising expense and other general and administrative expenses. The Company s results of operations are also affected by general economic conditions, changes in market interest rates, changes in asset quality, actions of regulatory agencies and government policies.

Critical Accounting Policies

The calculation of the allowance for loan losses is a critical accounting policy of the Company. The allowance for loan losses is a valuation account that reflects management s evaluation of the probable losses in the loan portfolio. The Company maintains the allowance for loan losses through provisions for loan losses that are charged to income. Charge-offs against the allowance for loan losses are taken on loans where management determines that the collection of loan principal is unlikely. Recoveries made on loans that have been charged-off are credited to the allowance for loan losses.

The Company s evaluation of the adequacy of the allowance for loan losses includes a review of all loans on which the collectibility of principal may not be reasonably assured. For residential mortgage and consumer loans this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.

As part of the evaluation of the adequacy of the allowance for loan losses, each quarter management prepares a worksheet. This worksheet categorizes the entire loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating.

When assigning a risk rating to a loan, management utilizes a nine point internal risk rating system. Loans deemed to be acceptable quality are rated one through four, with a rating of one established for loans with minimal risk. Loans that are deemed to be of questionable quality are rated five (watch) or six (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated seven, eight or nine, respectively. Commercial mortgage, commercial and construction loans are rated individually and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings are then confirmed by the Loan Review Department and, for loans requiring Credit Committee approval, they are periodically reviewed by the Credit Committee in the credit renewal or approval process.

Management believes the primary risks inherent in the portfolio are possible increases in interest rates, a decline in the economy, generally, and a decline in real estate market values. Any one or a combination of these events may adversely affect borrowers ability to repay the loans, resulting in increased delinquencies, loan losses and future levels of provisions. Accordingly, the Company has provided for loan losses at the current level to address the current risk in the loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level given current economic conditions, interest rates and the composition of the portfolio.

Although management believes that the Company has established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially

from the current operating environment. In addition, various regulatory agencies periodically review the Company s allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions to the allowance or additional write-downs based on their judgments about information available to them at the time of their examination. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. The Company engages an independent third party to perform an annual analysis to test the aggregate balance of goodwill for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets . For purposes of goodwill impairment evaluation, the Bank is identified as the reporting unit. The fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies including a review of comparable transactions and discounted cash flow analysis. If the carrying amount of goodwill pursuant to this analysis were to exceed the implied fair value of goodwill, an impairment loss would be recognized. No impairment loss was required to be recognized for the years ended December 31, 2007, 2006 or 2005.

The Company s available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income (loss) in stockholders equity. Estimated fair values are based on published or securities dealers market prices. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. The Company conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other than temporary. If such a decline were deemed other than temporary, the Company would write down the security to fair value through a charge to current period operations. The market value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the market value of fixed-rate securities decreases and as interest rates fall, the market value of fixed-rate securities increases. With significant changes in interest rates, the Company evaluates its intent and ability to hold securities to maturity or for a sufficient period of time to recover the recorded principal balance. During the fourth quarter of 2007, the Company recorded an other-than-temporary impairment charge totaling $1.0 million, related to a reduction in the market value of an investment in the common stock of a publicly traded financial institution. Prior to the charge, the impairment was considered temporary and was recorded as an unrealized loss on securities available for sale and reflected as a reduction of equity, net of tax, through accumulated other comprehensive income.

The determination of whether deferred tax assets will be realizable is predicated on estimates of future taxable income. Such estimates are subject to management s judgment. A valuation reserve is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. In 2007, the Company established a valuation reserve of $1.7 million pertaining to state tax benefits on net operating losses at the Bank and capital loss carryforwards. In 2006, the valuation reserve pertaining to the charitable contributions carry-forward declined $108,000 as a result of the utilization of the related deferred tax asset.

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the rates of interest earned on such assets and paid on such liabilities.

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Average Balance Sheet. The following table sets forth certain information for the years ended December 31, 2007, 2006 and 2005. For the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, is expressed both in dollars and rates. No tax equivalent adjustments were made. Average balances are daily averages.

	For the Year Ended December 31,								
	2007			2006			2005		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Federal funds sold and short-term investments	$ 5,200	$ 275	5.28%	$ 7,655	$ 404	5.27%	$ 58,156	$ 1,801	3.10%
Investment securities (1)	373,733	15,406	4.12	405,701	16,828	4.15	428,461	17,185	4.01
Securities available for sale	780,836	35,794	4.58	925,010	39,758	4.30	1,249,419	48,607	3.89
Federal Home Loan Bank Stock	31,470	2,313	7.35	36,015	2,118	5.88	44,813	2,091	4.67
Net loans (2)	4,036,193	248,789	6.16	3,714,388	223,031	6.00	3,658,930	206,778	5.65
Total interest-earning assets	5,227,432	302,577	5.79	5,088,769	282,139	5.54	5,439,779	276,462	5.08
Non-interest earning assets	843,310			754,789			781,133		
Total assets	$ 6,070,742			$ 5,843,558			$ 6,220,912		
Interest-bearing liabilities:									
Savings deposits	$ 1,168,530	18,674	1.60%	$ 1,313,997	18,198	1.38%	$ 1,474,053	15,657	1.06%
Demand deposits	849,235	21,269	2.50	579,366	8,020	1.38	618,280	6,223	1.01
Time deposits	1,659,191	72,980	4.40	1,527,721	57,973	3.79	1,399,258	37,894	2.71
Borrowed funds	832,961	34,776	4.17	875,011	33,420	3.82	1,105,948	35,233	3.19
Total interest-bearing liabilities	4,509,917	147,699	3.27	4,296,095	117,611	2.74	4,597,539	95,007	2.07
Non-interest bearing liabilities	532,070			508,840			523,531		
Total liabilities	5,041,987			4,804,935			5,121,070		
Stockholders equity	1,028,755			1,038,623			1,099,842		
Total liabilities and equity	$ 6,070,742			$ 5,843,558			$ 6,220,912		
Net interest income		$ 154,878			$ 164,528			$ 181,455	
Net interest rate spread			2.52%			2.80%			3.01%
Net interest earning assets	$ 717,515			$ 792,674			$ 842,240		
Net interest margin (3)			2.96%			3.23%			3.34%
Ratio of interest-earning assets to total interest-bearing liabilities	1.16x			1.18x			1.18x		

(1) Average outstanding balance amounts are at amortized cost.
(2)

Average outstanding balances are net of the allowance for loan losses, deferred loan fees and expenses, and loan premiums and discounts and include non-accrual loans.

(3) Net interest income divided by average interest-earning assets.

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Rate/Volume Analysis. The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended December 31,					
	2007 vs. 2006			2006 vs. 2005		
	Increase/(Decrease) Due to		Total Increase/ (Decrease)	Increase/(Decrease) Due to		Total Increase/ (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Federal funds sold and short-term investments	$ (130)	$ 1	$ (129)	$ (2,171)	$ 774	$ (1,397)
Investment securities	(1,303)	(119)	(1,422)	(939)	582	(357)
Securities available for sale	(6,450)	2,486	(3,964)	(13,581)	4,732	(8,849)
Federal Home Loan Bank Stock	(290)	485	195	(456)	483	27
Loans	19,597	6,161	25,758	3,226	13,027	16,253
Total interest-earning assets	11,424	9,014	20,438	(13,921)	19,598	5,677
Interest-bearing liabilities:						
Savings deposits	(2,174)	2,650	476	(1,823)	4,364	2,541
Demand deposits	4,831	8,418	13,249	(407)	2,204	1,797
Time deposits	5,228	9,779	15,007	3,760	16,319	20,079
Borrowed funds	(1,641)	2,997	1,356	(8,093)	6,280	(1,813)
Total interest-bearing liabilities	6,244	23,844	30,088	(6,563)	29,167	22,604
Net interest income	$ 5,180	$ (14,830)	$ (9,650)	$ (7,358)	$ (9,569)	$ (16,927)

Comparison of Financial Condition at December 31, 2007 and December 31, 2006

Total assets increased to $6.36 billion at December 31, 2007, compared to $5.74 billion at December 31, 2006, due primarily to the acquisition of First Morris. The fair value of assets acquired in the First Morris transaction totaled $554.2 million at April 1, 2007. The fair value of deposits and borrowings assumed from First Morris totaled $509.0 million and $12.8 million, respectively, at April 1, 2007.

