PROVIDENT FINANCIAL SERVICES INC
Form 10-K
March 01, 2011
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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, 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 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)**
239 Washington Street, Jersey City, New Jersey	**07302**
(Address of Principal Executive Offices)	**(Zip Code)**

(732) 590-9200

(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 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 12 months (or for such shorter period that the registrant was required to submit and post such files).   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 1, 2011, there were 83,209,293 issued and 60,349,068 shares of the Registrant s Common Stock outstanding, including 426,683 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, 2010, as quoted by the NYSE, was approximately $676.0 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1)   Proxy Statement for the 2011 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 terr 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 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.

PART I

Item 1. Business

Provident Financial Services, Inc.

The Company is a Delaware corporation which became the holding company for The Provident Bank (the Bank) on January 15, 2003, 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.

At December 31, 2010, the Company had total assets of $6.82 billion, net loans of $4.34 billion, total deposits of $4.88 billion, and total stockholders equity of $921.7 million. The Company s mailing address is 239 Washington Street, Jersey City, New Jersey 07302, and the Company s telephone number is (732) 590-9200.

Capital Management. The Company paid cash dividends totaling $25.0 million and repurchased 17,700 shares of its common stock at a cost of $193,000 in 2010. The Company has curtailed common stock repurchase activity since 2009 to preserve capital in response to the difficult economic environment. The Company and the Bank were well capitalized at December 31, 2010 under current regulatory standards.

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 NE, Room 1580, 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.

The Provident Bank

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 currently operating 81 full-service branch offices in the New Jersey counties of Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, 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 and businesses primarily 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 originating 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 one- to four- family residential mortgage loans.

Asset Quality. As of December 31, 2010, non-performing assets were $100.1 million or 1.47% of total assets, compared to $90.9 million or 1.33% of total assets at December 31, 2009. While the Bank s non-performing asset levels have been adversely impacted by the troubled 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 $3.60 billion at December 31, 2010, representing 73.8% of total deposits, compared with $3.39 billion, or 69.2% of total deposits at December 31, 2009. The Bank also focuses on increasing the number of households and businesses served and the number of bank products per customer.

Non-Interest Income. The Bank s focus on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. Fees derived from core deposit accounts are a primary source of non-interest income. The Bank also offers investment products and wealth and asset management services to generate non-interest income. Total non-interest income was $31.6 million for the year ended December 31, 2010, compared with $31.5 million for the year ended December 31, 2009, and fee income was $23.7 million for the year ended December 31, 2010, compared with $24.2 million for the year ended December 31, 2009.

Managing Interest Rate Risk. The Bank manages its exposure to interest rate risk through 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, 2010, 43.1% 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, 2010, the Bank s securities portfolio totaled $1.72 billion and had an average expected life of 3.42 years.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2010, the Bank operated a network of 81 full-service banking offices throughout eleven counties in northern and central New Jersey, comprised of 14 offices in Hudson County, 3 in Bergen, 7 in Essex, 1 in Mercer, 24 in Middlesex, 10 in Monmouth, 10 in Morris, 4 in Ocean, 1 in Passaic, 4 in Somerset and 3 in Union Counties. The Bank also maintains a Wealth Management office in Madison, New Jersey, The

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Provident Loan Center in Woodbridge, New Jersey, and satellite Loan Production offices in Convent Station and Princeton, 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 eleven-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 data for 2010, the Bank s eleven-county market area has a population of 6.6 million, which was 74.3% of the state s total population. Because of the diversity of industries in the Bank s market area and, to a lesser extent, 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 during 2010 witnessed a decrease in the unemployment rate to 9.1% at December 31, 2010, compared to a rate of 10.1% at December 31, 2009.

Within its eleven-county market area, the Bank had an approximate 2.46% share of bank deposits as of June 30, 2010, the latest date for which statistics are available, and an approximate 2.05% 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 and other loan origination firms operating in its 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

The Bank originates commercial real estate loans, commercial business loans, fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate and other consumer loans, generally located within its primary market area.

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 apartment buildings, office buildings, and retail and industrial properties. Generally, these loans have terms of either 5 or 10 years.

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The Bank historically provided construction loans for both single family and condominium projects intended for sale and projects that will be retained as investments by the borrower. During 2009 and 2010, the Bank significantly reduced construction loan originations due to adverse market conditions. 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 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 secured by a first or second mortgage lien on the borrower s residence comprise the largest category of the Bank s consumer loan portfolio. The Bank s consumer loan portfolio also includes marine loans made on an indirect basis that are secured by a first lien on recreational boats. The marine loans were generated via boat dealers located on the East Coast of the United States. The Bank curtailed its indirect marine lending in 2009 and discontinued indirect marine lending in 2010. Marine loans are currently made on a direct, limited accommodation basis to existing customers.

Commercial loans are loans to businesses of varying size and type within the Bank s market. 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 a limited basis, 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,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential mortgage loans	$ 1,386,326	31.93%	$ 1,491,358	34.49%	$ 1,793,123	40.03%	$ 1,705,747	40.08%	$ 1,623,374	43.28%
Commercial mortgage loans	1,180,147	27.19	1,089,937	25.21	923,044	20.60	847,907	19.93	701,519	18.70
Multi-family mortgage loans	387,189	8.92	227,663	5.27	189,462	4.23	67,546	1.59	69,356	1.85
Construction loans	125,192	2.88	195,889	4.53	233,727	5.22	309,569	7.27	282,898	7.54
Total mortgage loans	3,078,854	70.92	3,004,847	69.50	3,139,356	70.08	2,930,769	68.87	2,677,147	71.37
Commercial loans	755,487	17.40	785,818	18.18	753,173	16.81	712,062	16.73	508,785	13.43
Consumer loans	569,597	13.12	586,459	13.56	624,282	13.94	644,134	15.14	592,948	15.80
Total other loans	1,325,084	30.52	1,372,277	31.74	1,377,455	30.75	1,356,196	31.87	1,096,734	29.23
Premiums on purchased loans	6,771	0.16	8,012	0.19	10,980	0.24	9,793	0.23	11,285	0.30
Unearned discounts	(104)	(0.00)	(266)	(0.01)	(492)	(0.01)	(661)	(0.02)	(875)	(0.02)
Net deferred costs (fees)	(792)	(0.02)	(676)	(0.02)	(551)	0.01	194	0.00	(627)	(0.02)
Allowance for loan losses	(68,722)	(1.58)	(60,744)	(1.40)	(47,712)	(1.07)	(40,782)	(0.95)	(32,434)	(0.86)
Total loans, net	$ 4,341,091	100.00%	$ 4,323,450	100.00%	$ 4,479,036	100.00%	$ 4,255,509	100.00%	$ 3,751,230	100.00%

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Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2010, 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 (In thousands)	Ten Through Twenty Years	Beyond Twenty Years	Total
Residential mortgage loans	$ 1,989	$ 9,520	$ 9,829	$ 216,211	$ 327,563	$ 821,214	$ 1,386,326
Commercial mortgage loans	112,524	192,440	186,315	574,485	113,743	640	1,180,147
Multi-family mortgage loans	5,258	29,812	34,513	241,346	75,941	319	387,189
Construction loans	90,798	29,631	2,200	2,563			125,192
Total mortgage loans	210,569	261,403	232,857	1,034,605	517,247	822,173	3,078,854
Commercial loans	166,588	118,233	102,123	274,829	64,214	29,500	755,487
Consumer loans	80,975	9,895	19,445	95,161	247,975	116,146	569,597
Total loans	$ 458,132	$ 389,531	$ 354,425	$ 1,404,595	$ 829,436	$ 967,819	$ 4,403,938

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2010, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2011. Adjustable-rate loans are included based on contractual maturities.

	Due After December 31, 2011		
	Fixed	Adjustable (In thousands)	Total
Residential mortgage loans	$ 853,643	$ 530,694	$ 1,384,337
Commercial mortgage loans	736,694	330,929	1,067,623
Multi-family mortgage loans	261,869	120,062	381,931
Construction loans	6,909	27,485	34,394
Total mortgage loans	1,895,115	1,009,170	2,868,285
Commercial loans	294,629	294,270	588,899
Consumer loans	353,684	134,938	488,622
Total loans	$ 2,507,428	$ 1,438,378	$ 3,945,806

Residential Mortgage Lending. The Bank originates residential mortgage loans secured by first mortgages on one- to four-family residences, generally located 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. As of December 31, 2010, $1.39 billion or 31.9% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 61.7% were fixed-rate and 38.3% were adjustable-rate loans.

The Bank originates fixed-rate fully amortizing residential mortgage loans with the principal and interest due each month, that typically 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. The Bank has offered adjustable-rate mortgage loans with a fixed-rate period of 1, 3, 5, 7 or 10 years prior to the first annual interest rate adjustment. In October 2009, the Bank discontinued the origination of one- and three-year adjustable rate mortgage loans. 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.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated on a limited basis 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 December 31, 2010 was $14.7 million.

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 95% of the value of the residence. Generally all fixed-rate loans with terms of 20 years 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 residential mortgage 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 2010, $18.1 million, or 11.9% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2010 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. 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 risk associated with holding 20- and 30-year fixed-rate loans in its loan portfolio.

For many years, the Bank has offered discounted rates on residential mortgage loans to low- to moderate-income individuals. Loans originated in this category over the last five years have totaled $133.4 million. The Bank also offers a special rate program for first-time homebuyers under which originations have totaled over $18.6 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, multi-family apartment buildings and retail and industrial properties. Commercial real estate loans were 36.1% of the loan portfolio at December 31, 2010. 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 may adjust after the initial period. Typically these loans are written for maturities of ten years or less and generally 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 1.20 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 deemed 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 1.20 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, 2010 was a $27.9 million loan secured by a first mortgage lien on a mixed-use project located in Jersey City, New Jersey, which consists of retail and residential space, along with a 950 space parking garage. The loan has a risk rating of 4 , (loans rated 1-4 are deemed to be acceptable quality see discussion of the Bank s 9-point risk rating system for loans under Allowance for Loan Losses in the Asset Quality section) and was performing in accordance with its terms and conditions as of December 31, 2010.

Multi-family Lending. The Bank underwrites loans secured by apartment buildings that have five or more units. The Bank considers multi-family lending 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, except the loan-to-value ratio shall not exceed 80% of the appraised value of the property and the debt-service coverage should be a minimum of 1.15 times.

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 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.

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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 negatively affect 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 for competing projects. The Bank also obtains 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 maintains 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, 2010 was a $15.4 million loan secured by a first lien on a new 71-unit garden apartment project located in Nutley, New Jersey. The loan had an outstanding balance of $15.3 million at December 31, 2010. The borrowers are experienced developers in New Jersey and Pennsylvania. The project is substantially complete and 62 units are leased. The loan has a risk rating of 4 (loans rated 1-4 are deemed to be of acceptable quality see discussion of the Bank s 9-point risk rating system for loans under Allowance for Loan Losses in the Asset Quality section) and was performing in accordance with its terms and conditions as of December 31, 2010. Outstanding construction loans decreased to $125.2 million at December 31, 2010, from $195.9 million at December 31, 2009, as the Bank de-emphasized construction lending due to economic conditions.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 17.4% of the loan portfolio at December 31, 2010. 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 for working capital purposes, letters of credit and real estate loans where the borrower is the primary occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial term loans are fully amortized over a five-year period. Owner-occupied commercial real estate loans are generally underwritten to terms consistent with those utilized for commercial real estate, however, the maximum loan-to-value ratio for owner-occupied commercial real estate loans is 80%.

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 has Preferred Lender status with the SBA, 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.

Commercial 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 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 $38.0 million line of credit to a general contracting company specializing in bridge and highway construction with a risk rating of 3. The line is used primarily for bid bonding and working capital purposes. The Bank sold a participation interest of $10.0 million in the line of credit to another financial institution, which reduced the Bank s exposure to $28.0 million. As of December 31, 2010, the line of credit had no outstanding balance.

Consumer Loans. The Bank offers a variety of consumer loans to individuals. Consumer loans represented 13.1% of the loan portfolio at December 31, 2010. Home equity loans and home equity lines of credit constituted 86.5% of the consumer loan portfolio as of December 31, 2010. Indirect marine loans comprised 12.0% of the consumer loan portfolio, and indirect auto loans comprised 0.3% of the consumer loan portfolio at December 31, 2010, respectively. The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, direct auto loans and recreational vehicle loans, which represented 1.2% of the consumer loan portfolio. Effective September 30, 2007, the Bank ceased purchasing indirect auto loans, and currently the Bank limits its marine lending to direct lending on a limited accommodation basis to existing customers.

