PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
May 10, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 001-31566

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 No.)**
830 Bergen Avenue, Jersey City, New Jersey	**07306-4599**
(Address of Principal Executive Offices)	**(Zip Code)**

(201) 333-1000

(Registrant s Telephone Number, Including Area Code)

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 whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding twelve months (or for such shorter period that the Registrant was required to submit and post such files). YES ¨ NO ¨

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 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 May 1, 2010 there were 83,209,293 shares issued and 60,354,409 shares outstanding of the Registrant s Common Stock, par value $0.01 per share, including 430,643 shares held by the First Savings Bank Directors Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

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PROVIDENT FINANCIAL SERVICES, INC.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

March 31, 2010 (Unaudited) and December 31, 2009

(Dollars in thousands, except share data)

	March 31, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 225,832	$ 120,823
Short-term investments	2,251	2,920
Total cash and cash equivalents	228,083	123,743
Investment securities held to maturity (market value of $343,802 (unaudited) and $344,385 at March 31, 2010 and December 31, 2009, respectively)	334,564	335,074
Securities available for sale, at fair value	1,260,147	1,333,163
Federal Home Loan Bank of New York (FHLB-NY) stock, at cost	33,356	34,276
Loans	4,326,813	4,384,194
Less allowance for loan losses	58,969	60,744
Net loans	4,267,844	4,323,450
Foreclosed assets, net	5,043	6,384
Banking premises and equipment, net	75,292	76,280
Accrued interest receivable	24,775	25,797
Intangible assets	356,971	358,058
Bank-owned life insurance (BOLI)	133,744	132,346
Other assets	76,720	87,601
Total assets	$ 6,796,539	$ 6,836,172
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 2,563,944	$ 2,522,732
Savings deposits	889,188	868,835
Certificates of deposit of $100,000 or more	441,270	469,313
Other time deposits	990,313	1,038,297
Total deposits	4,884,715	4,899,177
Mortgage escrow deposits	20,097	18,713
Borrowed funds	966,064	999,233
Other liabilities	31,452	34,494

Total liabilities	5,902,328	5,951,617
Stockholders Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued		
Common stock, $0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 59,919,246 shares outstanding at March 31, 2010 and 59,821,850 outstanding at December 31, 2009	832	832
Additional paid-in capital	1,015,396	1,014,856
Retained earnings	312,300	307,751
Accumulated other comprehensive income	11,782	7,731
Treasury stock, at cost	(385,149)	(384,973)
Unallocated common stock held by Employee Stock Ownership Plan (ESOP)	(60,950)	(61,642)
Common stock acquired by the Directors Deferred Fee Plan (DDFP)	(7,551)	(7,575)
Deferred compensation DDFP	7,551	7,575
Total stockholders equity	894,211	884,555
Total liabilities and stockholders equity	$ 6,796,539	$ 6,836,172

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Three months ended March 31, 2010 and 2009 (Unaudited)

(Dollars in thousands, except per share data)

	Three months ended March 31,	
	2010	**2009**
Interest income:		
Real estate secured loans	$ 39,714	$ 40,605
Commercial loans	10,337	10,498
Consumer loans	7,276	8,174
Investment securities	3,249	3,449
Securities available for sale and FHLB stock	11,761	10,711
Deposits, Federal funds sold and other short-term investments	70	20
Total interest income	72,407	73,457
Interest expense:		
Deposits	13,506	19,570
Borrowed funds	8,133	9,956
Total interest expense	21,639	29,526
Net interest income	50,768	43,931
Provision for loan losses	9,000	5,800
Net interest income after provision for loan losses	41,768	38,131
Non-interest income:		
Fees	5,702	5,229
BOLI	1,398	1,169
Net gain on securities transactions	817	187
Other income	92	381
Total non-interest income	8,009	6,966
Non-interest expense:		
Goodwill impairment		152,502
Compensation and employee benefits	17,539	17,477
Net occupancy expense	5,140	5,392
Data processing expense	2,284	2,356
FDIC insurance	2,099	426
Amortization of intangibles	1,103	1,594
Advertising and promotion expense	670	674
Other operating expenses	5,927	5,376

Total non-interest expense	34,762	185,797
Income (loss) before income tax expense	15,015	(140,700)
Income tax expense	3,828	2,919
Net income (loss)	$ 11,187	$ (143,619)
Basic earnings (loss) per share	$ 0.20	$ (2.56)
Average basic shares outstanding	56,457,544	56,169,573
Diluted earnings (loss) per share	$ 0.20	$ (2.56)
Average diluted shares outstanding	56,457,544	56,169,573