Total loans at December 31, 2007 were $4.30 billion, compared to $3.78 billion at December 31, 2006. For the year ended December 31, 2007, loan originations totaling $1.29 billion, loans acquired from First Morris of $335.3 million and loan purchases of $79.1 million were partially offset by repayments of $1.17 billion. Residential mortgage loans decreased $82.4 million to $1.71 billion at December 31, 2007, compared to $1.62 billion at December 31, 2006. Residential mortgage loan originations totaled $192.1 million and one- to four-family loans purchased totaled $79.1 million for the year ended December 31, 2007. Principal repayments on residential mortgage loans totaled $249.3 million, and loans sold totaled $8.9 million for the year ended December 31, 2007. Commercial real estate loans increased $146.4 million to $847.9 million at December 31, 2007, compared to $701.5 million at December 31, 2006. Commercial real estate loan originations totaled $215.2 million and repayments on commercial real estate loans totaled $128.4 million for the year ended December 31, 2007. Multi-family loans decreased $1.8 million to $67.5 million at December 31, 2007, compared to $69.4 million at December 31, 2006. Construction loans increased $26.7 million to $309.6 million at December 31, 2007, compared to $282.9 million at December 31, 2006. Commercial loans increased $208.3 million to $712.1 million at December 31, 2007, compared to $503.8 million at December 31, 2006. Consumer loans increased

$51.2 million to $644.1 million at December 31, 2007, compared to $592.9 million at December 31, 2006. Retail loans, which consist of one- to four-family residential mortgages and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $2.35 billion and accounted for 54.8% of the loan portfolio at December 31, 2007, compared to $2.22 billion, or 58.7%, of the portfolio at December 31, 2006. The decrease in retail loans as a percentage of the total loan portfolio was largely the result of organic growth in the commercial mortgage and commercial loan portfolios and the acquisition of $202.5 million in commercial loans from First Morris. The Company continues to rebalance the loan portfolio over time, consistent with its strategy towards a more commercial mix. Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $1.94 billion, accounting for 45.2% of the loan portfolio at December 31, 2007, compared to $1.56 billion, or 41.3%, at December 31, 2006.

The allowance for loan losses increased $8.3 million at December 31, 2007, as a result of provisions for loan losses made in 2007 of $6.5 million and $2.8 million of allowance for loan losses recorded in connection with the First Morris acquisition, partially offset by net charge-offs of $1.0 million during 2007. Non-performing loans totaled $34.6 million at December 31, 2007, compared with $7.5 million at December 31, 2006. Non-performing loans as a percentage of total loans were 0.81% at December 31, 2007 and 0.20% at December 31, 2006. The allowance for loan losses as a percentage of total loans was 0.95% at December 31, 2007 and 0.86% at December 31, 2006. Total non-performing loans at December 31, 2007 were $34.6 million, or 0.81% of total loans, compared with $7.5 million, or 0.20% of total loans at December 31, 2006. The increase in non-performing loans was primarily due to the movement in the fourth quarter of 2007 of four commercial and commercial mortgage loans with total outstanding balances of $23.1 million to non-accrual status. All four of these loans have been evaluated under Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, and were recognized as impaired. One loan in the amount of $3.6 million which had no specific reserve associated with it at December 31, 2007, was subsequently sold at par. Based on an assessment of current collateral values and/or estimates of future cash flows, the remaining three loans have estimated potential losses of $2.9 million, and a specific reserve for that amount has been established.

Intangible assets increased $91.0 million to $520.7 million at December 31, 2007, from $429.7 million at December 31, 2006, due primarily to $89.1 million of goodwill and an $8.4 million core deposit intangible recorded in connection with the acquisition of First Morris. The Company performs periodic impairment testing of intangible assets. There was no impairment recognized in 2007 or 2006.

Total investments decreased $48.0 million, or 3.9%, during the year ended December 31, 2007. The decrease was primarily attributable to paydowns on mortgage-backed securities and maturities of debt securities, as well as sales of $40.8 million in mortgage-backed and debt securities acquired from First Morris. In the fourth quarter of 2007, the Company repositioned a portion of its securities portfolio, selling an additional $81.2 million of mortgage-backed securities with a weighted average life of 1.4 years and a weighted average yield of 4.10%, and recognizing a loss on sale of $972,000. Proceeds from the fourth quarter 2007 securities sales were reinvested in U.S. government agency and AAA rated mortgage-backed securities, with a weighted average life of 4.7 years and a weighted average yield of 5.26%. The Company expects to recover the loss on sale in approximately one year through the increased yield on the newly purchased securities. This repositioning was undertaken to manage interest rate risk and improve net interest income, and does not impact the Company s ability to hold securities with temporary impairment until maturity or market recovery.

Total deposits increased $398.4 million to $4.22 billion at December 31, 2007, from $3.83 billion at December 31, 2006. At December 31, 2007, core deposits represented 61.2% of total deposits, compared with 59.2% at December 31, 2006. Core deposits increased $318.4 million to $2.59 billion at December 31, 2007, from $2.27 billion at December 31, 2006. Certificates of deposit increased $80.0 million to $1.64 billion at December 31, 2007, from $1.56 billion at December 31, 2006. The increases in deposits were primarily attributable to the assumption of $509.0 million in deposits from First Morris.

Borrowed funds increased $234.1 million to $1.08 billion at December 31, 2007, from $841.0 million at December 31, 2006. The increase was the result of an increase in the use of wholesale funding to fund commercial loan originations and securities purchases resulting from a more positively sloped yield curve in the second half of the year.

Total stockholders equity decreased $18.4 million to $1.00 billion at December 31, 2007, from $1.02 billion at December 31, 2006. This decrease was primarily a result of common stock repurchases of $116.8 million and cash dividends of $24.8 million, partially offset by the issuance of $61.9 million of common stock in connection with the acquisition of First Morris, comprehensive income of $48.9 million and the allocation of shares to stock-based compensation plans of $10.4 million.

Comparison of Operating Results for the Years Ended December 31, 2007 and December 31, 2006

General. Net income for the year ended December 31, 2007 was $37.4 million, compared to net income of $53.7 million for the year ended December 31, 2006. Return on average assets for the year ended December 31, 2007 was 0.62%, compared to 0.92% for 2006. Return on average equity was 3.63% for the year ended December 31, 2007, compared to 5.17% for 2006. Basic and diluted earnings per share were $0.63 for the year ended December 31, 2007, compared to basic and diluted earnings per share of $0.88 and $0.87, respectively, for 2006. The primary reasons for the decrease in net income for 2007 compared with 2006 were the continued compression of the net interest margin, an increase in the provision for loan losses as a result of increased non-performing loans and increased non-interest expense, primarily compensation and benefits expense, resulting from the acquisition of First Morris.

Earnings and per share data for the year ended December 31, 2007 reflect the impact of a previously announced executive separation agreement which resulted in a one-time charge of $655,000, net of tax, or $0.01 per share. Earnings and per share data for the year ended December 31, 2007 also reflect the impact of a securities impairment charge of $1.0 million, net of tax, or $0.02 per share, and losses recognized on sales of securities in connection with portfolio repositioning totaling $632,000, net of tax, or $0.01 per share. Earnings and per share data for the year ended December 31, 2007 further reflect the impact of a previously announced voluntary resignation program which resulted in a one-time charge of $2.1 million, net of tax, or $0.04 per share. In addition, earnings and per share data for the year ended December 31, 2007 reflect the impact of a settlement of an insurance claim resulting in a recovery of $3.5 million, net of tax, or $.06 per share, related to a fraud loss that occurred and was recognized in 2002, the Company s acquisition of First Morris from April 1, 2007, the date the acquisition was completed, and one-time expenses of $246,000, net of tax, related to the merger and integration of First Morris operations. Earnings and per share data for the year ended December 31, 2006 were impacted by a one-time executive severance payment which resulted in an after-tax charge of $473,000, or $0.01 per share. The earnings and per share data for the year ended December 31, 2006 were further impacted by a loss on the early extinguishment of debt, which resulted in an after-tax charge of $403,000, or $0.01 per share.

Net Interest Income. Net interest income decreased $9.7 million, or 5.9%, to $154.9 million for 2007, from $164.5 million for 2006. The average interest rate spread decreased 28 basis points to 2.52% for 2007, from 2.80% for 2006. The net interest margin decreased 27 basis points to 2.96% for 2007, compared to 3.23% for 2006.

Interest income increased $20.4 million, or 7.2%, to $302.6 million for 2007, compared to $282.1 million for 2006. The increase in interest income was attributable to an increase in the yield on average earning assets and to an increase in loan volume resulting from organic growth and the First Morris acquisition. Average interest-earning assets increased $138.7 million, or 2.7%, to $5.23 billion for 2007, compared to $5.09 billion for 2006. Average outstanding loan balances increased $321.8 million, or 8.7%, to $4.04 billion for 2007 from $3.71 billion for 2006. The average balance of investment securities decreased $32.0 million, or 7.9%, to $373.7 million for 2007, compared to $405.7 million for 2006. The average balance of securities available for sale decreased $144.2 million, or 15.6%, to $780.8 million for 2007, compared to $925.0 million for 2006. Average federal funds sold and short-term investment balances decreased $2.5 million, or 32.1%, to $5.2 million for 2007, from $7.7 million for 2006. The yield on interest-earning assets increased 25 basis points to 5.79% for 2007, from 5.54% for 2006.