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 $500,000. The approved home equity lines and utilization amounts as of December 31, 2010 were $448.7 million and $195.2 million, respectively, representing utilization of 43.5%.

The Bank previously purchased marine loans from established dealers and brokers located on the East Coast of the United States, which were underwritten to the Bank s pre-established underwriting standards. The maximum marine loan is $500,000. All marine loans are collateralized by a first lien on the vessel. Originations of marine loans have declined significantly as the Bank curtailed its indirect marine lending in 2009 and discontinued it in 2010. Marine loans are currently made only on a direct, limited accommodation basis 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.

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,		
	2010	2009	2008
		(In thousands)	
Originations:			
Residential mortgage	$ 152,002	$ 207,578	$ 141,318
Commercial mortgage	197,718	142,178	257,970
Multi-family mortgage	134,052	50,555	41,375
Construction	51,066	93,000	231,786
Commercial	490,004	512,634	473,661
Consumer	111,407	134,361	185,229
Subtotal of loans originated	1,136,249	1,140,306	1,331,339
Loans purchased	90,430	55,145	267,823
Total loans originated	1,226,679	1,195,451	1,599,162
Loans sold or securitized	18,139	183,509	71,675

	Year Ended December 31, 2010	2009 (In thousands)	2008
Repayments:			
Residential mortgage	327,379	378,461	251,744
Commercial mortgage	110,117	65,175	117,811
Multi-family mortgage	11,556	5,361	13,424
Construction	71,158	96,507	273,393
Commercial	508,269	422,644	430,079
Consumer	123,782	164,364	200,261
Total repayments	1,152,261	1,132,512	1,286,712
Total reductions	1,170,400	1,316,021	1,358,387
Other items, net[1]	(30,660)	(21,984)	(10,318)
Net (decrease) increase	$ 25,619	$ (142,554)	$ 230,457

(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. All loan approvals require joint lending authority.

The largest individual lending authority is $5.0 million, which is only available to the Chief Executive Officer and the Chief Lending Officer. 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 for approval. The Credit Committee currently consists of six senior officers including the Chief Executive Officer, the Chief Lending Officer, and the Chief Credit Officer, and requires a majority vote for credit approval.

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, a loan review examination is performed by an independent third party which 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, 2010, the regulatory lending limit was $80.1 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, 2010, the Bank s largest group exposure with an individual borrower and its related entities was $71.2 million, consisting of 22 commercial mortgage loans secured by first liens on primarily mixed-use properties, a line of credit on a neighborhood shopping center and industrial building, a participation in a syndicated land acquisition loan secured by a first lien on land with approvals for commercial development and a participation in a syndicated construction loan secured by a first lien on a 216-unit apartment project. All loans are located in New Jersey and have risk ratings of either a 3 or 4, with the exception of the syndicated construction loan which is a Shared National Credit with a risk rating of 7. The borrower is an experienced and successful owner and operator of commercial properties. Management has determined that this exception to the internal group exposure policy limit is manageable and is mitigated by the borrower s diverse revenue mix as well as its reputation and proven successful track record. This lending relationship was approved as an exception to the internal policy limits by the Risk Committee of the Board of Directors and reported to the Board of Directors, and conformed to the regulatory limit applicable to the Bank at the time of loan origination. As of December 31, 2010, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2010, the Bank had $1.2 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 acquired through 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 and Chief Credit Officer review 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 and Chief Credit Officer have the authority to transfer performing commercial real estate or commercial loans to the Asset Recovery Department if, in their opinion, a credit problem exists or is likely to occur.

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

Delinquent Loans and Non-performing Loans and Assets. The Bank s policies require that the Chief Credit 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 non-homogenous loan greater than $1.0 million for which it is probable, based on current information, that the Bank will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings (TDRs). A loan is deemed to be a TDR when a modification resulting in a concession is made by the Bank in an effort to mitigate potential loss arising from a borrower s financial difficulty. 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, 2010, there were 24 impaired loans totaling $47.7 million. Included in this total were 6 TDRs to 5 borrowers totaling $7.6 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2010.

Interest income stops accruing on loans when interest or principal payments are 90 days in arrears or earlier when the timely collectability 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 unpaid interest previously credited is reversed. A non-accrual loan is returned to accrual status when factors indicating doubtful collection no longer exist, the loan has been brought current and the borrower demonstrates some period (generally six months) of timely contractual payments.

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 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. The FDIC, in 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, 2010, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

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Loans are classified in accordance with the risk rating system described above. At December 31, 2010, $206.0 million of loans were classified as substandard, which consisted of $72.0 million in commercial and multi-family mortgage loans, $56.8 million in commercial loans, $41.2 million in residential loans, $29.2 million in construction loans and $6.8 million in consumer loans. At that same date, loans classified as doubtful totaled $1.5 million, consisting of $1.5 million in commercial loans. There were no loans classified as loss at December 31, 2010. As of December 31, 2010, $81.6 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, 2010				At December 31, 2009				At December 31, 2008			
	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	29	$ 8,370	167	$ 41,247	22	$ 6,093	112	$ 28,622	28	$ 5,786	60	$ 14,503
Commercial mortgage loans	1	4,286	9	14,478	1	778	8	14,877			9	24,830
Multi-family mortgage loans			1	200	1	1,051						
Construction loans											2	9,403
Total mortgage loans	30	12,656	177	55,925	24	7,922	120	43,499	28	5,786	71	48,736
Commercial loans	8	562	63	12,437	12	3,934	61	6,675	16	1,482	20	4,456
Consumer loans	33	3,487	83	6,215	37	2,766	86	6,765	74	1,356	72	5,926
Total loans	71	$ 16,705	323	$ 74,577	73	$ 14,622	267	$ 56,939	118	$ 8,624	163	$ 59,118

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 non-accrual troubled debt restructurings 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 collectability of interest or principal.

	At December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$ 41,247	$ 28,622	$ 14,503	$ 4,228	$ 4,426
Commercial mortgage loans	16,091	23,356	24,830	21,918	
Multi-family mortgage loans	201			742	742
Construction loans	9,412	13,186	9,403	375	569
Commercial loans	23,505	12,548	4,456	5,083	234
Consumer loans	6,808	6,765	5,926	2,298	1,304
Total non-accruing loans	97,264	84,477	59,118	34,644	7,275
Accruing loans delinquent 90 days or more					274
Total non-performing loans	97,264	84,477	59,118	34,644	7,549
Foreclosed assets	2,858	6,384	3,439	1,041	528
Total non-performing assets	$ 100,122	$ 90,861	$ 62,557	$ 35,685	$ 8,077
Total non-performing assets as a percentage of total assets	1.47%	1.33%	0.96%	0.56%	0.14%
Total non-performing loans to total loans	2.21%	1.93%	1.31%	0.81%	0.20%

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Non-performing residential mortgage loans increased $12.6 million, to $41.2 million at December 31, 2010, from $28.6 million at December 31, 2009. In addition, non-performing consumer loans increased $44,000, to $6.8 million at December 31, 2010. The Company attributes the increase in non-performing residential mortgage and consumer loans to continued elevated levels of unemployment, decreased property values and increased personal debt levels.

Non-performing commercial loans increased $11.0 million, to $23.5 million at December 31, 2010, from $12.5 million at December 31, 2009. Non-performing commercial loans at December 31, 2010 consisted of 70 loans. The largest non-performing commercial loan relationship consisted of four loans to a power systems manufacturer with total outstanding balances of $9.6 million at December 31, 2010. All contractual payments on these loans were current at December 31, 2010.

The Company held one $201,000 non-performing multi-family loan at December 31, 2010. There were no non-performing multi-family loans at December 31, 2009.

Non-performing commercial mortgage loans decreased $7.3 million, to $16.1 million at December 31, 2010, from $23.4 million at December 31, 2009, primarily as a result of gross charge-offs of $10.5 million. At December 31, 2010, the Company held 11 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan relationship consisted of two loans to a single real estate developer located in Delaware. The first loan is secured by a planned unit development of 203 single family detached townhouse and age restricted units that was written down to its current estimated collateral value of $6.2 million. The second is a commercial mortgage loan secured by a 184-unit, age-restricted townhouse project of which 126 units remained unsold. This loan was written down to its current estimated collateral value of $3.9 million at December 31, 2010. There is no contractual commitment to advance additional funds to this borrower.

Non-performing construction loans decreased $3.8 million, to $9.4 million at December 31, 2010, from $13.2 million at December 31, 2009, as a result of repayments and a foreclosure. At December 31, 2010, non-performing construction loans consisted of a $9.4 million senior participation interest in a $283.0 million SNC. Proceeds from this construction loan facility are being used to convert an existing 35-story, 631,000 square foot office building in New York City into a mixed-use 346-unit residential condominium and 251-room hotel. The project has been impacted by additional costs and a decline in sales activity. While this loan has been classified as non-accrual, the hotel was completed and began operations in 2010. The loan was current as to the payment of principal and interest at December 31, 2010. The Company had no unfunded commitments on this loan at December 31, 2010.

At December 31, 2010, the Company held $2.9 million of foreclosed assets, compared with $6.4 million at December 31, 2009. Foreclosed assets at December 31, 2010 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $1.1 million of commercial real estate, $1.1 million of residential properties, and $0.7 million of marine vessels at December 31, 2010.

Non-performing assets totaled $100.1 million, or 1.47% of total assets at December 31, 2010, compared to $90.9 million, or 1.33% of total assets at December 31, 2009. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $4.1 million during the year ended December 31, 2010.

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 collectability of principal may not be reasonably assured. For residential mortgage and consumer

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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. The factors considered in assessing the adequacy of the allowance for loan losses include the following:

- results of the routine loan quality reviews performed by an outside third party;
- 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 and breadth 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 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are 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, 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 for loans requiring Credit Committee approval are periodically reviewed by the Credit Committee in the credit renewal or approval process. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports by the independent third party are presented directly to the Audit Committee of the Board of Directors.

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 5 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.

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, as well as qualitative and environmental factors such as:

levels of and trends in delinquencies and impaired loans;

levels of and trends in charge-offs and recoveries;

trends in volume and terms of loans;

- effects of any changes in risk selection and underwriting standards, changes in lending policies, procedures and practices;
- changes in the quality of the Bank s loan review system;
- experience, ability, and depth of lending management and other relevant staff;
- national and local economic trends and conditions;
- industry conditions; and
- effects of changes in credit concentration.

The appropriateness of these percentages is evaluated by management at least annually. In the second quarter of 2010, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, GVA percentages applied to the marine loan portfolio were increased to reflect an increase in historical loss experience.

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 collectability 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 analysis, 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.

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, rising unemployment or a protracted period of unemployment at current elevated levels, increasing vacancy rates in commercial investment properties and possible increases in interest rates in the absence of economic improvement. 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. 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 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.

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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,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Balance at beginning of period	$ 60,744	$ 47,712	$ 40,782	$ 32,434	$ 31,980
Charge offs:					
Residential mortgage loans	1,996	2,712	20	24	9
Commercial mortgage loans	10,452	619	3,529		
Multi-family mortgage loans					
Construction loans	1,384	1,089	88		
Commercial loans	11,196	7,576	1,967	1,044	1,025
Consumer loans	4,439	7,624	4,821	2,127	1,800
Total	29,467	19,620	10,425	3,195	2,834
Recoveries:					
Residential mortgage loans	359	19	2	138	158
Commercial mortgage loans	30	6	480	13	14
Multi-family mortgage loans					
Construction loans	47		88		
Commercial loans	727	1,367	372	622	305
Consumer loans	782	1,010	1,313	1,415	1,491
Total	1,945	2,402	2,255	2,188	1,968
Net charge-offs	27,522	17,218	8,170	1,007	866
Provision for loan losses	35,500	30,250	15,100	6,530	1,320
Allowance of acquired institution				2,825	
Balance at end of period	$ 68,722	$ 60,744	$ 47,712	$ 40,782	$ 32,434
Ratio of net charge-offs during the period to average loans outstanding during the period	0.63%	0.39%	0.19%	0.02%	0.02%
Allowance for loan losses to total loans	1.56%	1.39%	1.05%	0.95%	0.86%
Allowance for loan losses to non-performing loans	70.66%	71.91%	80.71%	117.72%	429.65%

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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,									
	2010		2009		2008		2007		2006	
	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	$ 6,628	31.48%	$ 5,324	34.07%	$ 4,142	39.70%	$ 2,882	39.79%	$ 2,736	43.01%
Commercial mortgage loans	20,441	26.80	23,578	24.90	14,938	20.44	8,977	19.78	8,873	18.59
Multi-family mortgage loans	4,065	8.79	2,309	5.20	973	4.19	735	1.58	768	1.84
Construction loans	7,282	2.84	4,134	4.48	5,264	5.17	7,947	7.22	4,837	7.50
Commercial loans	22,210	17.15	16,572	17.95	12,697	16.68	10,841	16.61	6,311	13.35
Consumer loans	5,616	12.94	5,964	13.40	6,854	13.82	6,764	15.02	6,119	15.71
Unallocated	2,480		2,863		2,844		2,636		2,790	
Total	$ 68,722	100.00%	$ 60,744	100.00%	$ 47,712	100.00%	$ 40,782	100.00%	$ 32,434	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 Chief Executive 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 at the time of purchase.