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders Equity for the Three Months Ended March 31, 2010 and 2009 (Unaudited)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2008	$ 832	$ 1,013,293	$ 454,444	$ (485)	$ (384,854)	$ (64,640)	$ (7,667)	$ 7,667	$ 1,018,590
Comprehensive (loss) income:									
Net loss			(143,619)						(143,619)
Other comprehensive income:									
Unrealized holding gain on securities arising during the period (net of tax of $2,145)				2,598					2,598
Reclassification adjustment for gains included in net income (net of tax of $76)				(111)					(111)
Amortization related to post- retirement obligations (net of tax of $134)				195					195
Total comprehensive loss									$ (140,937)
Cash dividends declared			(6,647)						(6,647)
Distributions from DDFP							23	(23)	
Purchases of treasury stock					(60)				(60)
Allocation of ESOP shares		(238)				688			450
Allocation of SAP shares		430							430
Allocation of stock options		191							191
Balance at March 31, 2009	$ 832	$ 1,013,676	$ 304,178	$ 2,197	$ (384,914)	$ (63,952)	$ (7,644)	$ 7,644	$ 872,017

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders Equity for the Three Months Ended March 31, 2010 and 2009 (Unaudited) (Continued)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2009	$ 832	$ 1,014,856	$ 307,751	$ 7,731	$ (384,973)	$ (61,642)	$ (7,575)	$ 7,575	$ 884,555
Comprehensive income (loss):									
Net income			11,187						11,187
Other comprehensive income:									
Unrealized holding gain on securities arising during the period (net of tax of $3,295)				4,770					4,770
Reclassification adjustment for gains included in net income (net of tax of $334)				(483)					(483)
Amortization related to post-retirement obligations (net of tax of $163)				(236)					(236)
Total comprehensive income									$ 15,238
Cash dividends declared			(6,638)						(6,638)
Distributions from DDFP		(2)					24	(24)	(2)
Purchases of treasury stock					(176)				(176)
Allocation of ESOP shares		(239)				692			453
Allocation of SAP shares		576							576
Allocation of stock options		205							205
	$ 832	$ 1,015,396	$ 312,300	$ 11,782	$ (385,149)	$ (60,950)	$ (7,551)	$ 7,551	$ 894,211

Balance at
March 31, 2010

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Three months ended March 31, 2010 and 2009 (Unaudited)

(Dollars in thousands)

	Three months ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 11,187	$ (143,619)
Adjustments to reconcile net income to net cash provided by operating activities:		
Goodwill impairment		152,502
Depreciation and amortization of intangibles	2,859	3,417
Provision for loan losses	9,000	5,800
Deferred tax expense	683	297
Increase in cash surrender value of BOLI	(1,398)	(1,169)
Net amortization of premiums and discounts on securities	1,904	130
Accretion of net deferred loan fees	(593)	(592)
Amortization of premiums on purchased loans, net	521	781
Net increase in loans originated for sale	(1,623)	(26,359)
Proceeds from sales of loans originated for sale	1,650	26,562
Proceeds from sales of foreclosed assets, net	1,313	910
Allocation of ESOP shares	453	450
Allocation of SAP shares	576	430
Allocation of stock options	205	191
Net gain on sale of loans	(27)	(203)
Net gain on sale of securities available for sale	(817)	(187)
Net loss (gain) on sale of premises and equipment	3	(16)
Net gain on sale of foreclosed assets	(5)	(35)
Decrease in accrued interest receivable	1,022	295
(Increase) decrease in other assets	(2,283)	2,699
(Decrease) increase in other liabilities	(3,042)	1,968
Net cash provided by operating activities	21,588	24,252
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities held to maturity	9,686	12,831
Purchases of investment securities held to maturity	(9,286)	(1,100)
Proceeds from sales of securities available for sale	18,927	12,531
Proceeds from maturities and paydowns of securities available for sale	91,049	43,197
Purchases of securities available for sale	(30,687)	(31,256)
Purchases of loans	(23,292)	(12,855)
Net decrease in loans	80,187	77,046
Proceeds from sales of premises and equipment	768	148
Purchases of premises and equipment, net	(1,539)	(2,098)
Net cash provided by investing activities	135,813	98,444
Cash flows from financing activities:		
Net (decrease) increase in deposits	(14,462)	290,540
Increase (decrease) in mortgage escrow deposits	1,384	(5,835)