Interest expense increased $30.1 million, or 25.6%, to $147.7 million for 2007, from $117.6 million for 2006. The increase in interest expense was attributable to the increase in the average cost of interest-bearing liabilities for 2007 compared with 2006 and an increase in average interest-bearing deposits resulting from the First Morris acquisition. The average balance of interest-bearing liabilities increased $213.8 million, or 5.0%, to $4.51 billion for 2007, compared to $4.30 billion for 2006. Rates paid on interest-bearing liabilities increased 53 basis points to 3.27% for 2007, from 2.74% for 2006. Average interest-bearing deposits increased $255.9 million, or 7.5%, to $3.68 billion for 2007, from $3.42 billion for 2006. The average rate paid on interest-bearing deposits increased 61 basis points to 3.07% for 2007, from 2.46% for 2006. Average interest-bearing core deposits increased $124.4 million, or 6.6%, for 2007, compared with 2006, while average time deposits increased $131.4 million, or 8.6%, for 2007, compared with 2006. Average outstanding borrowings decreased $42.1 million, or 4.8%, to $833.0 million for 2007, compared with $875.0 million for 2006. The average rate paid on borrowings increased to 4.17% for 2007, from 3.82% for 2006.

Provision for Loan Losses. Provisions for loan losses are charged to operations in order to maintain the allowance for loan losses at a level management considers necessary to absorb probable credit losses inherent in the loan portfolio. In determining the level of the allowance for loan losses, management considers past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower s ability to repay the loan and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or subsequent events change. Management assesses the adequacy of the allowance for loan losses on a quarterly basis and makes provisions for loan losses, if necessary, in order to maintain the adequacy of the allowance. The Company s emphasis on continued diversification of the loan portfolio through the origination of commercial mortgage loans, commercial loans and construction loans has been one of the more significant factors management has considered in evaluating the allowance for loan losses and provision for loan losses. In the event the Company further increases the amount of such types of loans in the portfolio, management may determine that additional or increased provisions for loan losses are necessary, which could adversely affect earnings.

The provision for loan losses was $6.5 million in 2007, compared to $1.3 million in 2006. The increase in the provision for loan losses was primarily attributable to an increase in non-performing loans, downgrades in risk ratings, growth in the loan portfolio and an increase in commercial loans as a percentage of the loan portfolio to 45.2% at December 31, 2007, compared to 41.3% at December 31, 2006. Net charge-offs for 2007 were $1.0 million, compared to $866,000 for 2006. Total charge-offs for the year ended December 31, 2007 were $3.2 million, compared to $2.8 million for the year ended December 31, 2006. Recoveries for the year ended December 31, 2007 were $2.2 million, compared to $2.0 million for the year ended December 31, 2006. The allowance for loan losses at December 31, 2007 was $40.8 million, or 0.95% of total loans, compared to $32.4 million, or 0.86% of total loans at December 31, 2006. At December 31, 2007, non-performing loans as a percentage of total loans were 0.81%, compared to 0.20% at December 31, 2006. Non-performing assets as a percentage of total assets were 0.56% at December 31, 2007, compared to 0.14% at December 31, 2006. At December 31, 2007, non-performing loans were $34.6 million, compared to $7.5 million at December 31, 2006, and non-performing assets were $35.7 million at December 31, 2007, compared to $8.1 million at December 31, 2006.

Non-Interest Income. For the year ended December 31, 2007, non-interest income totaled $35.5 million, an increase of $3.6 million, or 11.2%, compared to 2006. The Company recorded a one-time gain on an insurance settlement of $5.9 million, before taxes, related to the resolution of previously disclosed litigation. The Company recorded an other-than-temporary impairment charge on an investment totaling $1.0 million in the fourth quarter of 2007. In addition, net losses on securities transactions totaled $984,000 for the year ended December 31, 2007, compared with net gains of $1.2 million for 2006. Fee income increased $1.2 million, or 5.3%, for the year ended December 31, 2007, compared to the same period in 2006, as a result of increases in retail fees and trust income attributable to the First Morris acquisition. Other income decreased $644,000, or 28.3%, for the year ended December 31, 2007, compared to the same period in 2006, due primarily to non-recurring gains recorded on the call of FHLB advances and the sale of deposits in 2006.

Non-Interest Expense. For the year ended December 31, 2007, non-interest expense increased $14.7 million, or 12.5%, to $133.0 million, compared to $118.3 million for the year ended December 31, 2006. Compensation and benefits expense increased $8.9 million, primarily as a result of one-time severance costs totaling $4.2 million in connection with a previously announced voluntary resignation program and an executive separation agreement, as well as the addition of branch and lending staff from First Morris and the addition of small business and middle market relationship managers. Data processing expense increased $781,000 due primarily to merger-related charges recorded in connection with the acquisition of First Morris. Amortization of intangibles increased $698,000 for the year ended December 31, 2007, compared with the same period in 2006, primarily as a result of the amortization of the core deposit intangible recorded in connection with the First Morris acquisition. Additional increases in occupancy expense of $1.4 million and advertising expense of $1.1 million for the year ended December 31, 2007, compared with the same period in 2006, are also due primarily to the acquisition and integration of First Morris operations. Other operating expenses increased $1.9 million for the year ended December 31, 2007, compared with the same period in 2006, due to increases in several categories, including Community Reinvestment Act related grants for the origination of mortgages to low- and moderate-income borrowers, printing and supplies costs, examination fees, debit card expense, loan collection expense and miscellaneous losses.

The Company s non-interest expense as a percentage of average assets was 2.19% for the year ended December 31, 2007, compared with 2.02% for 2006. The efficiency ratio (non-interest expense divided by the sum of net interest income and non-interest income) was 69.85% for the year ended December 31, 2007, compared with 60.20% for 2006.

Income Tax Expense. Income tax expense decreased $9.7 million, to $13.5 million, on income before taxes of $50.9 million resulting in an effective tax rate of 26.5% in 2007, compared to income tax expense of $23.2 million on income before taxes of $76.9 million in 2006, resulting in an effective tax rate of 30.2%. The reduction in the Company s effective tax rate was a result of a larger proportion of the Company s income being derived from tax-exempt interest and Bank-owned life insurance appreciation.

Comparison of Operating Results for the Years Ended December 31, 2006 and December 31, 2005

General. Net income for the year ended December 31, 2006 was $53.7 million, compared to net income of $58.5 million for the year ended December 31, 2005. Return on average assets for the year ended December 31, 2006 was 0.92%, compared to 0.94% for 2005. Return on average equity was 5.17% for the year ended December 31, 2006, compared to 5.32% for 2005. Basic and diluted earnings per share were $0.88 and $0.87, respectively, for the year ended December 31, 2006, compared to basic and diluted earnings per share of $0.89 and $0.88, respectively, for 2005. The earnings and per share data for the year ended December 31, 2006 were impacted by a one-time executive severance payment previously reported by the Company, which resulted in an after-tax charge of $473,000, or $0.01 per share. The earnings and per share data for the year ended December 31, 2006 were further impacted by a loss on the early extinguishment of debt, which resulted in an after-tax charge of $403,000, or $0.01 per share. The earnings and per share data for the year ended December 31, 2005 were impacted by the acceptance of a Voluntary Resignation Initiative (VRI) by certain officers of the Company, which resulted in an after-tax charge of $815,000, or $0.01 per share.

Net Interest Income. Net interest income decreased $16.9 million, or 9.3%, to $164.5 million for 2006, from $181.5 million for 2005. The average interest rate spread decreased 21 basis points to 2.80% for 2006, from 3.01% for 2005. The net interest margin decreased 11 basis points to 3.23% for 2006, compared to 3.34% for 2005.

Interest income increased $5.7 million, or 2.1%, to $282.1 million for 2006, compared to $276.5 million for 2005. The increase in interest income was attributable to an increase in the yield on average earning assets. Average interest-earning assets decreased $351.0 million, or 6.5%, to $5.09 billion for 2006, compared to $5.44 billion for 2005. Average outstanding loan balances increased $55.5 million, or 1.5%, to $3.71 billion for 2006

from $3.66 billion for 2005. The average balance of investment securities decreased $22.8 million, or 5.3%, to $405.7 million for 2006, compared to $428.5 million for 2005. The average balance of securities available for sale decreased $324.4 million, or 26.0%, to $925.0 million for 2006, compared to $1.25 billion for 2005. Average federal funds sold and short-term investment balances decreased $50.5 million, or 86.8%, to $7.7 million for 2006, from $58.2 million for 2005. The yield on interest-earning assets increased 46 basis points to 5.54% for 2006, from 5.08% for 2005.

Interest expense increased $22.6 million, or 23.8%, to $117.6 million for 2006, from $95.0 million for 2005. The increase in interest expense was attributable to the increase in the average cost of interest-bearing liabilities for 2006 compared with 2005. The average balance of interest-bearing liabilities decreased $301.4 million, or 6.6%, to $4.30 billion for 2006, compared to $4.60 billion for 2005. Rates paid on interest-bearing liabilities increased 67 basis points to 2.74% for 2006, from 2.07% for 2005. Average interest-bearing deposits decreased $70.5 million, or 2.0%, to $3.42 billion for 2006, from $3.49 billion for 2005. The average rate paid on interest-bearing deposits increased 75 basis points to 2.46% for 2006, from 1.71% for 2005. Average interest-bearing core deposits decreased $199.0 million, or 9.5%, for 2006, compared with 2005, while average time deposits increased $128.5 million, or 9.2%, for 2006, compared with 2005. Average outstanding borrowings, including subordinated debentures, decreased $230.9 million, or 20.9%, to $875.0 million for 2006, compared with $1.11 billion for 2005. The average rate paid on borrowings increased to 3.82% for 2006, from 3.19% for 2005.