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.

The Company conducts a periodic review and evaluation of the securities portfolio to determine if any securities with a market value below book value were other-than-temporarily impaired. If such an impairment 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 earnings. 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 current 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 not more likely than not that the Company would be required to sell the securities before the anticipated recovery.

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 pass-through 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. At December 31, 2010, the Bank held $93.7 million in privately-issued CMO s in the investment portfolio. The Bank and the Company do not invest in collateralized debt obligations, mortgage-related securities secured by sub-prime loans, or any preferred equity securities.

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

	At December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	$ 39,493	$ 41,170	$ 64,197	$ 65,553	$ 91,435	$ 91,109
FHLB obligations	250	250				
FHLMC obligations	750	744				
FNMA obligations	1,749	1,729	500	496		
FFCB obligations			500	496		
State and municipal obligations	294,527	298,239	260,455	268,286	256,049	260,514
Corporate obligations	9,253	9,548	9,422	9,554		
Total held-to-maturity	$ 346,022	$ 351,680	$ 335,074	$ 344,385	$ 347,484	$ 351,623
Available for Sale:						
U.S. Treasury obligations	$	$	$	$	$ 997	$ 1,013
State and municipal obligations	11,188	11,629	12,199	12,701	17,664	18,107
Mortgage-backed securities	1,223,869	1,247,526	1,076,467	1,084,680	692,020	689,461
FHLMC obligations	20,080	20,077	10,045	10,286	20,102	20,826
FHLB obligations	85,188	85,770	213,906	215,565	66,249	68,546
FFCB obligations	4,003	3,996			5,009	5,102
Corporate obligations	9,543	9,929	9,567	9,931	3,558	3,345
Equity securities					14,617	13,929
Total available for sale	$ 1,353,871	$ 1,378,927	$ 1,322,184	$ 1,333,163	$ 820,216	$ 820,329
Average expected life of securities[(1)]	3.42 years		3.14 years		3.42 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, 2010:		
FNMA	$ 503,057	$ 512,897
FHLMC	585,667	597,470
GNMA	103,719	106,906

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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, 2010. 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, 2010									
	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	$	%	$	%	$ 20,706	4.49%	$ 18,787	4.86%	$ 39,493	4.67%
Agency obligations			2,749	1.79					2,749	1.79
Corporate obligations	1,805	4.41	7,448	4.53					9,253	4.51
State and municipal obligations	32,662	2.17	86,478	3.58	96,411	3.84	78,976	3.70	294,527	3.54
Total held to maturity	$ 34,467	2.29%	$ 96,675	3.60%	$ 117,117	3.95%	$ 97,763	3.92%	$ 346,022	3.68%
Available for sale:										
State and municipal obligations	$ 850	4.01%	$ 6,365	3.71%	$ 4,414	4.11%	$	%	$ 11,629	3.88%
Mortgage-backed securities			13,952	4.33	233,200	3.66	1,000,374	3.17	1,247,526	3.27
Agency obligations	65,532	2.19	44,311	0.75					109,843	1.61
Corporate obligations	2,028	4.12	7,901	4.38					9,929	4.33
Total available for sale	$ 68,410	2.27%	$ 72,529	2.09%	$ 237,614	3.67%	$ 1,000,374	3.17%	$ 1,378,927	3.15%

(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.

Deposit pricing strategy is monitored monthly by the management Asset/Liability Committee. Deposit pricing is set weekly by the Bank s Treasury Department. When setting deposit pricing, the Bank considers

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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 73.8% of total deposits at December 31, 2010 and 69.2% of total deposits at December 31, 2009. As of December 31, 2010 and December 31, 2009, time deposits maturing in less than one year amounted to $820 million and $1.12 billion, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2010.

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
			(In thousands)		
Certificates of deposit of $100,000 or more	$ 97,720	$ 65,245	$ 69,151	$ 180,039	$ 412,155
Certificates of deposit less than $100,000	201,606	199,191	186,596	278,714	866,107
Total certificates of deposit	$ 299,326	$ 264,436	$ 255,747	$ 458,753	$ 1,278,262

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

	Period to Maturity from December 31, 2010						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	2010	2009	2008
					(In thousands)				
Rate:									
0.00 to 0.99%	$ 548,480	$ 20,377	$ 2	$ 1	$ 12	$ 271	$ 569,143	$ 349,356	$ 3,226
1.00 to 2.00%	211,961	114,305	12,736	81	2,848	230	342,161	452,361	29,094
2.01 to 3.00%	14,347	32,998	13,018	34,242	79,316		173,921	246,822	782,708
3.01 to 4.00%	15,036	2,108	23,264	47,598	19	3	88,028	292,729	515,531
4.01 to 5.00%	13,422	19,127	42,216	3,366	278	550	78,959	137,892	170,229
5.01 to 6.00%	15,486	9,213	273	25			24,997	25,374	28,242
6.01 to 7.00%	777	169					946	2,971	3,415
Over 7.01%		48		36		23	107	105	66
Total	$ 819,509	$ 198,345	$ 91,509	$ 85,349	$ 82,473	$ 1,077	$ 1,278,262	$ 1,507,610	$ 1,532,511

Borrowed Funds. At December 31, 2010, the Bank had $969.7 million 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,		
	2010	2009	2008
	(Dollars in thousands)		
Maximum Balance:			
FHLB advances	$ 578,168	$ 532,066	$ 650,425
FHLB line of credit	53,000	75,000	106,000
Securities sold under agreements to repurchase	454,451	618,034	606,749
Average Balance:			
FHLB advances	546,910	529,303	529,859
FHLB line of credit	512	11,444	67,727
Securities sold under agreements to repurchase	391,889	515,976	565,945
Weighted Average Interest Rate:			
FHLB advances	3.66%	3.98%	3.96%
FHLB line of credit	0.42	0.55	1.84
Securities sold under agreements to repurchase	2.52	3.08	3.73

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

	At December 31,		
	2010	2009	2008
	(Dollars in thousands)		
FHLB advances	$ 570,072	$ 519,947	$ 557,277
FHLB line of credit	53,000		96,000
Securities sold under repurchase agreements	346,611	479,286	594,404
Total borrowed funds	$ 969,683	$ 999,233	$ 1,247,681
Weighted average interest rate of FHLB advances	3.17%	3.93%	3.83%
Weighted average interest rate of FHLB line of credit	0.44%	%	0.45%
Weighted average interest rate of securities sold under agreements to repurchase	2.35%	2.87%	3.32%

WEALTH MANAGEMENT SERVICES

The Bank s Wealth Management Group is a provider of asset management services in New Jersey. The services are often introduced to existing clients through the Bank s extensive branch network and lenders throughout the state. It offers a full range of asset management services to individuals, municipalities, non-profits, corporations and pension funds. These services include investment management, asset allocation, trust and fiduciary services, financial planning, family office services, estate settlement services and custody. The Wealth Management Group focuses on delivering personalized investment strategies based on the client s risk profile. These strategies are focused on maximizing clients investment returns, while minimizing expenses. Most of the fee income generated by the Wealth Management Group is based on assets under management.

SUBSIDIARY ACTIVITIES

Provident Investment Services, Inc. is a wholly owned subsidiary of the Bank, and a New Jersey licensed insurance producer that sells insurance and investment products, including annuities to customers through a third party networking arrangement.

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 the business of a real estate investment trust for the purpose of acquiring mortgage loans and other real estate related assets from the Bank.

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, 2010, TPB Realty had total assets of $2.9 million.

Bergen Avenue Realty, LLC, is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure. At December 31, 2010, Bergen Avenue Realty had total assets of $607,000.

PERSONNEL

As of December 31, 2010, the Company had 840 full-time and 117 part-time employees. None of the Company s employees were represented by a collective bargaining group. The Company believes its working relationship with its employees is good.

REGULATION and SUPERVISION

General

As a bank holding company controlling the Bank, the Company 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.

Some of the laws and regulations applicable to the Company and the Bank are summarized below and elsewhere in the Form 10-K. These summaries do not purport to be complete and are qualified in their entirety by reference to such laws and regulations.

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 the 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. See Federal Banking Regulation Activity Restrictions on State-Chartered Bank below.

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 New Jersey chartered 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 the 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.

Tier 2 capital is 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 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 a bank s interest rate risk management process;

- the overall financial condition of the bank; and

- 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, 2010:

	As of December 31, 2010		
	Capital	Percent of Assets(1)	Capital Requirements(1)
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 465,442	7.19%	4.00%
Tier 1 risk-based capital	465,442	10.91	4.00
Total risk-based capital	518,951	12.17	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 of December 31, 2010, the Bank was considered well capitalized under FDIC guidelines.

Capital Purchase Program. On October 14, 2008, the Capital Purchase Program (CPP) was announced by the Treasury Department as part of the Troubled Assets Relief Program, referred to as TARP . Under the CPP, an eligible financial institution could apply to the U.S. government to issue senior preferred shares to the Treasury in aggregate amounts between 1% and 3% of the institution s risk-weighted assets. The Company was eligible to apply for an investment by the Treasury of between $40.1 million and $120.4 million. The Company did not make an application to participate in the CPP.

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 currently meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries.

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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. The Bank has received dividends on its FHLB stock, although no assurance can be given that these dividends will continue to be paid. For the year ended December 31, 2010, dividends paid by the FHLB to the Bank totaled $1.8 million.

Deposit Insurance. As a member institution of the FDIC, deposit accounts at the Bank were insured generally up to a maximum of $100,000 for each separately insured depositor, and up to a maximum of $250,000 for self-directed retirement accounts. In October 2008, however, the FDIC temporarily increased the standard maximum amount of deposit insurance available on all deposit accounts to $250,000. That limit was made permanent by the Dodd-Frank Act. Additionally, certain non-interest-bearing transaction accounts maintained with financial institutions participating in the FDIC s Temporary Liquidity Guarantee Program (TLG Program) were fully insured regardless of the dollar amount until June 30, 2010. The FDIC implemented the TLG Program on November 21, 2008.

The FDIC imposes an assessment against financial institutions for deposit insurance. This assessment is based on the risk category of the institution and prior to 2009, ranged from 5 to 43 basis points of the institution s deposits. On February 27, 2009, the FDIC issued a final rule raising the deposit insurance assessment rates to a range from 12 to 45 basis points. The rule became effective as of April 1, 2009. The rule provided for certain adjustments to the rate that effectively made the range up to 77.5 basis points.

The Company participated in the FDIC s Temporary Account Guarantee (TAG) program which expired on December 31, 2010. Under the TAG, funds in non-interest bearing accounts, in interest-bearing transaction accounts with interest rates of 0.50% or less, and in Interest on Lawyers Trust Accounts had a temporary unlimited guarantee from the FDIC until June 30, 2010. The coverage under the TAG was in addition to and separate from the standard coverage available under the FDIC s general deposit insurance rules, which insure accounts up to $250,000. The TLG Program also guaranteed newly issued senior secured debt of banks, thrifts and certain holding companies. The Company had no outstanding debt guaranteed under the TLG program at December 31, 2009 or 2010.

On May 22, 2009, the FDIC issued a final rule imposing a 5 basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The amount of the special assessment for any institution did not exceed 10 basis points times the institution s assessment base for the second quarter of 2009. The Bank paid this special assessment in the amount of $3.1 million on September 30, 2009.