Purchase of treasury stock		(176)		(60)
Cash dividends paid to stockholders		(6,638)		(6,647)
Proceeds from long-term borrowings		25,000		55,000
Payments on long-term borrowings		(70,702)		(49,494)
Net increase (decrease) in short-term borrowings		12,533		(170,424)
Net cash (used in) provided by financing activities		(53,061)		113,080
Net increase in cash and cash equivalents		104,340		235,776
Cash and cash equivalents at beginning of period		123,743		68,546
Cash and cash equivalents at end of period	$	228,083	$	304,322
Cash paid during the period for:				
Interest on deposits and borrowings	$	22,154	$	29,624
Income taxes	$		$	
Non cash investing activities:				
Transfer of loans receivable to foreclosed assets	$	557	$	2,147
Loan securitizations	$		$	84,855

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly-owned subsidiary, The Provident Bank (the Bank, together with Provident Financial Services, Inc., the Company).

In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the period. Actual results could differ from these estimates. The allowance for loan losses is a material estimate that is particularly susceptible to near-term change. The current economic environment has increased the degree of uncertainty inherent in this material estimate.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results of operations that may be expected for all of 2010.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission.

FDIC insurance expense was reclassified from other operating expenses for 2009, to conform to current year presentation.

These unaudited consolidated financial statements should be read in conjunction with the December 31, 2009 Annual Report to Stockholders on Form 10-K.

B. Earnings (Loss) Per Share

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

	For the three months ended March 31,					
	2010			2009		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net (Loss)	Weighted Average Common Shares Outstanding	Per Share Amount
Net income (loss)	$ 11,187			$ (143,619)		
Basic earnings per share:						
Income (loss) available to common stockholders	$ 11,187	56,457,544	$ 0.20	$ (143,619)	56,169,573	$ (2.56)
Diluted earnings per share:						
Income (loss) available to common stockholders	$ 11,187	56,457,544	$ 0.20	$ (143,619)	56,169,573	$ (2.56)

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Anti-dilutive stock options and awards totaling 4,345,703 shares at March 31, 2010, were excluded from the earnings per share calculations.

Note 2. Loans and Allowance for Loan Losses

Loans receivable at March 31, 2010 and December 31, 2009 are summarized as follows (in thousands):

	March 31, 2010	December 31, 2009
Mortgage loans:		
Residential	$ 1,466,353	$ 1,491,358
Commercial	1,096,784	1,089,937
Multi-family	265,689	227,663
Construction	180,280	195,889
Total mortgage loans	3,009,106	3,004,847
Commercial loans	733,439	785,818
Consumer loans	577,232	586,459
Total other loans	1,310,671	1,372,277
Premiums on purchased loans	7,677	8,012
Unearned discounts	(226)	(266)
Net deferred (fees) costs	(415)	(676)
	$ 4,326,813	$ 4,384,194

The activity in the allowance for loan losses for the three months ended March 31, 2010 and 2009 is summarized as follows (in thousands):

	Three months ended March 31, 2010	2009
Balance at beginning of period	$ 60,744	$ 47,712
Provision charged to operations	9,000	5,800
Recoveries of loans previously charged off	233	480
Loans charged off	(11,008)	(1,642)
Balance at end of period	$ 58,969	$ 52,350

At March 31, 2010, the Company identified $35.5 million of loans as impaired, compared with $41.1 million of impaired loans at December 31, 2009. The Company maintained an allowance for loan losses totaling $5.9 million related to $16.1 million of impaired loans at March 31, 2010. In addition, at March 31, 2010, the Company identified three collateral dependent loan relationships with loans outstanding totaling $19.4 million for which no allowance for loan losses was required based on adequate collateral coverage in accordance with GAAP. The Company maintained an allowance for loan losses on impaired loans of $12.5 million at December 31, 2009. At March 31, 2010, $33.1 million of impaired loans were deemed collateral dependent and the related allowance for loan losses was determined based on estimates of the fair value of the collateral, giving consideration to recent appraised values and valuation estimates. Impaired loans also included $560,000 in commercial loans for which terms were modified under troubled debt restructurings that were accruing interest at March 31, 2010. Specific reserves of $39,000 are maintained in relation to these loans based on an evaluation of the net present value of projected future cash flows.