Provision for Loan Losses. The provision for loan losses was $1.3 million in 2006, compared to $600,000 in 2005. The increase in the provision for loan losses was primarily attributable to loan growth and a shift in the composition of the loan portfolio to a higher percentage of commercial loans compared with 2005. Net charge-offs for 2006 were $866,000, compared to $2.4 million for 2005. Total charge-offs for the year ended December 31, 2006 were $2.8 million, compared to $4.0 million for the year ended December 31, 2005. Recoveries for the year ended December 31, 2006 were $2.0 million, compared to $1.6 million for the year ended December 31, 2005.

The allowance for loan losses at December 31, 2006 was $32.4 million, or 0.86% of total loans, compared to $32.0 million, or 0.86% of total loans at December 31, 2005.

At December 31, 2006, non-performing loans as a percentage of total loans were 0.20%, compared to 0.16% at December 31, 2005. Non-performing assets as a percentage of total assets were 0.14% at December 31, 2006, compared to 0.11% at December 31, 2005. At December 31, 2006, non-performing loans were $7.5 million, compared to $6.0 at December 31, 2005, and non-performing assets were $8.1 million at December 31, 2006, compared to $6.7 million at December 31, 2005.

Non-Interest Income. For the year ended December 31, 2006, non-interest income totaled $32.0 million, an increase of $2.7 million, or 9.3%, compared to 2005. Other income increased $1.5 million for the year ended December 31, 2006, compared with 2005, primarily due to gains recognized on the call of FHLB advances. In addition, gains on securities sales increased $862,000 and fee income increased $337,000 for the year ended December 31, 2006, compared with 2005. The increase in fee income was primarily due to increases in deposit fees.

Non-Interest Expense. For the year ended December 31, 2006, non-interest expense decreased $5.9 million, or 4.8%, to $118.3 million, compared to $124.2 million for the same period in 2005. Compensation and employee benefits expense decreased $1.5 million for the year ended December 31, 2006, compared with 2005, as a result of reductions in medical benefit costs due to changes in plan design, benefits and participant contributions, as well as reductions in staff and the $1.4 million expense recorded in the second quarter of 2005 in connection with the VRI, partially offset by $800,000 in executive severance recorded in the third quarter of 2006. The Company employed 877 full-time equivalent employees at December 31, 2006, compared to 926 full-time equivalent employees at January 1, 2005. Net occupancy expense decreased $1.4 million for the year ended December 31, 2006, compared with 2005, primarily as a result of reductions in equipment maintenance costs and

depreciation expense. Amortization of intangibles decreased $1.3 million for the year ended December 31, 2006, compared with 2005, as a result of scheduled reductions in the amortization of core deposit intangibles. Other non-interest expense decreased $829,000 for the year ended December 31, 2006, compared with 2005, despite a $682,000 loss on the early extinguishment of subordinated debentures, due to reductions in a variety of expense categories including ATM and debit card maintenance costs, insurance, litigation and telephone expense. Advertising and promotions expense decreased $458,000 for the year ended December 31, 2006, compared with 2005. Data processing expense decreased $439,000 for the year ended December 31, 2006, compared with 2005, primarily due to the outsourcing of items processing in the fourth quarter of 2005.

The Company s non-interest expense as a percentage of average assets was 2.02% for the year ended December 31, 2006, compared with 2.00% for 2005. The efficiency ratio (non-interest expense divided by the sum of net interest income and non-interest income) was 60.20% for the year ended December 31, 2006, compared with 58.94% for 2005. The Company s expense and efficiency ratios have been adversely impacted by the reductions in assets and revenue resulting from the Company s de-leveraging of the balance sheet to reduce interest rate risk, given the current unfavorable interest rate environment.

Income Tax Expense. Income tax expense decreased $4.2 million, to $23.2 million, on income before taxes of $76.9 million resulting in an effective tax rate of 30.2% in 2006, compared to income tax expense of $27.4 million on income before taxes of $85.9 million in 2005, resulting in an effective tax rate of 31.9%. The reduction in the Company s effective tax rate was a result of a larger proportion of the Company s income being derived from tax-exempt interest and Bank-owned life insurance appreciation, as well as state tax benefits recorded on subsidiary company net operating losses**.**

Liquidity and Capital Resources

Liquidity refers to the Company s ability to generate adequate amounts of cash to meet financial obligations to its depositors, to fund loans and securities purchases, deposit outflows and operating expenses. Sources of funds include scheduled amortization of loans, loan prepayments, scheduled maturities of investments, cash flows from mortgage-backed securities and the ability to borrow funds from the FHLB of New York and approved broker dealers. The Bank has a $100.0 million overnight line of credit and a $100.0 million one-month overnight repricing line of credit with the FHLB of New York. As of December 31, 2007, $72.0 million in borrowings were outstanding against these lines of credit.

Cash flows from loan payments and maturing investment securities are a fairly predictable source of funds. Changes in interest rates, local economic conditions and the competitive marketplace can influence loan prepayments, prepayments on mortgage-backed securities and deposit flows. For each of the years ended December 31, 2007 and 2006, loan repayments totaled $1.17 billion.

One- to four-family residential loans, consumer loans, commercial real estate loans, multi-family loans and commercial and small business loans are the primary investments of the Company. Purchasing securities for the investment portfolio is a secondary use of funds and the investment portfolio is structured to complement and facilitate the Company s lending activities and ensure adequate liquidity. Loan originations and purchases totaled $1.37 billion for the year ended December 31, 2007, compared to $1.24 billion for the year ended December 31, 2006. Purchases for the investment portfolio totaled $172.4 million for the year ended December 31, 2007, compared to $87.9 million for the year ended December 31, 2006.

At December 31, 2007, the Bank had outstanding loan commitments to borrowers of $767.5 million. Undisbursed home equity lines and personal credit lines were $216.5 million at December 31, 2007. Excluding deposits assumed through the acquisition of First Morris, total deposits decreased $110.6 million for the year ended December 31, 2007. Deposit activity is affected by changes in interest rates, competitive pricing and product offerings in the marketplace, local economic conditions and other factors such as stock market volatility. Certificate of deposit accounts that are scheduled to mature within one year totaled $1.43 billion at December 31, 2007. Based on its current pricing strategy and customer retention experience, the Bank expects to retain a

significant share of these accounts. The Bank manages liquidity on a daily basis and expects to have sufficient cash to meet all of its funding requirements.

As of December 31, 2007, the Bank s leverage (Tier 1) capital ratio was 6.14%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2007, the Bank s total risk-based capital ratio was 9.85%. Under current regulations, the minimum required ratio of total capital to risk-weighted assets is 8.00%. A bank is considered to be well-capitalized if it has a leverage (Tier 1) capital ratio of at least 5.00% and a risk-based capital ratio of at least 10.00%.

Off-Balance Sheet and Contractual Obligations

Off-balance sheet and contractual obligations as of December 31, 2007, are summarized below:

	Payments Due by Period (In thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Off-Balance Sheet:					
Long-term commitments	$ 746,301	$ 579,021	$ 144,706	$ 15,280	$ 7,294
Letters of credit	21,211	20,818	393		
Total Off-Balance Sheet	767,512	599,839	145,099	15,280	7,294
Contractual Obligations:					
Operating leases	14,826	3,232	5,492	3,919	2,183
Certificate of deposits	1,639,470	1,428,803	142,382	60,231	8,054
Total Contractual Obligations	1,654,296	1,432,035	147,874	64,150	10,237
Total	$ 2,421,808	$ 2,031,874	$ 292,973	$ 79,430	$ 17,531

Off-balance sheet commitments consist of unused commitments to borrowers for term loans, unused lines of credit and outstanding letters of credit. Total off-balance sheet obligations were $767.5 million at December 31, 2007, a decrease of $36.1 million, or 4.5%, from $803.6 million at December 31, 2006.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There were no securities purchases that were entered into in December 2007 or 2006 that would have settled in January 2008 or 2007, respectively. Total contractual obligations at December 31, 2007 were $1.65 billion, an increase of $81.3 million, or 5.2%, compared to $1.57 billion at December 31, 2006. Contractual obligations under operating leases increased $1.3 million, or 9.8%, to $14.8 million at December 31, 2007, compared to $13.5 million at December 31, 2006, and certificate of deposit accounts increased $80.0 million, or 5.1%, to $1.64 billion at December 31, 2007, from $1.56 billion at December 31, 2006.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Qualitative Analysis. Interest rate risk is the exposure of a bank s current and future earnings and capital arising from adverse movements in interest rates. The guidelines of the Company s interest rate risk policy seek to limit the exposure to changes in interest rates that affect the underlying economic value of assets and liabilities, earnings and capital. To minimize interest rate risk, the Company generally sells all 20- and 30-year fixed-rate mortgage loans at origination. Commercial real estate loans generally have interest rates that reset in five years, and other commercial loans such as construction loans and commercial lines of credit reset with changes in the Prime rate, the Federal Funds rate or LIBOR. Investment securities purchases generally have maturities of five years or less, and mortgage-backed securities have weighted average lives between three and five years.