On November 12, 2009, the FDIC issued a rule that required depository institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. These assessments were payable on December 30, 2009. The total prepaid assessment of $31.3 million was remitted to the FDIC on that date. Of that amount, $27.4 million was recorded as a prepaid asset as of December 31, 2009. Beginning in the first quarter of 2010, the Company recorded an expense for its regular assessment for each quarter, with an offsetting credit to the prepaid asset until it is fully expensed.

On November 9, 2010, the FDIC issued a final rule which revises its deposit insurance regulations to include noninterest-bearing transaction accounts as a new temporary deposit insurance category. As defined in the Dodd-Frank Act, noninterest-bearing accounts include only such demand deposit or checking accounts that provide for unlimited transfers and withdrawals at any time, and which are maintained by individuals, businesses, or other types of depositors. The funds maintained in such accounts are insured without limit, with such coverage being separate from coverage provided to depositors for all other accounts maintained at an insured institution. This rule became effective on December 31, 2010 and is scheduled to expire on December 31, 2012.

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On December 15, 2010, the FDIC issued a final rule which sets the insurance funds designated reserve ratio (DRR) at 2% of estimated insured deposits. As directed by the Dodd-Frank Act, the FDIC is required to set a DRR annually, and must consider the following factors when doing so: the risk of loss to the insurance fund, economic conditions affecting the banking industry, prevention of sharp swings in assessment rates, and such other factors deemed important. The rule became effective on January 1, 2011.

On February 7, 2011, the FDIC issued a final rule that establishes a target size for the Deposit Insurance Fund (DIF) at 2 percent of insured deposits as mandated by the Dodd-Frank Act. The rule also implements a lower assessment rate schedule when the DIF reaches 1.15 percent of total insured deposits. The rule also changes the assessment base from a bank s adjusted domestic deposits to its average consolidated total assets minus average tangible equity. The rule is effective on April 1, 2011. This change in methodology is not expected to materially affect the Bank s cost of deposit insurance.

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 an Outstanding Community Reinvestment Act rating in its most recently completed federal examination, which was conducted by the FDIC as of May 2008.

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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted. This new law will significantly change the current bank regulatory structure and affect the

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lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for some time.

The Dodd-Frank Act broadens the assessment base for federal deposit insurance from the amount of insured deposits to the average consolidated assets less average tangible capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance to $250,000 per depositor, and provides unlimited deposit insurance through January 1, 2013 for non-interest bearing demand transaction activities at all insured depository institutions.

Effective one year after the date of enactment is a provision of the Dodd-Frank Act that repeals the federal prohibitions on paying interest on demand deposits, thus permitting depository institutions to pay interest on business transaction and other accounts. Depending on competitive responses, this significant change to existing law could have increased interest expense at depository institutions like the Bank.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The Securities and Exchange Commission has been authorized to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators.

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

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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 $10.7 million and up to $58.8 million, subject to adjustment by the Federal Reserve Board, and an initial reserve of $1.4 million plus 10% against that portion of total transaction accounts in excess of up to $55.8 million. The first $10.7 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. The Bank is authorized to borrow from the Federal Reserve Bank discount window.

Internet Banking

Technological developments continue to significantly alter the ways in which financial institutions conduct their business. The growth of the Internet has caused banks to adopt and refine 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 the Bank s internet operations or restrict any such further operations.

The USA PATRIOT Act

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.

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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, and as such, is 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, 2010, the Company s total capital and Tier 1 capital ratios exceed these minimum capital requirements.

The following table shows the Company s Tier 1 leverage ratio, Tier 1 risk-based capital ratio and the total risk-based capital ratio as of December 31, 2010:

	As of December 31, 2010		
	Capital	Percent of Assets(1)	Capital Requirements(1)
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 554,497	8.57%	4.00%
Tier 1 risk-based capital	554,497	13.00	4.00
Total risk-based capital	608,001	14.26	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 of December 31, 2010, the Company was well capitalized under Federal Reserve Board guidelines.

The Dodd-Frank Act requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. That will eliminate the inclusion of certain instruments from tier 1 capital, such as trust preferred securities, that are currently includable for bank holding companies. Any instruments issued by May 19, 2012 by holding companies of less than $15 billion in assets (as of December 31, 2009) are grandfathered.

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. The Dodd-Frank Act codified the source of strength doctrine and requires the issuance of implementing regulations. Under 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.

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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 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:

- it and each of its depository institution subsidiaries is well capitalized ;
- it and 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.

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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, 2010 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, 2010, 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. Under the general rule, 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, 2010, 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.

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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 are currently subject to the corporate business tax (CBT) at 9% of taxable income.

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, 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 the course of conducting our business, we are exposed to a variety of risks that are inherent to the financial services industry. The following discusses some of the key risk factors that could affect our business and operations, as well as other risk factors which are particularly relevant to us during the current period of economic and market disruption. Additional risks and uncertainties could adversely affect our business, financial condition and results of operations. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected, the market price for your investment in the Company s common stock could decline, and you could lose all or a part of your investment in the Company s common stock.

Continued and Sustained Deterioration in the Housing Sector and Related Markets and Prolonged Elevated Unemployment Levels May Adversely Affect Our Business and Financial Results

During 2010, general economic conditions did not improve materially. While we did not invest in sub-prime mortgages and related investments, our lending business is tied, in large part, to the housing market. Declines in home prices, increases in foreclosures and unemployment have adversely impacted the credit performance of real estate related loans, resulting in the write-down of asset values. The continuing housing slump has resulted in reduced demand for the construction of new housing, further declines in home prices, and increased delinquencies on construction, residential and commercial mortgage loans. The ongoing concern about the stability of the financial markets in general has caused many lenders to reduce or cease providing funding to borrowers. These conditions may also cause a further reduction in loan demand, and increases in our non-performing assets, net charge-offs and provisions for loan losses. A worsening of these negative economic conditions could adversely impact our prospects for growth, asset and goodwill valuations and could result in a decrease in our interest income and a material increase in our provision for loan losses.

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, to a lesser extent, 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, 2010, the average loan size for a construction loan was $2.9 million,

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for a commercial mortgage loan was $2.1 million, and for a commercial loan was $398,000, compared to an average loan size of $204,000 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, including an unemployment rate of 8.2% at December 31, 2010, have a significant impact on our construction loans, commercial mortgage loans, commercial loans, and residential mortgage loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. A continuing significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control 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, further declines in real estate values and the continued slump 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.

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.

Our Allowance for Loan Losses May Not be 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, the 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 the 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.

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We Hold Certain Intangible Assets That Could Be Classified As Impaired in the Future. If These Assets Are Considered to Be Either Partially or Fully Impaired in The Future, Our Earnings Could Decline

We record all assets and liabilities acquired by the Company in purchase acquisitions, including goodwill and other intangible assets, at fair value. At December 31, 2010, goodwill totaling $346.3 million is not amortized but is subject to impairment tests at least annually, or more often if events or circumstances indicate it may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a potential inability to realize the carrying amount. The initial recording and subsequent impairment testing of goodwill and other intangible assets requires subjective judgments about the estimates of the fair value of assets acquired.

The goodwill impairment test is performed in two steps. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. 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 value.

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.

It is possible that our future impairment testing could result in an impairment of the value of goodwill or core deposit intangible assets, or both. If we determine impairment exists at a given point in time, our earnings and the book value of the related intangible asset(s) will be reduced by the amount of the impairment. In any event, the results of impairment testing on goodwill and core deposit intangible assets have no impact on our tangible book value or regulatory capital levels.

Continued or Further Declines in the Value of Certain Investment Securities Could Require an Other-Then-Temporary Impairment Charge, Which Would Reduce Our Earnings

Our securities portfolio includes securities that have declined in value due to negative perceptions about the health of the financial sector in general and the lack of liquidity for securities that are real estate related. These securities include private label mortgage-backed securities. A prolonged decline in the value of these securities could result in an other-than-temporary impairment write-down which would reduce our earnings.

Recent Legislative and Regulatory Initiatives May Significantly Affect Our Financial Condition and Results of Operations

The potential exists for additional federal or state laws and regulations regarding capital requirements, lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be more active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Actions taken to date, as well as potential actions, may not have the beneficial effects that are intended, particularly with respect to the extreme levels of volatility and limited credit availability currently being experienced. In addition, new laws, regulations, and other regulatory changes may increase our Federal Deposit Insurance Corporation insurance premiums and may also increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability.

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 requirement for additional capital, 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.

Financial Reform Legislation Will, Among Other Things, Create a New Consumer Financial Protection Bureau, Tighten Capital Standards and Result in New Laws and Regulations That Are Expected to Increase Our Costs of Operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impacts of the Dodd-Frank Act may not be known for some time.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks with more than $10 billion in assets. Banks such as our bank with $10 billion or less in assets will continue to be examined for compliance with consumer laws by their primary bank regulators.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks.

Effective July 2011, The Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, the significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation deposit insurance assessments. Assessments will now be based on the average consolidated assets less tangible capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks and savings institutions to $250,000 per depositor, and provides unlimited deposit insurance through January 1, 2013 for non-interest bearing demand transaction activities at all insured depository institutions. Non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

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 to the extent our interest-earning assets and interest-bearing liabilities reprice or mature at different times or at different relative interest rates. 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 300 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 6.1% or $13.3 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, 2010, our available for sale securities portfolio totaled $1.38 billion. 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. Increases in interest rates can result in reduced prepayments of loans and mortgage related securities, as borrowers retain existing loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that such prepayments are not available to reinvest at prevailing market rates at a profitable spread in excess of our funding costs.

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 or credit criteria that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our market area.

Lack of Consumer Confidence in Financial Institutions May Decrease Our Level of Deposits

Our level of deposits may be affected by lack of consumer confidence in financial institutions, which has caused fewer depositors to be willing to maintain deposits that are not insured by the FDIC. That may cause depositors to withdraw deposits and place them in other institutions or to invest uninsured funds in investments perceived as being more secure, such as securities issued by the United States Treasury. These consumer preferences may cause us to be forced to pay higher interest rates to retain deposits and may constrain liquidity as we seek to meet funding needs caused by reduced deposit levels.

Our Information Systems May Experience an Interruption or Security Breach

We rely on communications and information systems to conduct our business. Any failure, interruption or compromise in security of these systems could result in failures or disruptions in our business operations. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security compromise of our information systems, there can be no assurance that any such failure, interruption or security compromise will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security compromise of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

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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, 2010, the Bank conducted business through 81 full-service branch offices located in Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset and Union Counties, New Jersey. The aggregate net book value of premises and equipment was $74.3 million at December 31, 2010.

In the first quarter of 2011, the Company s executive offices were relocated to a leased facility which also houses the Bank s Main Office at 239 Washington Street, Jersey City, New Jersey. This was necessitated by the pending relocation of the Bank s administrative offices from 830 Bergen Avenue, Jersey City, New Jersey to a leased facility at 100 Wood Avenue South, Iselin, New Jersey. The Bank expects to complete the relocation of its administrative offices during the second quarter 2011.

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. [Reserved]

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, 2010, there were 83,209,293 shares of the Company s common stock issued and 59,821,850 shares outstanding and 5,821 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.

	2010			2009		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First Quarter	$ 11.98	$ 10.17	$ 0.11	$ 14.98	$ 7.90	$ 0.11
Second Quarter	13.85	11.48	0.11	12.40	9.10	0.11
Third Quarter	13.18	11.27	0.11	12.51	8.80	0.11
Fourth Quarter	15.57	12.08	0.11	11.22	9.85	0.11

On January 28, 2011, the Board of Directors declared a quarterly cash dividend of $0.11 per common share, which was paid on February 28, 2011, to common stockholders of record as of the close of business on February 15, 2011. 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 December 31, 2005 through December 31, 2010, (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. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an assumed investment of $100 on December 31, 2005.

PROVIDENT FINANCIAL SERVICES, INC.

	Period Ending					
Index	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**
Provident Financial Services, Inc.	100.00	100.08	81.66	89.31	64.85	95.56
Russell 2000	100.00	118.37	116.51	77.15	98.11	124.46
SNL Thrift	100.00	116.57	69.93	44.50	41.50	43.37

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The following table reports information regarding purchases of the Company s common stock during the fourth quarter of 2010 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, 2010 Through October 31, 2010				2,121,228
November 1, 2010 Through November 30, 2010				2,121,228
December 1, 2010 Through December 31, 2010	145	$ 13.70	145	2,121,083
Total	145	$ 13.70	145	

(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.