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Note 3. Deposits

Deposits at March 31, 2010 and December 31, 2009 are summarized as follows (in thousands):

	March 31, 2010	December 31, 2009
Savings	$ 889,188	$ 868,835
Money market	1,178,217	1,185,571
NOW	862,835	822,609
Non-interest bearing	522,892	514,552
Certificates of deposit	1,431,583	1,507,610
	$ 4,884,715	$ 4,899,177

Note 4. Components of Net Periodic Benefit Cost

The Bank has a noncontributory defined benefit pension plan (the Plan) covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The Plan was frozen on April 1, 2003. All participants in the Plan are 100% vested. The Plan s assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial.

In addition to pension benefits, certain health care and life insurance benefits are currently made available to certain of the Bank s retired employees. 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. Effective January 1, 2003, eligibility for retiree health care benefits was frozen to new entrants and benefits were eliminated for employees with less than ten years of service as of December 31, 2002. Effective January 1, 2007, eligibility for retiree life insurance benefits was frozen to new entrants and retiree life insurance benefits were eliminated for employees with less than ten years of service as of December 31, 2006.

Net periodic benefit costs for the three months ended March 31, 2010 and 2009 include the following components (in thousands):

	Pension		Other post-retirement	
	Three months ended March 31,			
	2010	2009	2010	2009
Service cost	$		$ 40	48
Interest cost	284	272	240	262
Expected return on plan assets	(432)	(262)		
Amortization of prior service cost			(1)	(1)
Amortization of the net loss (gain)	119	179	(181)	(149)
Net periodic benefit (increase) cost	$ (29)	189	$ 98	160

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2009, that it does not expect to contribute to the Plan in 2010. As of March 31, 2010, no contributions to the Plan have been made.

The net periodic benefit (increase) costs for pension benefits and other post-retirement benefits for the three months ended March 31, 2010 were calculated using the estimated results of the January 1, 2010 valuations.

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Note 5. Impact of Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance that will require more robust disclosures about: the different classes of assets and liabilities measured at fair value; the valuation techniques and inputs used; the activity in Level 3 fair value measurements; and the transfers between Levels 1, 2, and 3. The disclosure requirements relating to Level 3 measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. All other requirements of this guidance are effective in interim and annual periods beginning after December 31, 2009. The adoption of the required components of this guidance did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In June 2009, the FASB issued a standard that requires reporting entities to evaluate former qualifying special purpose entities for consolidation, changes the approach to determining a variable interest entity s (VIE) primary beneficiary, increases the frequency of required assessments to determine whether a company is the primary beneficiary of a VIE, clarifies the characteristics that identify a VIE, and requires additional annual and interim disclosures. This standard is effective for fiscal years beginning after November 15, 2009. The adoption of this standard did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In June 2009, the FASB issued a standard that eliminates the concept of a qualifying special purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria, revises how retained interests are initially measured, removes the guaranteed mortgage securitization recharacterization provisions, and requires additional annual and interim disclosures. This standard is effective for fiscal years beginning after November 15, 2009. The adoption of this standard did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

Note 6. Fair Value Measurement of Assets and Liabilities

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair values as of March 31, 2010 and December 31, 2009 by level within the fair value hierarchy.

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(Dollars in thousands)	March 31, 2010	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Securities available for sale	$ 1,260,147	$ 202,797	$ 1,057,350	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$ 8,764			$ 8,764
Foreclosed assets	5,043			5,043

(Dollars in thousands)	December 31, 2009	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Securities available for sale	$ 1,333,163	$ 225,851	$ 1,107,312	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$ 28,309			$ 28,309
Foreclosed assets	6,384			6,384
Goodwill	346,290			346,290

The following valuation techniques are based upon the unpaid principal balance only, and exclude any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

The valuation techniques described below were used to measure fair value of financial instruments in the preceding table on a recurring basis during the three months ended March 31, 2010, and year ended December 31, 2009.

For securities available for sale, fair value was estimated using a market approach. The majority of the Company s securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. The Company also may hold equity securities and debt instruments issued by the U.S. government and U.S. government agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

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The valuation techniques described below were used to measure fair value of financial instruments in the preceding table on a non-recurring basis during the three months ended March 31, 2010, and year ended December 31, 2009.

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments to comparable assets based on the appraisers market knowledge and experience, and are considered Level 3 inputs.