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The management Asset/Liability Committee meets on a monthly basis to review the impact of interest rate changes on net interest income, net interest margin, net income and economic value of equity. Members of the Asset/Liability Committee include the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer, as well as other senior officers from the Bank s finance, lending and customer management departments. The Asset/Liability Committee reviews a variety of strategies that project changes in asset or liability mix and the impact of those changes on projected net interest income and net income.

The Company s strategy for liabilities has been to maintain a stable core-funding base by focusing on core deposit account acquisition and increasing products and services per household. Certificate of deposit accounts as a percentage of total deposits were 38.8% at December 31, 2007 compared to 40.8% at December 31, 2006. Certificate of deposit accounts are generally short-term. As of December 31, 2007, 87.2% of all time deposits had maturities of one year or less compared to 84.9% at December 31, 2006. The Company s ability to retain maturing certificate of deposit accounts is the result of a strategy to remain competitively priced within the marketplace, typically within the upper quartile of rates offered by competitors. The Company s pricing strategy may vary depending upon funding needs and the Company s ability to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB during periods of pricing dislocation.

Quantitative Analysis. Current and future sensitivity to changes in interest rates are measured through the use of balance sheet and income simulation models. The analyses capture changes in net interest income using flat rates as a base, a most likely rate forecast and rising and declining interest rate forecasts. Changes in net interest income and net income for the forecast period, generally twelve to twenty-four months, are measured and compared to policy limits for acceptable change. The Company periodically reviews historical deposit re-pricing activity and makes modifications to certain assumptions used in its income simulation model regarding the interest rate sensitivity of deposits without maturity dates. These modifications are made to more precisely reflect the most likely results under the various interest rate change scenarios. Since it is inherently difficult to predict the sensitivity of interest bearing deposits to changes in interest rates, the changes in net interest income due to changes in interest rates cannot be precisely predicted. There are a variety of reasons that may cause actual results to vary considerably from the predictions presented below which include, but are not limited to, the timing, magnitude, and frequency of changes in interest rates, interest rate spreads, prepayments, and actions taken in response to such changes. Specific assumptions used in the simulation model include:

- Parallel yield curve shifts for market rates;
- Current asset and liability spreads to market interest rates are fixed;
- Traditional savings and interest bearing demand accounts move at 10% of the rate ramp in either direction;
- Money Market accounts move at 25% of the rate ramp in either direction; and
- Higher-balance demand deposit tiers and promotional demand accounts move at 50% of the rate ramp in either direction.

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The following table sets forth the results of the twelve month projected net interest income model as of December 31, 2007.

Change in Interest Rates in Basis Points (Rate Ramp)	Amount ($)	Net Interest Income Change ($)	Change (%)
	(Dollars in thousands)		
-200	$ 165,436	$ 4,269	2.6%
-100	163,497	2,330	1.4
Static	161,167		
+100	159,259	(1,908)	(1.2)
+200	156,479	(4,688)	(2.9)

The above table indicates that as of December 31, 2007, in the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, the Company would experience a 2.9%, or $4.7 million decrease in net interest income. In the event of a 200 basis point decrease in interest rates, whereby rates ramp down 200 basis points evenly over a twelve-month period, the Company would experience a 2.6%, or $4.3 million increase in net interest income.

Another measure of interest rate sensitivity is to model changes in economic value of equity through the use of immediate and sustained interest rate shocks. The following table illustrates the economic value of equity model results as of December 31, 2007.

	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
Change in Interest Rates (Basis Points)	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
	(Dollars in thousands)				
-200	$ 1,363,693	$ 66,314	5.1%	20.0%	3.1%
-100	1,342,862	45,483	3.5	19.9	2.3
Flat	1,297,379			19.4	
+100	1,213,783	(83,596)	(6.4)	18.5	(5.0)
+200	1,130,565	(166,814)	(12.9)	17.5	(10.1)

The above table indicates that as of December 31, 2007, in the event of an immediate and sustained 200 basis point increase in interest rates, the Company would experience an 12.9%, or $166.8 million reduction in the present value of equity. If rates were to decrease 200 basis points, the Company would experience a 5.1%, or $66.3 million increase in the present value of equity.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the making of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company s interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

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Item 8. Financial Statements and Supplementary Data

The following are included in this item:

(A) Report of Independent Registered Public Accounting Firm

(B) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

(C) Consolidated Financial Statements:

(1) Consolidated Statements of Financial Condition as of December 31, 2007 and 2006

(2) Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005

(3) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2007, 2006 and 2005

(4) Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

(5) Notes to Consolidated Financial Statements

(D) Provident Financial Services, Inc., Condensed Financial Statements:

(1) Condensed Statement of Financial Condition as of December 31, 2007 and 2006

(2) Condensed Statement of Income for the years ended December 31, 2007, 2006 and 2005

(3) Condensed Statement of Cash Flows for the years ended December 31, 2007, 2006 and 2005

The supplementary data required by this Item (selected quarterly financial data) is provided in Note 19 of the Notes to Consolidated Financial Statements.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Provident Financial Services, Inc.:

We have audited the accompanying consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Provident Financial Services, Inc. and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As disclosed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payments on January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Provident Financial Services, Inc. and subsidiary s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2008 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey

February 29, 2008

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Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders

Provident Financial Services, Inc.:

We have audited Provident Financial Services, Inc. and subsidiary s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included on page 103 of the Annual Report on Form 10-K, Item 9A., Controls and Procedures Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 U.S. 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.

In our opinion, Provident Financial Services, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Short Hills, New Jersey

February 29, 2008

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2007 and 2006

(Dollars in Thousands, except share data)

	December 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 83,737	$ 89,390
Federal funds sold	18,000	
Short-term investments	38,892	2,667
Total cash and cash equivalents	140,629	92,057
Investment securities held to maturity (fair value of $359,699 and $386,380 at December 31, 2007 and December 31, 2006, respectively)	358,491	389,656
Securities available for sale, at fair value	769,615	790,894
Federal Home Loan Bank Stock	39,764	35,335
Loans	4,296,291	3,783,664
Less allowance for loan losses	40,782	32,434
Net loans	4,255,509	3,751,230
Foreclosed assets, net	1,041	528
Banking premises and equipment, net	79,138	59,811
Accrued interest receivable	24,665	21,705
Intangible assets	520,722	429,718
Bank-owned life insurance	121,674	116,271
Other assets	48,143	55,759
Total assets	$ 6,359,391	$ 5,742,964
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 1,553,625	$ 1,005,679
Savings deposits	1,031,725	1,261,282
Certificates of deposit of $100,000 or more	480,362	393,834
Other time deposits	1,159,108	1,165,668
Total deposits	4,224,820	3,826,463
Mortgage escrow deposits	18,075	17,616
Borrowed funds	1,075,104	840,990
Other liabilities	40,598	38,739
Total liabilities	5,358,597	4,723,808
Stockholders Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued		
	832	799

Common stock, $0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 59,646,936 shares outstanding at December 31, 2007; and 79,879,017 shares issued and 63,233,548 shares outstanding at December 31, 2006, respectively				
Additional paid-in capital		1,009,120		937,616
Retained earnings		437,503		424,958
Accumulated other comprehensive income (loss)		4,335		(7,150)
Treasury stock		(383,407)		(266,587)
Unallocated common stock held by the Employee Stock Ownership Plan		(67,589)		(70,480)
Common stock acquired by the Directors Deferred Fee Plan		(7,759)		(13,010)
Deferred compensation Directors Deferred Fee Plan		7,759		13,010
Total stockholders equity		1,000,794		1,019,156
Total liabilities and stockholders equity	$	6,359,391	$	5,742,964

See accompanying notes to consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years ended December 31, 2007, 2006 and 2005

(Dollars in Thousands, except share data)

	Years ended December 31,		
	2007	2006	2005
Interest income:			
Real estate secured loans	$ 167,506	$ 160,192	$ 154,332
Commercial loans	42,151	27,840	21,923
Consumer loans	39,132	34,999	30,523
Investment securities	15,406	16,828	17,185
Securities available for sale	38,107	41,876	50,698
Other short-term investments	153	161	513
Federal funds	122	243	1,288
Total interest income	302,577	282,139	276,462
Interest expense:			
Deposits	112,923	84,191	59,774
Borrowed funds	34,776	31,884	33,759
Subordinated debentures		1,536	1,474
Total interest expense	147,699	117,611	95,007
Net interest income	154,878	164,528	181,455
Provision for loan losses	6,530	1,320	600
Net interest income after provision for loan losses	148,348	163,208	180,855
Non-interest income:			
Fees	24,538	23,305	22,968
Gain on insurance settlement	5,947		
Bank-owned life insurance	5,403	5,196	5,143
Impairment charge on securities	(1,003)		
Net (loss) gain on securities transactions	(984)	1,170	308
Other income	1,636	2,280	802
Total non-interest income	35,537	31,951	29,221
Non-interest expense:			
Compensation and employee benefits	72,183	63,295	64,800
Net occupancy expense	19,431	18,054	19,456
Data processing expense	9,106	8,325	8,764
Amortization of intangibles	6,586	5,888	7,160
Advertising and promotion expense	4,942	3,819	4,277
Other operating expenses	20,765	18,892	19,721
Total non-interest expenses	133,013	118,273	124,178