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.

	At December 31,				
	2010	2009	2008	2007	2006
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 6,824,528	$ 6,836,172	$ 6,548,748	$ 6,359,391	$ 5,742,964
Loans, net(1)	4,341,091	4,323,450	4,479,036	4,255,509	3,751,230
Investment securities held to maturity	346,022	335,074	347,484	358,491	389,656
Securities available for sale	1,378,927	1,333,163	820,329	769,615	790,894
Deposits	4,877,734	4,899,177	4,226,336	4,224,820	3,826,463
Borrowed funds	969,683	999,233	1,247,681	1,075,104	840,990
Stockholders equity	921,687	884,555	1,018,590	1,000,794	1,019,156

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands)				
Selected Operations Data:					
Interest income	$ 286,534	$ 292,559	$ 304,320	$ 302,577	$ 282,139
Interest expense	77,569	111,542	132,251	147,699	117,611
Net interest income	208,965	181,017	172,069	154,878	164,528
Provision for loan losses	35,500	30,250	15,100	6,530	1,320

Net interest income after provision for loan losses	173,465	150,767	156,969	148,348	163,208
Non-interest income	31,552	31,452	30,211	35,537	31,951
Non-interest expense(2)	138,748	297,036	130,601	133,013	118,273
Income (loss) before income tax expense(2)	66,269	(114,817)	56,579	50,872	76,886
Income tax expense	16,564	7,007	14,937	13,492	23,201
Net income (loss)(2)	$ 49,705	$ (121,824)	$ 41,642	$ 37,380	$ 53,685
Earnings (loss) per share:					
Basic earnings (loss) per share(2)	$ 0.88	$ (2.16)	$ 0.74	$ 0.63	$ 0.88
Diluted earnings (loss) per share(2)	$ 0.88	$ (2.16)	$ 0.74	$ 0.63	$ 0.87

(1) Loans are shown net of allowance for loan losses, deferred fees and unearned discount.
(2) Reflects the impact of a $152,502 goodwill impairment charge recognized in 2009.

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	At or For the Year Ended December 31, 2010	2009	2008	2007	2006
Selected Financial and Other Data(1)					
Performance Ratios:					
Return on average assets(5)	0.73%	(1.83)%	0.65%	0.62%	0.92%
Return on average equity(5)	5.46%	(13.33)%	4.12	3.63	5.17
Average net interest rate spread	3.27	2.82	2.78	2.52	2.80
Net interest margin(2)	3.45	3.06	3.11	2.96	3.23
Average interest-earning assets to average interest-bearing liabilities	1.14	1.13	1.13	1.16	1.18
Non-interest income to average total assets	0.47	0.47	0.47	0.59	0.55
Non-interest expenses to average total assets(5)	2.05	4.45	2.04	2.19	2.02
Efficiency ratio(3)(5)	57.69	139.80	64.56	69.85	60.20
Asset Quality Ratios:					
Non-performing loans to total loans	2.21%	1.93%	1.31%	0.81%	0.20%
Non-performing assets to total assets	1.47	1.33	0.96	0.56	0.14
Allowance for loan losses to non-performing loans	70.66	71.91	80.71	117.72	429.65
Allowance for loan losses to total loans	1.56	1.39	1.05	0.95	0.86
Capital Ratios:					
Leverage capital(4)	8.57%	7.99%	8.48%	8.29%	11.21%
Total risk based capital(4)	13.00	12.17	13.28	12.92	15.79
Average equity to average assets	14.26	13.42	15.82	16.95	17.77
Other Data:					
Number of full-service offices	81	82	83	85	75
Full time equivalent employees	899	931	954	942	877

(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 quarterly average tangible assets. Risk-based capital ratios are presented as a percentage of risk-weighted assets.
(5) Reflects the impact of a $152,502 goodwill impairment charge recognized in 2009.

Efficiency Ratio Calculation:	**12/31/2010**	**12/31/2009**	**12/31/2008**	**12/31/2007**	**12/31/2006**
Net interest income	$ 208,965	$ 181,017	$ 172,069	$ 154,878	$ 164,528
Non-interest income	31,552	31,452	30,211	35,537	31,951
Total income	$ 240,517	$ 212,469	$ 202,280	$ 190,415	$ 196,479
Non-interest expense(1)	$ 138,748	$ 297,036	$ 130,601	$ 133,013	$ 118,273
Expense/income(1)	57.69%	139.80%	64.56%	69.85%	60.20%

(1) Reflects the impact of a $152,502 goodwill impairment charge recognized in 2009.

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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 currently operating 81 full-service branches throughout northern and central New Jersey.

Strategy

The Bank, established in 1839, is the oldest New Jersey-chartered bank in the state. The Bank offers a full range of retail and commercial loan and deposit products, and emphasizes personal service and convenience.

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, 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 December 31, 2010, commercial loans accounted for 55.6% of the loan portfolio and retail loans accounted for 44.4%. 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 relationship banking 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, 2010, core deposits were 73.8% of total deposits.

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 to the extent the Company s interest-bearing assets and interest-bearing liabilities reprice or mature at different times or relative interest rates. 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 wealth management 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, changes in asset values, actions of regulatory agencies and government policies.

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Critical Accounting Policies

The Company considers certain accounting policies to be critically important to the fair presentation of its financial condition and results of operations. These policies require management to make complex judgments on matters which by their nature have elements of uncertainty. The sensitivity of the Company s consolidated financial statements to these critical accounting policies, and the assumptions and estimates applied, could have a significant impact on its financial condition and results of operations. These assumptions, estimates and judgments made by management can be influenced by a number of factors, including the general economic environment. The Company has identified the following as critical accounting policies:

- Adequacy of the allowance for loan losses
- Goodwill valuation and analysis for impairment
- Valuation of securities available for sale and impairment analysis
- Valuation of deferred tax assets

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 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 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. A sample of risk ratings are also reviewed and confirmed through the Loan Review function and periodically, 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 and other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries, loan volume, as well as, the national and local economic trends and conditions. The appropriateness of these percentages is evaluated by management at least annually. In the second quarter of 2010, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, GVA percentages applied to the marine portfolio were increased to reflect an increase in historical loss experience.

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, rising unemployment or a protracted period of unemployment at current elevated levels, increasing vacancy rates in commercial investment properties and

possible increases in interest rates in the absence of economic improvement. 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 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. The first step in the process is estimating the fair value of the Reporting Unit. 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. The second step in the process compares the implied fair value of the Reporting Unit s goodwill with the carrying amount of that goodwill The first step utilizes 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. In addition, these valuation techniques are prepared utilizing a GAAP established fair value hierarchy which prioritizes the inputs used to measure fair value. They are defined as Level 1 measurements, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, Level 2 measurements, which utilize quoted prices in markets that are not active, or inputs that are observable either directly or indirectly and Level 3 measurements, which are the lowest priority to unobservable inputs and supported by little or no market activity.

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 are 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 are 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, 2010, 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, 2010 was completed in the fourth quarter of 2010, with no further impairment indicated based on the step one analysis. The step one analysis at September 30, 2010 indicated that the fair value of the Reporting Unit substantially exceeded the carrying value of the reporting unit by 27.5%. At September 30, 2010, the carrying value of goodwill was $346.3 million.

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 5 to the audited 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. In this evaluation, 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 earnings. 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. Turmoil in the credit markets resulted in a lack of liquidity in certain sectors of 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 determines if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If either exists, the decline in value is considered other-than-temporary. In this evaluation, the Company recognized other-than-temporary securities impairment losses in earnings totaling $170,000, $2.0 million and $1.4 million in 2010, 2009 and 2008, respectively.

The determination of whether deferred tax assets will be realizable is predicated on the reversal of existing deferred tax liabilities, utilization against carryback years and 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. A valuation reserve of $1.1 million was established in 2009 pertaining primarily to state tax benefits on net operating losses at the Bank and unused capital loss carryforwards. The valuation allowance remains at $1.1 million for the year ended December 31, 2010. A valuation reserve of $1.7 million that had been established in 2007 pertaining primarily to state tax benefits on net operating losses at the Bank was eliminated in 2008 due to a large dividend payment the Bank received from a subsidiary, which reduced the state net operating losses to zero at December 31, 2008.

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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.

Average Balance Sheet. The following table sets forth certain information for the years ended December 31, 2010, 2009 and 2008. 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,								
	2010			2009			2008		
	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:									
Deposits	$ 98,940	$ 247	0.25%	$ 121,557	$ 304	0.25	$	$	%
Federal funds sold and short-term investments	1,951		0.01	25,790	37	0.14	16,238	510	3.14
Investment securities[1]	335,080	12,778	3.81	339,154	13,419	3.96	354,079	14,431	4.08
Securities available for sale	1,311,859	41,322	3.15	1,089,032	43,338	3.98	839,226	40,158	4.79
Federal Home Loan Bank Stock	34,979	1,821	5.21	35,918	1,848	5.15	39,424	2,432	6.17
Net loans[2]	4,274,549	230,366	5.39	4,303,808	233,613	5.43	4,280,478	246,789	5.77
Total interest-earning assets	6,057,358	286,534	4.73	5,915,259	292,559	4.95	5,529,445	304,320	5.50
Non-interest earning assets	726,114			757,161			862,104		
Total assets	$ 6,783,472			$ 6,672,420			$ 6,391,549		
Interest-bearing liabilities:									
Savings deposits	$ 886,963	4,061	0.46%	$ 874,281	6,284	0.72%	$ 941,057	9,915	1.05%
Demand deposits	2,096,259	18,369	0.88	1,672,379	22,710	1.36	1,215,059	23,273	1.92
Time deposits	1,377,185	25,275	1.84	1,629,467	45,561	2.80	1,545,794	55,699	3.60
Borrowed funds	939,311	29,864	3.18	1,056,723	36,987	3.50	1,163,531	43,364	3.73
Total interest-bearing liabilities	5,299,718	77,569	1.46	5,232,850	111,542	2.13	4,865,441	132,251	2.72
Non-interest bearing liabilities	573,238			525,352			515,142		
Total liabilities	5,872,956			5,758,202			5,380,583		
Stockholders equity	910,5160			914,218			1,010,966		
Total liabilities and equity	$ 6,783,472			$ 6,672,420			$ 6,391,549		
Net interest income		$ 208,965			$ 181,017			$ 172,069	
Net interest rate spread			3.27%			2.82%			2.78%
Net interest earning assets	$ 757,640			$ 682,409			$ 664,004		
Net interest margin[3]			3.45%			3.06%			3.11%

Ratio of interest-earning assets to total interest-bearing liabilities	1.14x	1.13x	1.14x

(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,					
	2010 vs. 2009			2009 vs. 2008		
	Increase/(Decrease) Due to		Total	Increase/(Decrease) Due to		Total
	Volume	Rate	Increase/ (Decrease)	Volume	Rate	Increase/ (Decrease)
	(In thousands)					
Interest-earning assets:						
Deposits, Federal funds sold and short-term investments	$ (94)	$	$ (94)	$ 696	$ (865)	$ (169)
Investment securities	(157)	(484)	(641)	(596)	(416)	(1,012)
Securities available for sale	7,955	(9,972)	(2,017)	10,698	(7,518)	3,180
Federal Home Loan Bank Stock	(47)	21	(26)	(204)	(380)	(584)
Loans	(1,543)	(1,704)	(3,247)	1,342	(14,518)	(13,176)
Total interest-earning assets	6,114	(12,139)	(6,025)	11,936	(23,697)	(11,761)
Interest-bearing liabilities:						
Savings deposits	90	(2,313)	(2,223)	(669)	(2,962)	(3,631)
Demand deposits	4,926	(9,267)	(4,341)	7,350	(7,913)	(563)
Time deposits	(6,289)	(13,997)	(20,286)	2,859	(12,997)	(10,138)
Borrowed funds	(3,904)	(3,219)	(7,123)	(3,815)	(2,562)	(6,377)
Total interest-bearing liabilities	(5,177)	(28,796)	(33,973)	5,725	(26,434)	(20,709)
Net interest income	$ 11,291	$ 16,657	$ 27,948	$ 6,211	$ 2,737	$ 8,948

Comparison of Financial Condition at December 31, 2010 and December 31, 2009

Total assets decreased $11.6 million, or 0.2%, to $6.82 billion at December 31, 2010, from $6.84 billion at December 31, 2009, due primarily to decreases in cash and other assets, which were partially offset by increases in investment securities and loans.