Assets acquired through foreclosure or deed in lieu of foreclosure included in the preceding table are carried at fair value, less estimated costs to sell. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments to comparable assets based on the appraisers market knowledge and experience, and are considered Level 3 inputs. 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.

The fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies. Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other factors. Estimated cash flows may extend far into the future and by their nature are difficult to determine over an extended time frame. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates. The Company recognized a goodwill impairment charge of $152.5 million during the three months ended March 31, 2009.

There were no changes to the valuation techniques for fair value measurement during the three months ended March 31, 2010 and the twelve months ended December 31, 2009.

Note 7. Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for the Company s financial instruments.

Cash and Cash Equivalents

For cash and due from banks, federal funds sold and short-term investments, the carrying amount approximates fair value.

Investment Securities and Securities Available for Sale

The fair value of investment securities and securities available for sale is estimated using a market approach. The majority of the Company s securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. The Company also holds debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices.

FHLB-NY Stock

The carrying value of FHLB-NY stock is its cost. The fair value of FHLB-NY stock is based on redemption at par value.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, residential mortgage, commercial, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories.

The fair value of performing loans is estimated using a combination of techniques, including discounting estimated future cash flows and quoted market prices of similar instruments, where available.

The fair value for significant non-performing loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits and savings deposits, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with similar remaining maturities.

Borrowed Funds

The fair value of borrowed funds is estimated by discounting future cash flows using rates available for debt with similar terms and maturities.

Commitments to Extend Credit and Letters of Credit

The fair value of commitments to extend credit and letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value estimates of commitments to extend credit and standby letters of credit are deemed immaterial.

The estimated fair values of the Company s financial instruments as of March 31, 2010 and December 31, 2009 are presented in the following table (in thousands):

	March 31, 2010		**December 31, 2009**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Cash and cash equivalents	$ 228,083	228,083	123,743	123,743
Securities available for sale	1,260,147	1,260,147	1,333,163	1,333,163
Investment securities held to maturity	334,564	343,802	335,074	344,385
FHLB-NY stock	33,356	33,356	34,276	34,276
Loans, net	4,267,844	4,374,901	4,323,450	4,424,286
Financial liabilities:				
Deposits	4,884,715	4,897,228	4,899,177	4,913,650
Borrowed funds	966,064	982,268	999,233	1,020,245

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could

result from offering for sale at one time the Company s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Significant assets and liabilities that are not considered financial assets or liabilities include goodwill and other intangibles, deferred tax assets and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Note 8. Investment Securities

At March 31, 2010, the Company had $1.26 billion and $334.6 million in available for sale and held to maturity investment securities, respectively. Many factors, including lack of liquidity in the secondary market for certain securities, lack of reliable pricing information, regulatory actions, changes in the business environment or any changes in the competitive marketplace could have an adverse effect on the Company s investment portfolio which could result in other-than-temporary impairment on certain investment securities in future periods. Included in the Company s investment portfolio are private label mortgage-backed securities. These investments may pose a higher risk of future impairment charges as a result of the current economic downturn and the potential negative effect on future performance of these private label mortgage-backed securities. The total number of all held to maturity and available for sale securities in an unrealized loss position as of March 31, 2010 totaled 68, compared with 85 at December 31, 2009. This included 14 private label mortgage-backed securities at March 31, 2010, with an amortized cost of $73.3 million and unrealized losses totaling $7.1 million. Of these private label mortgage-backed securities, 10 securities were investment grade and 4 securities were below investment grade at March 31, 2010. Of the investment grade securities, 8 were rated AAA. At March 31, 2010, the non-investment grade securities were analyzed for impairment and were not considered to be other-than-temporarily impaired.

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Investment Securities Held to Maturity

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for investment securities held to maturity at March 31, 2010 and December 31, 2009 (in thousands):

	March 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 2,250	1	(4)	2,247
Mortgage-backed securities	58,654	2,038	(95)	60,597
State and municipal obligations	264,275	7,428	(359)	271,344
Corporate obligations	9,385	229		9,614
	$ 334,564	9,696	(458)	343,802

	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 1,000		(8)	992
Mortgage-backed securities	64,197	1,801	(445)	65,553
State and municipal obligations	260,455	8,037	(206)	268,286
Corporate obligations	9,422	146	(14)	9,554
	$ 335,074	9,984	(673)	344,385

The Bank generally purchases securities for long-term investment purposes, and differences between amortized cost and fair values may fluctuate during the investment period.