Income before income tax expense	$ 50,872	$ 76,886	$ 85,898
Income tax expense	13,492	23,201	27,399
Net income	$ 37,380	$ 53,685	$ 58,499
Basic earnings per share	$ 0.63	$ 0.88	$ 0.89
Average basic shares outstanding	59,067,438	60,968,533	66,083,173
Diluted earnings per share	$ 0.63	$ 0.87	$ 0.88
Average diluted shares outstanding	59,067,438	61,703,906	66,836,536

See accompanying notes to consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2007, 2006 and 2005

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK AWARDS UNDER SAP	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2004	$ 799	$ 960,792	$ 358,678	$ 3,767	$ (70,810)	$ (76,101)	$ (40,349)	$ (13,379)	$ 13,379	$ 1,136,776
Comprehensive income:										
Net income			58,499							58,499
Other comprehensive income:										
Unrealized holding loss on securities arising during the period (net of tax of ($8,472))				(12,491)						(12,491)
Reclassification adjustment for gains included in net income (net of tax of $126)				(182)						(182)
Total comprehensive income										$ 45,826
Cash dividends paid			(21,588)							(21,588)
Distributions from DDFP								155	(155)	
Purchases of treasury stock					(96,303)					(96,303)
Tax benefit on stock compensation		100								100
Allocation of ESOP shares		104				2,785				2,889
Allocation of SAP shares		59					5,036			5,095
Allocation of stock options		3,500								3,500
Balance at December 31, 2005	$ 799	$ 964,555	$ 395,589	$ (8,906)	$ (167,113)	$ (73,316)	$ (35,313)	$ (13,224)	$ 13,224	$ 1,076,295
Comprehensive income:										
Net income			53,685							53,685
Other comprehensive income:										
Unrealized holding gain on securities arising during the period (net of tax of $1,729)				2,633						2,633
Reclassification adjustment for gains included in net income (net of tax of $389)				(781)						(781)
Total comprehensive income										$ 55,537

Adoption of SFAS No. 158 (net of tax of $66)			(96)					(96)
Cash dividends paid		(24,316)						(24,316)
Distributions from DDFP	43					214	(214)	43
Purchases of treasury stock				(99,583)				(99,583)
Option exercises	3			109				112
Allocation of ESOP shares	188				2,836			3,024
Allocation of SAP shares	4,810							4,810

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2007, 2006 and 2005

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK AWARDS UNDER SAP	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Adoption of SFAS No. 123R		(35,313)					35,313			
Allocation of stock options		3,330								3,330
Balance at December 31, 2006	$ 799	$ 937,616	$ 424,958	$ (7,150)	$ (266,587)	$ (70,480)	$	$ (13,010)	$ 13,010	$ 1,019,156
Comprehensive income:										
Net income			37,380							37,380
Other comprehensive income:										
Unrealized holding gain on securities arising during the period (net of tax of $3,403)				5,128						5,128
Reclassification adjustment for losses included in net income (net of tax of ($717))				1,270						1,270
Amortization related to post- retirement obligations (net of tax of $3,513)				5,087						5,087
Total comprehensive income										$ 48,865
Common stock issued in connection with the First Morris acquisition	33	61,902								61,935
Cash dividends paid			(24,835)							(24,835)
Tax contingency reserve reversal		2,048								2,048
Distributions from DDFP		(148)						5,251	(5,251)	(148)
Purchases of treasury stock					(116,820)					(116,820)
Allocation of ESOP shares		(137)				2,891				2,754
Allocation of SAP shares		4,594								4,594
Allocation of stock options		3,245								3,245
Balance at December 31, 2007	$ 832	$ 1,009,120	$ 437,503	$ 4,335	$ (383,407)	$ (67,589)	$	$ (7,759)	$ 7,759	$ 1,000,794

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2007, 2006 and 2005

(Dollars in Thousands)

	Years Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 37,380	$ 53,685	$ 58,499
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangibles	14,129	13,214	15,053
Provision for loan losses	6,530	1,320	600
Deferred tax (benefit) expense	(637)	215	4,378
Increase in cash surrender value of			
Bank-owned Life Insurance	(5,403)	(5,196)	(5,143)
Net amortization of premiums and discounts on securities	909	2,688	6,978
Accretion of net deferred loan fees	(1,822)	(1,904)	(2,316)
Amortization of premiums on purchased loans	3,100	3,762	4,838
Net increase in loans originated for sale	(8,862)	(17,687)	(21,592)
Proceeds from sales of loans originated for sale	9,019	17,805	21,440
Proceeds from sales of foreclosed assets	762	1,091	972
Allocation of ESOP shares	2,495	2,842	2,781
Allocation of SAP shares	4,594	4,810	5,095
Allocation of stock options	3,245	3,330	3,500
Net (gain) loss on sale of loans	(157)	(118)	152
Net loss (gain) on securities available for sale	984	(1,170)	(308)
Impairment charge on securities	1,003		
Net gain on sale of premises and equipment	(153)	(46)	(88)
Net gain on sale of foreclosed assets			(35)
(Increase) decrease in accrued interest receivable	(680)	1,450	710
Decrease in other assets	8,154	6,164	5,638
(Decrease) increase in other liabilities	(4,049)	1,209	2,441
Net cash provided by operating activities	70,541	87,464	103,593
Cash flows from investing activities:			
Proceeds from sale of loans			14,575
Proceeds from maturities, calls and paydowns of investment securities	44,199	44,042	73,891
Purchases of investment securities	(13,261)	(23,485)	(40,946)
Proceeds from sales of securities available for sale	124,917	47,121	34,582
Proceeds from maturities and paydowns of securities available for sale	201,932	313,076	346,327
Purchases of securities available for sale	(159,099)	(65,759)	(83,693)
Cash consideration paid to acquire First Morris, net of cash and cash equivalents received	(1,383)		
Purchases of loans	(79,131)	(57,170)	(137,412)
Net (increase) decrease in loans	(100,736)	9,821	86,937
Proceeds from sales of premises and equipment	328	57	1,201
Purchases of premises and equipment, net	(9,200)	(6,199)	(5,350)
Net cash provided by investing activities	8,566	261,504	290,112
Cash flows from financing activities:			
Net decrease in deposits	(110,649)	(94,995)	(129,015)
Increase (decrease) in mortgage escrow deposits	459	(505)	2,732
Purchase of treasury stock	(116,820)	(99,583)	(96,303)
Cash dividends paid to stockholders	(24,835)	(24,316)	(21,588)
Stock options exercised		112	

Proceeds from long-term borrowings	435,700	224,500	108,700
Payments on long-term borrowings	(169,291)	(378,985)	(343,719)
Net (decrease) increase in short-term borrowings	(45,099)	25,367	39,062
Redemption of subordinated debentures		(25,774)	
Net cash used in financing activities	(30,535)	(374,179)	(440,131)
Net increase (decrease) in cash and cash equivalents	48,572	(25,211)	(46,426)
Cash and cash equivalents at beginning of period	92,057	117,268	163,694
Cash and cash equivalents at end of period	$ 140,629	$ 92,057	$ 117,268

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2007, 2006 and 2005

(Dollars in Thousands)

	Years Ended December 31,		
	2007	2006	2005
Cash paid during the period for:			
Interest on deposits and borrowings	$ 145,341	$ 116,872	$ 95,186
Income taxes	$ 19,373	$ 23,639	$ 17,504
Non cash investing activities:			
Transfer of loans receivable to other real estate owned	$ 1,275	$ 949	$ 1,467
Fair value of assets acquired	$ 554,204	$	$
Goodwill and core deposit intangible	$ 97,513	$	$
Liabilities assumed	$ 527,737	$	$
Common stock issued for First Morris acquisition	$ 61,935	$	$

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2007, 2006 and 2005

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Provident Financial Services, Inc. (the Company), The Provident Bank (the Bank) and their wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Business

The Company, through the Bank, provides a full range of banking services to individual and business customers through branch offices in New Jersey. The Bank is subject to competition from other financial institutions and to the regulations of certain federal and state agencies, and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). 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 from those estimates.

A material estimate that is particularly susceptible to change in the near term relates to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, federal funds sold and commercial paper with maturity dates less than 90 days.

Securities

Securities include investment securities and securities available for sale. Securities that the Company has the positive intent and ability to hold to maturity are classified as investment securities held to maturity and reported at amortized cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as securities available for sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of equity, net of deferred taxes. Fair values are based on published or securities dealers market prices. Gains or losses on the sale of securities are based upon the specific identification method. All securities are adjusted for amortization of premiums and accretion of discounts using the level-yield method over the estimated lives of the securities.

Federal Home Loan Bank of New York Stock

The Bank, as a member of the Federal Home Loan Bank of New York (FHLB), is required to hold shares of capital stock of the FHLB at cost based on a specified formula. The Bank carries this investment at cost, which approximates fair value.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

Loans

Mortgages on real estate and other loans are stated at the face amount of the loans. Unearned income on purchased residential mortgage loans is recognized in income based on the level yield method. The accrual of interest income on loans, including impaired loans, is generally discontinued when a loan becomes contractually 90 days or more past due or when collection of interest appears doubtful, and all previously accrued interest is reversed and charged against interest income, unless such loans are well-secured and in the process of collection. Income is subsequently recognized only to the extent cash payments are received and the principal balance is expected to be recovered. Such loans are restored to an accrual status only if the loan is brought contractually current and the borrower has demonstrated the ability to make future payments of principal and interest.