Cash and cash equivalents decreased $71.5 million, to $52.2 million at December 31, 2010, from $123.7 million at December 31, 2009. The Company utilized these funds to repay higher-costing maturing certificates of deposit and borrowings, purchase investment securities and originate loans retained for portfolio.

Total investments increased $60.7 million, or 3.6%, during the year ended December 31, 2010. Securities purchases for the year ended December 31, 2010 consisted primarily of U.S. Government Agency guaranteed mortgage-backed securities.

Total loans increased $25.6 million, or 0.6%, to $4.41 billion at December 31, 2010, from $4.38 billion at December 31, 2009. For the year ended December 31, 2010, loan originations totaling $1.14 billion and loan purchases of $90.4 million were partially offset by repayments of $1.15 billion and loan sales of $18.1 million. Multi-family loans increased $159.5 million to $387.2 million at December 31, 2010, compared to $227.7 million at December 31, 2009. Commercial real estate loans increased $90.2 million to $1.18 billion at December 31, 2010, compared to $1.09 billion at December 31, 2009. Residential mortgage loans decreased $105.0 million to $1.39 billion at December 31, 2010, compared to $1.49 billion at December 31, 2009, as loan repayments attributable to an active refinance market outpaced originations. One- to four-family residential mortgage loan originations totaled $152.0 million and one- to four-family residential mortgage loans purchased totaled $90.4 million for the year ended December 31, 2010. Principal repayments on residential mortgage loans totaled $327.4 million, and residential mortgage loans sold totaled $18.1 million for the year ended December 31, 2010. Construction loans decreased $70.7 million to $125.2 million at December 31, 2010, compared to $195.9 million at December 31, 2009. The Company has de-emphasized construction lending for the past two years due to adverse market conditions. Commercial loans decreased $30.3 million to $755.5 million at December 31, 2010, compared to $785.8 million at December 31, 2009. Consumer loans decreased $16.9 million to $569.6 million at December 31, 2010, compared to $586.5 million at December 31, 2009.

Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $2.45 billion, accounting for 55.6% of the loan portfolio at December 31, 2010, compared to $2.30 billion, or 52.5% of the loan portfolio at December 31, 2009. The Company intends to continue to focus on the origination of commercially-oriented loans. Retail loans, which consist of one- to four-family residential mortgage and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $1.96 billion and accounted for 44.4% of the loan portfolio at December 31, 2010, compared to $2.08 billion, or 47.5%, of the loan portfolio at December 31, 2009. The increase in commercial loans as a percentage of the total loan portfolio was a result of growth in the multi-family and commercial mortgage portfolios, coupled with reductions in retail loans attributable to refinance activity, the market preference for longer-term fixed-rate loans, which the Company chooses to sell rather than retain for portfolio as part of its interest rate risk management process, and lack of qualified retail loan demand.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated Alt-A mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50% on a limited basis. The balance of these Alt-A loans at December 31, 2010 was $14.7 million. Of this total, 8 loans totaling $2.9 million were 90 days or more delinquent. General valuation reserves of 10%, or $293,000, were allocated to these loans at December 31, 2010.

The Company participates in loans originated by other banks, including participations designated as Shared National Credits (SNC). The Company s gross commitments and outstanding balances as a participant in SNCs were $106.9 million and $76.1 million, respectively, at December 31, 2010. The Company s participations in SNCs included five relationships classified as substandard (rated 7) under the Company s loan risk rating system with gross commitments of $49.4 million and outstanding balances of $48.6 million, respectively, at December 31, 2010. Of these adversely classified SNCs, four loan relationships consisted of commercial construction loans on properties located in New York City and New Jersey, and one was a commercial loan to a Pennsylvania media company. All of the Company s SNC participations were current as to the payment of principal and interest as of December 31, 2010, with the exception of one $4.3 million commercial mortgage loan for which payments had been received but were unapplied at December 31, 2010, while the terms of an extension were negotiated among lending participants. This loan was subsequently extended and principal and interest were paid current.

The Company had outstanding junior lien mortgages totaling $297.6 million at December 31, 2010. Of this total, 52 loans totaling $4.2 million were 90 days or more delinquent. General valuation reserves of 10%, or $417,000, were allocated to these loans at December 31, 2010.

At December 31, 2010, the Company had outstanding indirect marine loans totaling $67.8 million. Of this total, 5 loans totaling $429,000 were 90 days or more delinquent. General valuation reserves of 30%, or $129,000, were allocated to these loans at December 31, 2010. Marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The allowance for loan losses increased $8.0 million to $68.7 million at December 31, 2010, as a result of provisions for loan losses of $35.5 million, partially offset by net charge-offs of $27.5 million during 2010. The increase in the allowance for loan losses was attributable to an increase in non-performing loans, downgrades in

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credit risk ratings and an increase in commercial loans as a percentage of the loan portfolio to 55.6% at December 31, 2010, from 52.5% at December 31, 2009. Total non-performing loans at December 31, 2010 were $97.3 million, or 2.21% of total loans, compared with $84.5 million, or 1.93% of total loans at December 31, 2009. At December 31, 2010, impaired loans totaled $47.7 million with related specific reserves of $2.3 million. Within total impaired loans, there were $31.9 million of loans for which the present value of expected future cash flows or current collateral valuations exceeded the carrying amounts of the loans and for which no specific reserves were required in accordance with GAAP. At December 31, 2010, the Company s allowance for loan losses was 1.56% of total loans, compared with 1.39% of total loans at December 31, 2009.

Non-performing residential mortgage loans increased $12.6 million, to $41.2 million at December 31, 2010, from $28.6 million at December 31, 2009. In addition, non-performing consumer loans increased $44,000, to $6.8 million at December 31, 2010. The Company attributes the increase in non-performing residential mortgage and consumer loans to continued elevated levels of unemployment, decreased real estate values and increased personal debt levels.

Non-performing commercial loans increased $11.0 million, to $23.5 million at December 31, 2010, from $12.5 million at December 31, 2009. Non-performing commercial loans at December 31, 2010 consisted of 70 loans. The largest non-performing commercial loan relationship consisted of four loans to a power systems manufacturer with total outstanding balances of $9.6 million at December 31, 2010. All contractual payments on these loans were current at December 31, 2010.

The Company held one $201,000 non-performing multi-family loan at December 31, 2010. There were no non-performing multi-family loans at December 31, 2009.

Non-performing commercial mortgage loans decreased $7.3 million, to $16.1 million at December 31, 2010, from $23.4 million at December 31, 2009, primarily as a result of gross charge-offs of $10.5 million. At December 31, 2010, the Company held 11 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan relationship consisted of two loans to a single real estate developer related to projects located in Delaware. The first loan is secured by a planned unit development of 203 single family detached townhouse and age-restricted units that was written down to its current estimated collateral value of $6.2 million. The second is commercial mortgage loan secured by a 184-unit, age-restricted townhouse project of which 126 units were unsold. This loan was written down to its current estimated collateral value of $3.9 million at December 31, 2010. There is no contractual commitment to advance additional funds to this borrower.

Non-performing construction loans decreased $3.8 million, to $9.4 million at December 31, 2010, from $13.2 million at December 31, 2009, as a result of repayments and a completed foreclosure. At December 31, 2010, non-performing construction loans consisted of a $9.4 million senior participation interest in a $283.0 million SNC. Proceeds from this construction loan facility are being used to convert an existing 35-story, 631,000 square foot office building in New York City into a mixed-use 346-unit residential condominium and 251-room hotel. The project has been impacted by additional costs and a decline in sales activity. While this loan has been classified as non-accrual, the hotel was completed and began operations in 2010. The loan was current as to principal and interest at December 31, 2010. The Company estimates a loan-to-value ratio of approximately 85% at December 31, 2010, and therefore, in accordance with GAAP, no specific reserve has been allocated to this loan. The Company has no additional unfunded commitment on this loan.

At December 31, 2010, the Company held $2.9 million of foreclosed assets, compared with $6.4 million at December 31, 2009. Foreclosed assets at December 31, 2010 are carried at the lower of the outstanding loan balance at the time of foreclosure or fair value, less estimated costs to sell. Foreclosed assets consisted of $1.1 million of residential properties, $1.0 million of commercial real estate and $745,000 of marine vessels at December 31, 2010.

Non-performing assets totaled $100.1 million, or 1.47% of total assets at December 31, 2010, compared to $90.9 million, or 1.33% of total assets at December 31, 2009.

Other assets decreased $13.0 million to $74.6 million at December 31, 2010, compared to $87.6 million at December 31, 2009. This decrease was primarily due to the settlement in 2010 of equity fund redemptions that were pending as of December 31, 2009, and amortization of prepaid FDIC insurance.

Total deposits decreased $21.4 million, or 0.4%, to $4.88 billion at December 31, 2010, from $4.90 billion at December 31, 2009. Core deposits, consisting of savings and demand deposit accounts, increased $207.9 million, or 6.1%, to $3.60 billion at December 31, 2010, from $3.39 billion at December 31, 2009. The majority of the core deposit increase occurred in retail and business checking deposits. Certificates of deposit decreased $229.3 million, or 15.2%, to $1.28 billion at December 31, 2010, from $1.51 billion at December 31, 2009, with the majority of the decrease occurring in the 15-month and shorter maturity categories. The Company remains focused on cultivating core deposit relationships, while strategically permitting the run-off of certain higher-cost, single-service time deposits. Core deposits represented 73.8% of total deposits at December 31, 2010, compared to 69.2% at December 31, 2009.

Borrowed funds were reduced by $29.6 million, or 3.0%, during the year ended December 31, 2010, to $969.7 million, as the Company deployed excess liquidity arising from increased core deposit funding. Borrowed funds represented 14.2% of total assets at December 31, 2010, a reduction from 14.6% at December 31, 2009.

Total stockholders equity increased $37.1 million to $921.7 million at December 31, 2010, from $884.6 million at December 31, 2009. This increase was a result of net income of $49.7 million, other comprehensive income of $10.5 million, and the allocation of shares to stock-based compensation plans of $5.6 million, partially offset by cash dividends of $25.0 million, and common stock repurchases of $193,000.

Comparison of Operating Results for the Years Ended December 31, 2010 and December 31, 2009

General. Net income for the year ended December 31, 2010 was $49.7 million, compared to a net loss of $121.8 million for the year ended December 31, 2009. Basic and diluted earnings per share were $0.88 for the year ended December 31, 2010, compared to a basic and diluted loss per share of $2.16 for 2009. For the year ended December 31, 2010, the Company recorded an impairment charge of $1.5 million, or $904,000 net of tax, arising from the anticipated sale and relocation of its administrative building in the first half of 2011. The carrying value of the existing premises and equipment was adjusted to reflect its current estimated realizable value, net of selling expenses. The Company expects to realize operational efficiencies and reduced occupancy expense as a result of the relocation. Compared with the year ended December 31, 2009, earnings for the year ended December 31, 2010 reflected a $27.9 million increase in net interest income and lower operating costs of $5.8 million, excluding a $152.5 million goodwill impairment charge incurred in 2009. These improvements were partially offset by an increase in income tax expense of $9.6 million resulting from increased taxable income and an increase in the provision for loan losses of $5.3 million attributable to increases in non-performing loans, downgrades in credit risk ratings, and an increase in commercial loans as a percentage of the total loan portfolio. Additionally, earnings for the year ended December 31, 2009 were impacted by an industry-wide special assessment imposed by the FDIC as part of its plan to restore the deposit insurance fund. The cost of this special assessment to the Company in the second quarter of 2009 was $3.1 million, or $1.9 million net of tax.

Net Interest Income. Net interest income increased $27.9 million, or 15.4%, to $209.0 million for 2010, from $181.0 million for 2009. The average interest rate spread increased 45 basis points to 3.27% for 2010, from 2.82% for 2009. The net interest margin increased 39 basis points to 3.45% for 2010, compared to 3.06% for 2009.