The amortized cost and fair value of investment securities at March 31, 2010 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.

	March 31, 2010	
	Amortized cost	Fair value
Due in one year or less	$ 13,325	13,426
Due after one year through five years	94,088	97,783
Due after five years through ten years	102,820	105,972
Due after ten years	65,677	66,024
Mortgage-backed securities	58,654	60,597
	$ 334,564	343,802

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The following table represents the Company s disclosure on investment securities with temporary impairment at March 31, 2010 and December 31, 2009 (in thousands):

	March 31, 2010 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
Agency obligations	$ 1,746	(4)			1,746	(4)
Mortgage-backed securities			3,402	(95)	3,402	(95)
State and municipal obligations	28,889	(359)			28,889	(359)
	$ 30,635	(363)	3,402	(95)	34,037	(458)

	December 31, 2009 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
Agency obligations	$ 992	(8)			992	(8)
Mortgage-backed securities			9,082	(445)	9,082	(445)
State and municipal obligations	18,138	(206)			18,138	(206)
Corporate obligations	2,246	(14)			2,246	(14)
	$ 21,376	(228)	9,082	(445)	30,458	(673)

Based on its detailed review of the securities portfolio, the Company believes that as of March 31, 2010, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The review of the portfolio for other-than-temporary impairment considers the percentage and length of time the market value of an investment is below book value, as well as general market conditions, changes in interest rates, credit risk and whether the Company has the intent to sell the securities and whether it is not more likely than not that the Company would be required to sell the securities before the anticipated recovery.

Securities Available for Sale

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for securities available for sale at March 31, 2010 and December 31, 2009 (in thousands):

	March 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 201,309	1,489		202,798
Mortgage-backed securities	1,019,426	24,443	(8,650)	1,035,219
State and municipal obligations	11,623	529	(44)	12,108
Corporate obligations	9,561	469	(8)	10,022
	$ 1,241,919	26,930	(8,702)	1,260,147

December 31, 2009

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 223,951	1,901		225,851
Mortgage-backed securities	1,076,467	19,911	(11,698)	1,084,680
State and municipal obligations	12,199	575	(73)	12,701
Corporate obligations	9,567	437	(74)	9,931
	$ 1,322,184	22,824	(11,845)	1,333,163

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The amortized cost and fair value of securities available for sale at March 31, 2010, 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.

	March 31, 2010	
	Amortized cost	Fair value
Due in one year or less	$ 168,157	169,019
Due after one year through five years	48,721	50,097
Due after five years through ten years	5,615	5,812
Mortgage-backed securities	1,019,426	1,035,219
	$ 1,241,919	1,260,147

Proceeds from the sale of securities available for sale for the three months ended March 31, 2010 were $18,927,000, resulting in gross gains of $817,000 with no gross losses. Proceeds from the sale of securities available for sale for the three months ended March 31, 2009 were $12,531,000, resulting in gross gains of $187,000 with no gross losses.

The following table represents the Company s disclosure regarding securities available for sale with temporary impairment at March 31, 2010 and December 31, 2009 (in thousands):

	March 31, 2010 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	$ 99,884	(1,780)	50,677	(6,870)	150,561	(8,650)
State and municipal obligations	749	(5)	1,073	(39)	1,822	(44)
Corporate obligations			488	(8)	488	(8)
	$ 100,633	(1,785)	52,238	(6,917)	152,871	(8,702)

	December 31, 2009 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	$ 272,909	(2,939)	55,226	(8,759)	328,135	(11,698)
State and municipal obligations	737	(17)	1,056	(56)	1,793	(73)
Corporate obligations			922	(74)	922	(74)
	$ 273,646	(2,956)	57,204	(8,889)	330,850	(11,845)

The temporary loss position associated with debt securities is the result of changes in interest rates relative to the coupon of the individual security and changes in credit spreads. In addition, the ongoing turmoil in the credit markets has resulted in a lack of liquidity in the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company does not have the intent to sell securities in a temporary loss position at March 31, 2010, and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The Company estimates loss projections for each security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and

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prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the three months ended March 31, 2010. Based on the results of this analysis, it was determined that there was no other-than-temporary impairment at March 31, 2010. Cumulative other-than-temporary impairment previously recognized and included as a component of accumulated other comprehensive income at March 31, 2010 totaled $9.0 million.

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

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 term 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 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 cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company also advises 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.