An impaired loan is defined as a loan for which it is probable, based on current information, that the lender will not collect amounts due under the contractual terms of the loan agreement. Impaired loans are individually assessed to determine that each loan s carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows. Residential mortgage and consumer loans are deemed smaller balance homogeneous loans which are evaluated collectively for impairment and are therefore excluded from the population of impaired loans.

Loan Origination and Commitment Fees and Related Costs

Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized in interest income using the level-yield method over the estimated lives of the specifically identified loans adjusted for prepayments.

Allowance for Loan Losses

Losses on loans are charged to the allowance for loan losses. Additions to this allowance are made by recoveries of loans previously charged off and by a provision charged to expense. The determination of the balance of the allowance for loan losses is based on an analysis of the loan portfolio, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate allowance.

While management uses available information to recognize losses on loans and real estate, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the Bank s market area. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance or additional write-downs based on their judgments about information available to them at the time of their examination.

Foreclosed Assets

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell. Fair market value is generally based on recent appraisals. When an asset is acquired, the excess of the loan balance over fair value, less estimated costs to sell, is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

Banking Premises and Equipment

Land is carried at cost. Banking premises, furniture, fixtures and equipment are carried at cost, less accumulated depreciation, computed using the straight-line method based on their estimated useful lives (generally 25 to 40 years for buildings and 3 to 5 years for furniture and equipment). Leasehold improvements, carried at cost, net of accumulated depreciation, are amortized over the terms of the leases or the estimated useful lives of the assets, whichever are shorter, using the straight-line method. Maintenance and repairs are charged to expense as incurred.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year 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 income in the period that includes the enactment date.

Trust Department

Trust assets consisting of securities and other property (other than cash on deposit held by the Bank in fiduciary or agency capacities for customers of the Trust Department) are not included in the accompanying consolidated statements of financial condition because such properties are not assets of the Bank.

Intangible Assets

Intangible assets of the Bank consist of goodwill, core deposit premiums, and mortgage servicing rights. Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired through purchase acquisitions. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, goodwill with an indefinite useful life is not amortized, but is evaluated for impairment on an annual basis, or when a triggering event occurs between annual measurement dates.

Core deposit premiums represent the intangible value of depositor relationships assumed in purchase acquisitions and are amortized on an accelerated basis over 8.8 years. Mortgage servicing rights are recorded when purchased or when originated mortgage loans are sold, with servicing rights retained. Mortgage servicing rights are amortized on an accelerated method based upon the estimated lives of the related loans, adjusted for prepayments. Mortgage servicing rights are carried at fair value.

Bank-owned Life Insurance

Bank-owned life insurance is accounted for using the cash surrender value method and is recorded at its realizable value.

Employee Benefit Plans

The Bank maintains a pension plan which covers full-time employees hired prior to April 1, 2003. The Bank s policy is to fund at least the minimum contribution required by the Employee Retirement Income Security Act of 1974. On April 1, 2003, the pension plan was frozen. In September 2006, the Financial

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

Accounting Standards Board (FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan s assets and its obligations that determine its funded status at the end of the employer s fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The Company adopted SFAS No. 158 effective December 31, 2006. Upon adoption of SFAS No. 158, the impact related to the pension plan was an increase in other comprehensive income of $598,000, net of tax.

The Bank has a 401(k) plan covering substantially all employees of the Bank. The Bank may match a percentage of the first 6% contributed by participants. The Bank s matching contribution, if any, is determined by the Board of Directors in its sole discretion.

The Employee Stock Ownership Plan (ESOP) is accounted for in accordance with the provisions of Statement of Position 93-6, Employer Accounting for Employee Stock Ownership Plans. The funds borrowed by the ESOP from the Company to purchase the Company s common stock are being repaid from the Bank s contributions and dividends paid on unallocated ESOP shares over a period of up to 30 years. The Company s common stock not allocated to participants is recorded as a reduction of stockholders equity at cost. Compensation expense for the ESOP is based on the average price of the Company s stock during each quarter.

Prior to January 1, 2006, the Company s stock option plan and stock award plan (SAP) were accounted for in accordance with SFAS No. 123, Accounting for Stock-Based Compensation , and related Interpretations. Accordingly, compensation expense has been recognized for the stock option plan and SAP. The expense related to stock options is based on the fair value of the options at the date of the grant and is recognized ratably over the vesting period of the options. The expense related to the SAP is based on the fair value of the common stock at the date of the grant and is recognized ratably over the vesting period of the awards. Unvested and unallocated SAP shares were recorded as a separate component of stockholders equity at cost.

In December 2004, SFAS No. 123R, Share-Based Payment, was issued and became effective on January 1, 2006. SFAS No. 123R requires companies to recognize in the statement of earnings the grant-date fair value of stock options issued to employees. As a result of the adoption of SFAS No. 123R, the Company reclassified the unvested and unallocated SAP shares to additional paid in capital. Additionally, the Company has analyzed the expected forfeitures of stock options as compared to actual forfeitures, which were previously recorded as a reduction of expense in the quarter of forfeiture in accordance with SFAS No. 123, and has deemed the impact of the adoption of SFAS No. 123R to be immaterial.

In connection with the First Sentinel acquisition, the Company assumed the First Savings Bank Directors Deferred Fee Plan (the DDFP). The DDFP was frozen prior to the acquisition. The Company recorded a deferred compensation equity instrument and corresponding contra-equity account for the value of the shares held by the DDFP at the July 14, 2004 acquisition date. These accounts will be liquidated as shares are distributed from the DDFP in accordance with the plan document. At December 31, 2007, there were 443,843 shares held by the DDFP.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

Postretirement Benefits Other Than Pensions

The Bank provides postretirement health care and life insurance plans to its employees. The life insurance coverage is noncontributory to the participant. Participants contribute to the cost of medical coverage based on the employee s length of service with the Bank. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee is fully eligible to receive the benefits. On December 31, 2002, the Bank eliminated postretirement healthcare benefits for employees with less than 10 years of service. In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The Company adopted SFAS No. 158 effective December 31, 2006. Upon adoption of SFAS No. 158, the impact to postretirement healthcare and life insurance plans was a decrease in other comprehensive income of $640,000, net of tax.

Comprehensive Income

Comprehensive income is divided into net income and other comprehensive income. Other comprehensive income includes items previously recorded directly to equity, such as unrealized gains and losses on securities available for sale and amortization related to post-retirement obligations. Comprehensive income is presented in the Statements of Changes in Stockholders Equity.

Segment Reporting

The Company s operations are solely in the financial services industry and include providing to its customers traditional banking and other financial services. The Company operates primarily in the geographical regions of Northern and Central New Jersey. Management makes operating decisions and assesses performance based on an ongoing review of the Bank s consolidated financial results. Therefore, the Company has a single operating segment for financial reporting purposes.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or resulted in the issuance of common stock. These potentially dilutive shares would then be included in the weighted average number of shares outstanding for the period using the treasury stock method. Shares issued and shares reacquired during the period are weighted for the portion of the period that they were outstanding.

Reclassifications

Certain reclassifications have been made to the 2006 and 2005 consolidated financial statements to conform to the 2007 presentation.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

Impact of Recent Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, amending SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under SFAS No. 156, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because SFAS No. 156 permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. The Company adopted SFAS No. 156 on January 1, 2007. The adoption of SFAS No. 156 did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48) was released in July 2006. FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 also prescribes a two-step evaluation process for tax positions. The first step is recognition and the second is measurement. For recognition, an enterprise judgmentally determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, it is measured and recognized in the financial statements as the largest amount of tax benefit that is greater than 50% likely of being realized. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized or, may continue to be recognized, upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and enhances disclosures about fair value measurements. SFAS No. 157 applies when other accounting pronouncements require fair value measurements; it does not require new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. Earlier application is encouraged, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The Company does not expect the adoption of SFAS No. 157 to have a material impact on its financial condition, results of operations or financial statement disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material impact on its financial condition, results of operations or financial statement disclosures.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

(2) Stockholders Equity and Acquisition

Stockholders Equity

On January 15, 2003, the Bank completed its plan of conversion, and the Bank became a wholly-owned subsidiary of the Company. The Company sold 59.6 million shares of common stock (par value $0.01 per share) at $10.00 per share. The Company received net proceeds in the amount of $567.2 million.

In connection with the Bank s commitment to its community, the plan of conversion provided for the establishment of a charitable foundation. Provident donated $4.8 million in cash and 1.92 million of authorized but unissued shares of common stock to the foundation, which amounted to $24.0 million in aggregate. The Company recognized an expense, net of income tax benefit, equal to the cash and fair value of the stock during 2003. Conversion costs were deferred and deducted from the proceeds of the shares sold in the offering.