Interest income decreased $6.0 million, or 2.1%, to $286.5 million for 2010, compared to $292.6 million for 2009. The decrease in interest income was attributable to a decrease in the yield on average earning assets, partially offset by an increase in average earning asset balances. The yield on interest-earning assets decreased 22 basis points to 4.73% for 2010, from 4.95% for 2009, with reductions in yields experienced in nearly all earning asset classes. Average interest-earning assets increased $111.1 million, or 1.7%, to $6.06 billion for 2010, compared to $5.92 billion for 2009. The average balance of securities available for sale increased $222.8 million, or 20.5%, to $1.31 billion for 2010, compared to $1.09 billion for 2009. This increase was partially offset by a decrease in average interest-earning deposits, Federal funds sold and short-term investment balances of $46.5 million, or 31.5%, to $100.9 million for 2010, from $147.3 million for 2009. In addition, average outstanding loan balances decreased $29.3 million, or 0.7%, to $4.27 billion for 2010 from $4.30 billion for 2009, and the average balance of investment securities decreased $4.1 million, or 1.2%, to $335.1 million for 2010, compared to $339.2 million for 2009.

Interest expense decreased $34.0 million, or 30.5%, to $77.6 million for 2010, from $111.5 million for 2009. The decrease in interest expense was attributable to lower short-term interest rates coupled with a shift in the funding composition to lower-costing core deposits from certificates of deposit and a reduction in average borrowings, partially offset by an increase in average interest-bearing deposit balances. The average rate paid on interest-bearing liabilities decreased 67 basis points to 1.46% for 2010, from 2.13% for 2009. The average rate paid on interest-bearing deposits decreased 70 basis points to 1.09% for 2010, from 1.79% for 2009. The average rate paid on borrowings decreased 32 basis points to 3.18% for 2010, from 3.50% for 2009. The average balance of interest-bearing liabilities increased $66.9 million, or 1.3%, to $5.30 billion for 2010, compared to $5.23 billion for 2009. Average interest-bearing deposits increased $184.3 million, or 4.4%, to $4.36 billion for 2010, from $4.18 billion for 2009. Within average interest-bearing deposits, average interest-bearing core deposits increased $436.6 million, or 17.1%, for 2010, compared with 2009, while average time deposits decreased $252.3 million, or 15.5%, for 2010, compared with 2009. Further aiding the increase in net interest income, average non-interest bearing deposits increased $50.4 million, or 10.6%, to $528.1 million for 2010, from $477.7 million for 2009. Average outstanding borrowings decreased $117.4 million, or 11.1%, to $939.3 million for 2010, compared with $1.06 billion for 2009, as deposits replaced wholesale funding.

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 later 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 loans has been one of the more significant factors management has considered in evaluating the allowance for loan losses and provision for loan losses for the past several years. 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 $35.5 million in 2010, compared to $30.3 million in 2009. The increase in the provision for loan losses was attributable to an increase in non-performing loans; downgrades in credit risk ratings; an increase in commercial loans as a percentage of the total loan portfolio to 55.6% at December 31, 2010, from 52.5% at December 31, 2009; and the impact of current macroeconomic conditions. Net charge-offs for 2010 were $27.5 million, compared to $17.2 million for 2009. Total charge-offs for the year ended December 31, 2010 were $29.5 million, compared to $19.6 million for the year ended December 31, 2009. Recoveries for the year ended December 31, 2010 were $1.9 million, compared to $2.4 million for the year ended December 31, 2009. The allowance for loan losses at December 31, 2010 was $68.7 million, or 1.56% of total loans, compared to $60.7 million, or 1.39% of total loans at December 31, 2009. At December 31, 2010, non-performing loans as a percentage of total loans were 2.21%, compared to 1.93% at December 31, 2009. Non-performing assets as a percentage of total assets were 1.47% at December 31, 2010, compared to 1.33% at December 31, 2009. At December 31, 2010, non-performing loans were $97.3 million, compared to $84.5 million at December 31, 2008, and non-performing assets were $100.1 million at December 31, 2010, compared to $90.9 million at December 31, 2009.

Non-Interest Income. For the year ended December 31, 2010, non-interest income totaled $31.6 million, an increase of $100,000, or 0.3%, compared to 2009. Other income declined $1.3 million for the year ended December 31, 2010, compared with 2009, primarily as a result of a reduction in gains resulting from fewer loan sales and a non-recurring gain recognized on the sale of a Bank-owned parcel of land in 2009. Fee income for the year ended December 31, 2010 decreased $542,000, or 2.2%, compared to the same period in 2009, primarily as a result of a decrease in equity fund income due to the redemption of equity fund holdings in late 2009. In addition, net gains on securities transactions declined $513,000 for the year ended December 31, 2010, compared with the same period in 2009. These net gains on securities transactions totaled $885,000 for the year ended December 31, 2010, compared with net gains of $1.4 million for the same period in 2009. The Company recognized other-than-temporary impairment charges on securities of $170,000 and $2.0 million during the years ended December 31, 2010 and 2009, respectively. Income related to Bank-owned life insurance increased $558,000 for the year ended December 31, 2010, compared to the same period in 2009, as a result of appreciation in the cash surrender value and the receipt of policy claim proceeds in the second quarter of 2010.

Non-Interest Expense. Non-interest expense for the year ended December 31, 2010 was $138.7 million. Excluding the $152.5 million non-cash goodwill impairment charge recorded in the first quarter of 2009, non-interest expense decreased $5.8 million, or 4.0%, from $144.5 million for the year ended December 31, 2009. FDIC insurance expense decreased $4.1 million to $7.6 million for the year ended December 31, 2010, compared with 2009. In the prior year, a $3.1 million special assessment was imposed on the Company as part of an industry-wide plan to restore the deposit insurance fund. In addition, amortization of intangibles decreased $1.3 million for the year ended December 31, 2010, compared with 2009, as a result of scheduled reductions in core deposit intangible amortization and the non-recurring acceleration in core deposit intangible amortization related to the sale of branches in 2009. Other operating expenses decreased $2.0 million for the year ended December 31, 2010. This reduction was primarily due to non-recurring costs incurred in 2009 related to branch consolidations and sales, and the dissolution of a real estate joint venture. These decreases were partially offset by a charge recorded in 2010 related to the planned relocation of the Company s administrative building.

Income Tax Expense. For the year ended December 31, 2010, the Company s income tax expense was $16.6 million, compared with $7.0 million for 2009. The increase in income tax expense was attributable to increased pre-tax income and a higher effective tax rate. The Company s effective tax rate was 25.0% for the year ended December 31, 2010, compared with 18.6% for the year ended December 31, 2009. The increase in the effective tax rate was attributable to increased taxable income for 2010.

Comparison of Operating Results for the Years Ended December 31, 2009 and December 31, 2008

General. The Company realized a net loss of $121.8 million for the year ended December 31, 2009, compared to net income of $41.6 million for the year ended December 31, 2008. The basic and diluted loss per share was $2.16 for the year ended December 31, 2009, compared to basic and diluted earnings per share of $0.74 for 2008. The primary reason for the net loss in 2009 was the recognition of a $152.5 million goodwill impairment charge. The goodwill impairment charge was a non-cash accounting adjustment to the Company s financial statements which did not affect cash flows, liquidity, or tangible capital. As goodwill is excluded from regulatory capital, the impairment charge did not impact the regulatory capital ratios of the Company or its wholly owned subsidiary, The Provident Bank, both of which remained well-capitalized under then current regulatory requirements.

Earnings for the year ended December 31, 2009 compared with 2008 also reflected an increase in the provision for loan losses due to the following: an increase in non-performing loans; downgrades in credit risk ratings; an increase in commercial loans as a percentage of the total loan portfolio; and the impact of current macroeconomic conditions. The provision for loan losses was $30.3 million for the year ended December 31, 2009, compared with $15.1 million for 2008. In addition, earnings for the year ended December 31, 2009 were impacted by a special assessment imposed on the banking industry by the FDIC as part of its plan to restore the deposit insurance fund. The cost of this special assessment to the Company was $3.1 million, which resulted in a charge of $1.9 million, net of tax, recognized during the second quarter of 2009.

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Net Interest Income. Net interest income increased $8.9 million, or 5.2%, to $181.0 million for 2009, from $172.1 million for 2008. The average interest rate spread increased 4 basis points to 2.82% for 2009, from 2.78% for 2008. The net interest margin decreased 5 basis points to 3.06% for 2009, compared to 3.11% for 2008.

Interest income decreased $11.8 million, or 3.9%, to $292.6 million for 2009, compared to $304.3 million for 2008. The decrease in interest income was primarily attributable to a decrease in the yield on average earning assets, partially offset by an increase in average earning asset balances. The yield on interest-earning assets decreased 55 basis points to 4.95% for 2009, from 5.50% for 2008, with reductions in yields experienced in all earning asset classes. Average interest-earning assets increased $385.8 million, or 7.0%, to $5.92 billion for 2009, compared to $5.53 billion for 2008. The average balance of securities available for sale increased $249.8 million, or 29.8%, to $1.09 billion for 2009, compared to $839.2 million for 2008. Average deposits, Federal funds sold and short-term investment balances increased $131.1 million, to $147.3 million for 2009, from $16.2 million for 2008. Average outstanding loan balances increased $23.3 million, or 0.5%, to $4.30 billion for 2009 from $4.28 billion for 2008. The average balance of investment securities decreased $14.9 million, or 4.2%, to $339.2 million for 2009, compared to $354.1 million for 2008.

Interest expense decreased $20.7 million, or 15.7%, to $111.5 million for 2009, from $132.3 million for 2008. The decrease in interest expense was attributable to lower short-term interest rates and a reduction in average borrowings, partially offset by an increase in average deposits. The average rate paid on interest-bearing liabilities decreased 59 basis points to 2.13% for 2009, from 2.72% for 2008. The average rate paid on interest-bearing deposits decreased 61 basis points to 1.79% for 2009, from 2.40% for 2008. The average rate paid on borrowings decreased 23 basis points to 3.50% for 2009, from 3.73% for 2008. The average balance of interest-bearing liabilities increased $367.4 million, or 7.6%, to $5.23 billion for 2009, compared to $4.87 billion for 2008. Average interest-bearing deposits increased $474.2 million, or 12.8%, to $4.18 billion for 2009, from $3.70 billion for 2008. Average interest-bearing core deposits increased $390.5 million, or 18.1%, for 2009, compared with 2008, while average time deposits increased $83.7 million, or 5.4%, for 2009, compared with 2008. Average outstanding borrowings decreased $106.8 million, or 9.2%, to $1.06 billion for 2009, compared with $1.16 billion for 2008.

Provision for Loan Losses. The provision for loan losses was $30.3 million in 2009, compared to $15.1 million in 2008. The increase in the provision for loan losses was attributable to an increase in non-performing loans; downgrades in credit risk ratings; an increase in commercial loans as a percentage of the total loan portfolio to 52.5% at December 31, 2009, from 46.5% at December 31, 2008; and the impact of macroeconomic conditions. Net charge-offs for 2009 were $17.2 million, compared to $8.2 million for 2008. Total charge-offs for the year ended December 31, 2009 were $19.6 million, compared to $10.4 million for the year ended December 31, 2008. Recoveries for the year ended December 31, 2009 were $2.4 million, compared to $2.3 million for the year ended December 31, 2008. The allowance for loan losses at December 31, 2009 was $60.7 million, or 1.39% of total loans, compared to $47.7 million, or 1.05% of total loans at December 31, 2008. At December 31, 2009, non-performing loans as a percentage of total loans were 1.93%, compared to 1.31% at December 31, 2008. Non-performing assets as a percentage of total assets were 1.33% at December 31, 2009, compared to 0.96% at December 31, 2008. At December 31, 2009, non-performing loans were $84.5 million, compared to $59.1 million at December 31, 2008, and non-performing assets were $90.9 million at December 31, 2009, compared to $62.6 million at December 31, 2008.

Non-Interest Income. For the year ended December 31, 2009, non-interest income totaled $31.5 million, an increase of $1.2 million, or 4.1%, compared to the same period in 2008. Fee income increased $830,000 for the year ended December 31, 2009, compared with 2008, primarily due to an increase in the value of equity fund holdings. In addition, net gains on securities transactions increased $470,000 for the year ended December 31, 2009, compared with 2008. Other income increased $454,000 for the year ended December 31, 2009, compared with the same period in 2008, primarily due to an increase in gains on loan sales. Income from the appreciation in the cash surrender value of Bank-owned life insurance increased $108,000 for the year ended December 31, 2009, compared with 2008. Partially offsetting these improvements, the Company recognized other-than-

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temporary impairment charges on securities of $2.0 million during the year ended December 31, 2009, compared with other-than-temporary impairment charges of $1.4 million recognized in 2008.