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 for 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 an analysis that 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 of acceptable quality are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans deemed to be of questionable quality are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial and construction loans are rated individually and each lending officer is responsible for risk rating loans in their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and the Credit Administration Department. Risk ratings are then confirmed by the Loan Review Department. Loans requiring Credit Committee approval are periodically reviewed by the Credit Committee in the credit renewal or approval process.

Management assigns general valuation allowance (GVA) percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type. The appropriateness of these percentages is evaluated by management at least annually. In the second quarter of 2009, management completed its most recent evaluation of the GVA percentages. In that evaluation, the historical look-back period for assessing the magnitude of potential losses was shortened from five years to two years in recognition of recent macroeconomic and real estate market conditions, resulting in increases to certain GVA allocation percentages.

Management believes the primary risks inherent in the portfolio are a continued decline in the economy, generally, a continued decline in real estate market values, and possible increases in interest rates. 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 its 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 appropriate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Management evaluates its estimates and assumptions on an ongoing basis giving consideration to historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets, volatile securities markets, and declines in the housing and commercial real estate markets and the economy generally have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. In addition, various regulatory agencies periodically review the adequacy of 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. Goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. The Company engages an independent third party to perform an annual goodwill impairment analysis as of September 30, or more frequently if necessary, to test the aggregate balance of goodwill for impairment. The fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies. Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other factors.

Estimated cash flows may extend far into the future and by their nature are difficult to determine over an extended time frame. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates.

The goodwill impairment analysis is a two-step process to evaluate the potential impairment of the goodwill on the financial statements of the Bank. For this analysis, the Reporting Unit is defined as the Bank, which includes all core and retail banking operations of the Company but excludes the assets, liabilities, equity, earnings and operations held exclusively at the Company level. Four standard valuation methodologies common to valuation in business combination transactions involving financial institutions were used: (1) the Public Market Peers approach based on the trading prices of similar publicly traded companies as measured by standard valuation ratios; (2) the Comparable Transactions approach based on pricing ratios recently paid in the sale or merger of comparable banking franchises; (3) the Control Premium approach based on the Company s trading price (a proxy for the Bank s market pricing ratios were it publicly traded) followed by the application of an industry based control premium; and (4) the Discounted Cash Flow (DCF) approach where value is estimated based on the present value of projected dividends and a terminal value. These valuation techniques take into account the Bank s recent operating history, current operating environment and future prospects.

The Public Market Peers approach and the Comparable Transactions approach are based on Level 2 inputs. The Control Premium approach is based on a combination of Level 1 inputs (the quoted price for the Company s common stock) and Level 2 inputs (an estimated control premium based on comparable transactions). The DCF approach is based on Level 3 inputs including projections of future operations based on assumptions derived from management, the experience of the independent valuation firm that conducted the analysis and information from publicly available sources. All approaches were considered in the final estimate of fair value, with the approaches weighted based upon their applicability based upon the fair value hierarchy. These approaches and the resulting fair value conclusions are consistent with standard valuation techniques used by other market participants in evaluating business combinations for financial institutions.

Significant assumptions made in the estimation of the fair value of the Reporting Unit using the Public Market Peers, Comparable Transactions, and Control Premium approaches included the comparability of the selected regional and national peers, subjective adjustments for variations in franchise value and credit risk versus peers, and adjustments for projected market trends. In addition, assumptions were made in the use of the DCF approach regarding projections of future free cash flow resulting from asset growth, profitability, dividend payouts, and non-cash expenses. All of these assumptions may be affected by a number of factors, including, but not limited to, changes in interest rates, regulation and legislation, and competition. For purposes of the most recent impairment evaluation performed as of September 30, 2009, it was assumed that external factors would remain consistent with the then current environment.

If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an additional test must be performed. The second step test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

As reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, the Company determined that the carrying amount of the goodwill exceeded its implied fair value and an impairment charge in the amount of $152.5 million was recognized as of March 31, 2009. The annual goodwill impairment test as of September 30, 2009 was completed in the fourth quarter of 2009, with no further impairment indicated based on the step one analysis. The step one analysis at September 30, 2009 indicated that the fair value of the reporting unit exceeded the carrying value of the reporting unit by 3.6%. At September 30, 2009, the carrying value of goodwill was $346.3 million. Management has evaluated potential goodwill impairment triggering events and determined that interim analyses subsequent to the September 30, 2009 annual impairment analysis have not been required.