Upon completion of the plan of conversion, a liquidation account was established in an amount equal to the total equity of the Bank as of the latest practicable date prior to the conversion. The liquidation account was established to provide a limited priority claim to the assets of the Bank to eligible account holders and supplemental eligible account holders as defined in the Plan, who continue to maintain deposits in the Bank after the conversion. In the unlikely event of a complete liquidation of the Bank, and only in such event, each eligible account holder and supplemental eligible account holder would receive a liquidation distribution, prior to any payment to the holder of the Bank s common stock. This distribution would be based upon each eligible account holder s and supplemental eligible account holder s proportionate share of the then total remaining qualifying deposits. At December 31, 2007, the liquidation account, which is an off-balance sheet memorandum account, amounted to $42,271,000.

Acquisition

The Company completed the acquisition and merger of First Morris with and into the Bank, as of April 1, 2007. First Morris operated nine full-service branch offices in Morris County, New Jersey. Pursuant to the terms of the Agreement and Plan of Merger, 50% of First Morris common stock was converted into the Company s common stock at an exchange rate of 2.1337 shares of the Company s common stock for each First Morris share, and 50% of First Morris common stock was converted into $39.75 in cash for each First Morris share. The aggregate consideration paid in the merger consisted of $62.0 million in cash and 3,330,276 shares of the Company s common stock, which had a value of $18.60 per share based on the Company s average closing price from October 12, 2006 to October 17, 2006, for purposes of calculating goodwill in accordance with GAAP. The cash portion of the merger consideration was funded through cash from continuing operations.

The acquisition was accounted for as a purchase and the excess cost over the fair value of net assets acquired (goodwill) in the transaction was $89.1 million. Under the provisions of SFAS No. 142, goodwill is not being amortized in connection with this transaction and the goodwill will not be deductible for income tax purposes. The Company also recorded a core deposit intangible of $8.4 million in connection with the acquisition, which is being amortized on an accelerated basis over nine years. The amortization of premiums and discounts resulting from the fair value adjustments of assets and liabilities did not have a material impact on the Company s results of operations and is not projected to have a material impact on future periods.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

The following table presents data with respect to the fair values of assets and liabilities acquired in the First Morris acquisition (in thousands):

	At April 1, 2007
Assets:	
Cash and due from banks	$ 60,662
Securities	138,249
Loans, net	332,483
FHLB-NY stock	1,043
Fixed assets	17,845
Other assets	3,922
Core deposit intangible	8,381
Goodwill	89,132
Total assets	$ 651,717
Liabilities:	
Deposits	$ 509,006
Borrowings	12,804
Other liabilities	5,927
Total liabilities	527,737
Net assets acquired	$ 123,980

The net deferred tax liability resulting from adjustments of net assets acquired, including the creation of the core deposit intangible, amounted to $282,000.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

The computation of the purchase price, the allocation of the purchase price to net assets of First Morris based on their respective values as of April 1, 2007, and the resulting amount of goodwill are presented below (dollars in thousands, except per share amounts):

Common shares outstanding of First Morris	3,121,774
Percentage exchanged for Provident common stock	50%
First Morris common shares exchanged for Provident common stock	1,560,887
Exchange ratio	2.1337
	3,330,465
Fractional shares	(189)
Provident common stock issued	3,330,276
Market price per share of Provident common stock	$ 18.5975
Total market value of Provident common stock issued	$ 61,935
Common shares outstanding of First Morris	3,121,774
Percentage exchanged for cash	50%
First Morris common shares exchanged for cash	1,560,887
Cash price per share of First Morris common stock	$ 39.75
Total cash distributed to First Morris stockholders	$ 62,045
Total purchase price of First Morris	$ 123,980
Total common stockholders equity of First Morris	38,643
Excess of purchase price over carrying value of assets acquired	85,337
Purchase accounting adjustments related to assets and liabilities acquired, net of tax :	
Securities	176
Loans	1,333
Fixed assets	3,233
Deposits	246
Borrowings	(69)
Post-acquisition transaction costs	3,833
Core deposit intangible	(4,957)
Goodwill	$ 89,132

The following table presents pro forma condensed combined financial information of the Company had the acquisition taken place on January 1, for all periods presented (dollars in thousands, except per share data):

	Year ended December 31,	
	2007	2006
Net interest income	$ 156,979	$ 178,347
Net income	38,140	57,827
Basic earnings per share	0.64	0.90
Diluted earnings per share	0.64	0.89

The pro forma combined results of operations presented in the preceding table exclude charges directly attributable to the transaction totaling $246,000, net of tax, for 2007. Transaction and acquisition costs have been determined in accordance with EITF 95-3. All expected transaction costs have been paid as of December 31, 2007.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

(3) Restrictions on Cash and Due from Banks

Included in cash on hand and due from banks at December 31, 2007 and 2006 is $11,067,000 and $4,114,000, respectively, representing reserves required by banking regulations.

(4) Investment Securities Held to Maturity

Investment securities held to maturity at December 31, 2007 and 2006 are summarized as follows (in thousands):

	2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	$ 120,254	151	(511)	119,894
State and municipal obligations	238,237	2,512	(944)	239,805
	$ 358,491	2,663	(1,455)	359,699

	2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	$ 153,628		(2,574)	151,054
State and municipal obligations	236,028	1,811	(2,513)	235,326
	$ 389,656	1,811	(5,087)	386,380

The Bank generally purchases securities for long-term investment purposes, and differences between carrying and fair values may fluctuate during the investment period. Securities having a carrying value of $71,561,000 and $2,426,000 at December 31, 2007 and 2006, respectively, were pledged to secure other borrowings and securities sold under repurchase agreements.

The amortized cost and fair value of investment securities at December 31, 2007 by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	2007	
	Amortized cost	Fair value
Due in one year or less	$ 7,386	7,412
Due after one year through five years	57,713	58,105
Due after five years through ten years	115,027	116,139
Due after ten years	58,111	58,149

Mortgage-backed securities	120,254	119,894
	$ 358,491	359,699

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

The following table represents the Company s disclosure on investment securities that are accounted for under FAS 115, Accounting for Certain Investments in Debt and Equity Securities, with temporary impairment (in thousands):

	December 31, 2007 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$		100,190	(511)	100,190	(511)
State and municipal obligations	9,176	(44)	69,557	(900)	78,733	(944)
	$ 9,176	(44)	169,747	(1,411)	178,923	(1,455)

	December 31, 2006 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$ 17,069	(124)	133,985	(2,450)	151,054	(2,574)
State and municipal obligations	49,237	(407)	75,602	(2,106)	124,839	(2,513)
	$ 66,306	(531)	209,587	(4,556)	275,893	(5,087)

Securities with unrealized loss positions listed in this disclosure do not represent impairments that are other than temporary. The temporary loss position is the result of changes in interest rates relative to the coupon of the individual security. In the opinion of management, the Bank expects to recover carrying values as management has the ability and intent to hold these investment securities until their maturity.

(5) Securities Available for Sale

Securities available for sale at December 31, 2007 and 2006 are summarized as follows (in thousands):

	2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury obligations	$ 3,980	55		4,035
Agency obligations	73,121	669		73,790
Mortgage-backed securities	646,056	2,676	(3,110)	645,622
State and municipal obligations	20,678	235	(1)	20,912
Corporate obligations	3,977	15	(8)	3,984
Equity securities	22,822	263	(1,813)	21,272

	$ 770,634	3,913	(4,932)	769,615

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

	2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury obligations	$ 10,998		(27)	10,971
FNMA obligations	49,779	12	(109)	49,682
Mortgage-backed securities	693,274	762	(12,233)	681,803
State and municipal obligations	10,917	9	(63)	10,863
Corporate obligations	11,999	1	(1)	11,999
Equity securities	25,837	864	(1,125)	25,576
	$ 802,804	1,648	(13,558)	790,894

Securities available for sale having a carrying value of $528,094,000 and $481,895,000 at December 31, 2007 and 2006, respectively, are pledged to secure other borrowings and securities sold under repurchase agreements.

The amortized cost and fair value of securities available for sale at December 31, 2007, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	2007	
	Amortized cost	Fair value
Due in one year or less	$ 48,151	48,319
Due after one year through five years	41,640	42,265
Due after five years through ten years	11,965	12,137
Mortgage-backed securities	646,056	645,622
Equity securities	22,822	21,272
	$ 770,634	769,615

Proceeds from the sale of securities available for sale during 2007 were $124,917,000, resulting in gross gains and gross losses of $131,000 and $1,115,000, respectively. Proceeds from the sale of securities available for sale during 2006 were $47,121,000, resulting in gross gains and gross losses of $2,795,000 and $1,625,000, respectively. During 2005, proceeds from the sale of securities available for sale were $34,582,000, resulting in gross gains and gross losses of $578,000 and $270,000, respectively.

During 2007, the Company recorded an other-than-temporary impairment charge of $1,003,000, related to a reduction in the market value of an investment in the common stock of a publicly traded financial institution. Prior to the charge, the impairment was considered temporary and was recorded as an unrealized loss on securities available for sale and reflected as a reduction of equity, net of tax, through accumulated other comprehensive income.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2007, 2006 and 2005

The following table represents the Company s disclosure on securities available for sale with temporary impairment (in thousands):

	December 31, 2007 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unreali