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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 or loss in stockholders equity. Estimated fair values are based on market quotations or matrix pricing as discussed in Note 6 to the unaudited consolidated financial statements. 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 measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period operations. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. 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. The ongoing turmoil in the credit markets has resulted in a lack of liquidity in the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company evaluates if it has the intent to sell these securities and if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. No securities impairment loss was required to be recognized for the three months ended March 31, 2010 or 2009.

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 allowance 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.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2010 AND DECEMBER 31, 2009

Total assets at March 31, 2010 decreased $39.6 million, or 0.6%, to $6.80 billion, compared to $6.84 billion at December 31, 2009, primarily as a result of decreases in securities available for sale, loans, and other assets, partially offset by an increase in cash and cash equivalents. Cash and cash equivalents increased $104.3 million to $228.1 million at March 31, 2010, from $123.7 million at December 31, 2009. These cash balances will be deployed to fund loan originations, investment purchases and the repayment of maturing borrowings.

Securities available for sale, at fair value, decreased $73.0 million, or 5.5%, to $1.26 billion at March 31, 2009, compared to $1.33 billion at December 31, 2009. The decrease in securities available for sale was primarily due to principal repayments on mortgage-backed securities, maturities and sales. The Company sold $18.1 million of Agency-guaranteed mortgage-backed securities as part of its interest rate risk management process during the first quarter of 2010, resulting in net gains of $817,000. The weighted average life of the Company s securities available for sale was 3.2 years at March 31, 2010.

Total net loans at March 31, 2010, decreased $55.6 million, or 1.3%, to $4.27 billion, from $4.32 billion at December 31, 2009. Loan originations totaled $249.5 million and loan purchases totaled $23.3 million for the three months ended March 31, 2010. The loan portfolio had net increases of $44.9 million in commercial and multi-family mortgage loans, which were more than offset by decreases of $52.4 million in commercial loans, $25.0 million in residential mortgage loans, $15.6 million in construction loans, and $9.2 million in consumer loans. The decrease in commercial loans includes the repayment of a low-yielding $25.0 million LIBOR-based line of credit and reductions in Shared National Credits (SNC), consistent with the Company s strategy to decrease SNC balances. The decreases in residential mortgage and consumer loans reflect a lack of qualified loan demand, and the decrease in construction loans is representative of the slow real estate market. Commercial real estate, construction and commercial loans represented 52.7% of the loan portfolio at

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March 31, 2010, compared to 52.5% at December 31, 2009. The Company intends to continue to focus on the origination of commercial loans. Retail loans, which consist of residential mortgage loans and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $2.04 billion and accounted for 47.3% of the loan portfolio at March 31, 2010, compared to $2.08 billion, or 47.5% of the portfolio at December 31, 2009.

The Company does not originate or purchase sub-prime or option ARM loans. On a limited basis, the Company has originated Alt-A mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50%. The balance of these Alt-A loans at March 31, 2010 was $16.7 million. Of this total, 8 loans totaling $3.0 million were 90 days or more delinquent. General valuation reserves of 10%, or $296,000, were allocated to these loans at March 31, 2010.

The Company participates in loans originated by other banks, including participations designated as SNCs. The Company s gross commitments and outstanding balances as a participant in SNCs were $132.6 million and $90.2 million, respectively, at March 31, 2010. The Company s participations in SNCs included three loans classified as substandard (rated 7) under the Company s loan risk rating system with gross commitments of $28.9 million and outstanding balances of $28.6 million, respectively, at March 31, 2010. These adversely classified SNCs are all commercial construction loans relating to projects located in New York City. All of the Company s SNC participations were current as to the payment of principal and interest as of March 31, 2010.

The Company had outstanding junior lien mortgages totaling $308.5 million at March 31, 2010. Of this total, 40 loans totaling $2.9 million were 90 days or more delinquent. General valuation reserves of 10%, or $290,000, were allocated to these loans at March 31, 2010.

The Company had outstanding indirect marine loans totaling $82.3 million at March 31, 2010. Of this total, 17 loans totaling $2.2 million were 90 days or more delinquent. General valuation reserves of 20%, or $433,000, were allocated to these loans at March 31, 2010. The Bank curtailed its marine lending in 2008 and 2009, and marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The following table sets forth information regarding the Company s non-performing assets as of March 31, 2010 and December 31, 2009 (in thousands):

March 31, 2010