Non-Interest Expense. Excluding the $152.5 million goodwill impairment charge recorded in the first quarter of 2009, non-interest expense increased $13.9 million, or 10.7%, to $144.5 million for the year ended December 31, 2009, compared to $130.6 million for the year ended December 31, 2008. FDIC insurance expense increased $11.1 million for the year ended December 31, 2009, compared with 2008, as a result of deposit growth, increased premium rates and the FDIC special assessment imposed on the industry as part of its plan to restore the deposit insurance fund. The cost of the FDIC special assessment was $3.1 million. Other operating expenses increased $3.1 million for the year ended December 31, 2009, compared with 2008, due primarily to $1.3 million of charges related to the consolidation and divestiture of premises and costs associated with the dissolution of a real estate development joint venture. Compensation and benefits expense increased $968,000 for the year ended December 31, 2009, compared with 2008, primarily due to a $1.5 million increase in severance costs during the year ended December 31, 2009. Severance included costs associated with the retirements of two senior executives in the third quarter of 2009. These increases were partially offset by a $966,000 decrease in the amortization of intangibles as a result of scheduled reductions in core deposit amortization, and reductions in net occupancy expense totaling $639,000.

Income Tax Expense. For the year ended December 31, 2009, the Company s income tax expense was $7.0 million, compared with $14.9 million for 2008. The decrease in income tax expense was attributable to lower pre-tax income and a lower effective tax rate. Excluding the impact of the goodwill impairment charge recognized in the first quarter of 2009, which is not tax deductible, the Company s effective tax rate was 18.6% for the year ended December 31, 2009, compared with 26.4% for the year ended December 31, 2008. The reduction in the effective tax rate was attributable to a larger proportion of the Company s income being derived from tax-exempt sources.

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. These lines of credit are subject to annual renewal. As of December 31, 2010, there were $53.0 million of borrowings 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, 2010 and 2009, loan repayments totaled $1.15 billion and $1.13 billion, respectively.

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 $1.23 billion for the year ended December 31, 2010, compared to $1.20 billion for the year ended December 31, 2009. Purchases for the investment portfolio totaled $626.3 million for the year ended December 31, 2010, compared to $817.9 million for the year ended December 31, 2009.

At December 31, 2010, the Bank had outstanding loan commitments to borrowers of $732.2 million, including undisbursed home equity lines and personal credit lines of $258.7 million at December 31, 2010. Total

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deposits decreased $21.4 million for the year ended December 31, 2010. Deposit activity is affected by changes in interest rates, competitive pricing and product offerings in the marketplace, local economic conditions, customer confidence and other factors such as stock market volatility. Certificate of deposit accounts that are scheduled to mature within one year totaled $819.5 million at December 31, 2010. 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, 2010, the Bank exceeded all minimum regulatory capital requirements. At December 31, 2010, the Bank s leverage (Tier 1) capital ratio was 7.19%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2010, the Bank s total risk-based capital ratio was 12.17%. 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 total 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, 2010, 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	$ 708,831	$ 431,065	$ 146,076	$ 1,470	$ 130,220
Letters of credit	23,389	11,492	11,897		
Total Off-Balance Sheet	732,220	442,557	157,973	1,470	130,220
Contractual Obligations:					
Operating leases	34,363	4,684	8,089	6,089	15,501
Certificate of deposits	1,278,262	819,509	289,854	167,822	1,077
Total Contractual Obligations	1,312,625	824,193	297,943	173,911	16,578
Total	$ 2,044,845	$ 1,266,750	$ 455,916	$ 175,381	$ 146,798

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 $732.2 million at December 31, 2010, a decrease of $35.7 million, or 4.6%, from $767.9 million at December 31, 2009.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There were no securities purchases that were entered into in December 2010 or 2009 that would have settled in January 2010 or 2009, respectively. Total contractual obligations at December 31, 2010 were $1.31 billion, a decrease of $210.1 million, or 13.8%, compared to $1.52 billion at December 31, 2009. Contractual obligations under operating leases increased $19.3 million, or 127.4%, to $34.4 million at December 31, 2010, from $15.1 million at December 31, 2009, and certificate of deposit accounts decreased $229.3 million, or 15.2%, to $1.28 billion at December 31, 2010, from $1.51 billion at December 31, 2009.

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 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 initially between three and five years.

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 and Chief Financial Officer, as well as other senior officers from the Bank s finance, lending, credit 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 26.2% at December 31, 2010 compared to 30.8% at December 31, 2009. Certificate of deposit accounts are generally short-term. As of December 31, 2010, 64.1% of all time deposits had maturities of one year or less compared to 74.0% at December 31, 2009. 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 repricing 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;
- Retail Money Market and Business Money Market accounts move at 25% and 75% of the rate ramp in either direction, respectively; and
- Higher-balance demand deposit tiers and promotional demand accounts move at 50% to 75% 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, 2010.

Change in Interest Rates in Basis Points (Rate Ramp)	Amount ($)	Net Interest Income Change ($)	Change (%)
		(Dollars in thousands)	
-100	213,510	(4,465)	(2.0)
Static	217,975		
+100	214,314	(3,661)	(1.7)
+200	209,210	(8,765)	(4.0)
+300	204,658	(13,317)	(6.1)

The above table indicates that as of December 31, 2010, in the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, the Company would experience a 6.1%, or $13.3 million decrease in net interest income. In the event of a 100 basis point decrease in interest rates, whereby rates ramp down evenly over a twelve-month period, the Company would experience a 2.0%, or $4.5 million decrease 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, 2010.

	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)				
-100	1,203,086	63,901	5.6	16.8	4.2
Flat	1,139,185			16.1	
+100	1,075,638	(63,547)	(5.6)	15.4	(4.2)
+200	999,554	(139,631)	(12.3)	14.6	(9.7)
+300	904,390	(234,795)	(20.6)	13.4	(16.8)

The preceding table indicates that as of December 31, 2010, in the event of an immediate and sustained 300 basis point increase in interest rates, the Company would experience a 20.6%, or $234.8 million reduction in the present value of equity. If rates were to decrease 100 basis points, the Company would experience a 5.6%, or $63.9 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, 2010 and 2009

(2) Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008

(3) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2010, 2009 and 2008

(4) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008

(5) Notes to Consolidated Financial Statements

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

(1) Condensed Statement of Financial Condition as of December 31, 2010 and 2009

(2) Condensed Statement of Income for the years ended December 31, 2010, 2009 and 2008

(3) Condensed Statement of Cash Flows for the years ended December 31, 2010, 2009 and 2008

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, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2010. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of evaluating other-than-temporary impairment of debt securities due to the adoption of new accounting requirements issued by the Financial Accounting Standards Board, as of April 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Provident Financial Services, Inc. s internal control over financial reporting as of December 31, 2010, 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 March 1, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey

March 1, 2011

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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. s (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s 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 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. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the 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, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 1, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Short Hills, New Jersey

March 1, 2011

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2010 and 2009

(Dollars in Thousands, except share data)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 51,345	$ 120,823
Short-term investments	884	2,920
Total cash and cash equivalents	52,229	123,743
Investment securities held to maturity (fair value of $351,680 and $344,385 at December 31, 2010 and December 31, 2009, respectively)	346,022	335,074
Securities available for sale, at fair value	1,378,927	1,333,163
Federal Home Loan Bank Stock	38,283	34,276
Loans	4,409,813	4,384,194
Less allowance for loan losses	68,722	60,744
Net loans	4,341,091	4,323,450
Foreclosed assets, net	2,858	6,384
Banking premises and equipment, net	74,257	76,280
Accrued interest receivable	25,257	25,797
Intangible assets	354,220	358,058
Bank-owned life insurance	136,768	132,346
Other assets	74,616	87,601
Total assets	$ 6,824,528	$ 6,836,172
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 2,706,204	$ 2,522,732
Savings deposits	893,268	868,835
Certificates of deposit of $100,000 or more	412,155	469,313
Other time deposits	866,107	1,038,297
Total deposits	4,877,734	4,899,177
Mortgage escrow deposits	19,558	18,713
Borrowed funds	969,683	999,233
Other liabilities	35,866	34,494
Total liabilities	5,902,841	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 59,921,065 shares outstanding at December 31, 2010, and 83,209,293 shares issued and 59,821,850 shares outstanding at December 31, 2009, respectively	832	832
Additional paid-in capital	1,017,315	1,014,856

Retained earnings		332,472		307,751
Accumulated other comprehensive income		14,754		7,731
Treasury stock		(385,094)		(384,973)
Unallocated common stock held by the Employee Stock Ownership Plan		(58,592)		(61,642)
Common stock acquired by the Directors Deferred Fee Plan		(7,482)		(7,575)
Deferred compensation Directors Deferred Fee Plan		7,482		7,575
Total stockholders equity		921,687		884,555
Total liabilities and stockholders equity	$	6,824,528	$	6,836,172

See accompanying notes to consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2010, 2009 and 2008

(Dollars in Thousands, except share data)

	Years ended December 31, 2010	2009	2008
Interest income:			
Real estate secured loans	$ 160,460	$ 159,094	$ 167,063
Commercial loans	41,427	43,057	42,999
Consumer loans	28,479	31,462	36,727
Investment securities	12,778	13,419	14,431
Securities available for sale and Federal Home Loan Bank stock	43,143	45,186	42,590
Deposits, Federal funds sold and other short-term investments	247	341	510
Total interest income	286,534	292,559	304,320
Interest expense:			
Deposits	47,705	74,555	88,887
Borrowed funds	29,864	36,987	43,364
Total interest expense	77,569	111,542	132,251
Net interest income	208,965	181,017	172,069
Provision for loan losses	35,500	30,250	15,100
Net interest income after provision for loan losses	173,465	150,767	156,969
Non-interest income:			
Fees	23,679	24,221	23,391
Bank-owned life insurance	5,948	5,390	5,282
Other-than-temporary impairment losses on securities	(3,116)	(11,043)	(1,410)
Portion of loss recognized in other comprehensive income (before taxes)	2,946	9,012	
Net impairment losses on securities recognized in earnings	(170)	(2,031)	(1,410)
Net gain on securities transactions	885	1,398	928
Other income	1,210	2,474	2,020
Total non-interest income	31,552	31,452	30,211
Non-interest expense:			
Goodwill impairment		152,502	
Compensation and employee benefits	69,865	68,738	67,770
Net occupancy expense	19,777	20,170	20,809
Data processing expense	8,984	9,325	9,194
FDIC Insurance	7,631	11,778	634
Impairment of premises and equipment	1,528		
Advertising and promotion expense	4,049	4,291	4,106
Amortization of intangibles	3,831	5,111	6,077
Other operating expenses	23,083	25,121	22,011

Total non-interest expenses	138,748	297,036	130,601
Income (loss) before income tax expense	66,269	(114,817)	56,579
Income tax expense	16,564	7,007	14,937
Net income (loss)	$ 49,705	$ (121,824)	$ 41,642
Basic earnings (loss) per share	$ 0.88	$ (2.16)	$ 0.74
Average basic shares outstanding	56,572,040	56,275,694	56,031,273
Diluted earnings (loss) per share	$ 0.88	$ (2.16)	$ 0.74
Average diluted shares outstanding	56,572,040	56,275,694	56,031,318

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, 2010, 2009 and 2008

(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, 2007	$ 832	$ 1,009,120	$ 437,503	$ 4,335	$ (383,407)	$ (67,589)	$ (7,759)	$ 7,759	$ 1,000,794
Comprehensive income:									
Net income			41,642						41,642
Other comprehensive income:									
Unrealized holding gain on securities arising during the period (net of tax of $240)				410					410
Reclassification adjustment for losses included in net income (net of tax of ($192))				290					290
Amortization related to post-retirement obligations (net of tax of ($3,214))				(5,520)					(5,520)
Total comprehensive income									$ 36,822
Cash dividends paid			(24,701)						(24,701)
Distributions from DDFP		(3)					92	(92)	(3)
Purchases of treasury stock					(1,447)				(1,447)
Allocation of ESOP shares		(454)				2,949			2,495
Allocation of SAP shares		2,701							2,701
Allocation of stock options		1,929							1,929

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2010, 2009 and 2008 (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, 2008	$ 832	$ 1,013,293	$ 454,444	$ (485)	$ (384,854)	$ (64,640)	$ (7,667)	$ 7,667	$ 1,018,590
Comprehensive loss:									
Net loss			(121,824)						(121,824)
Other comprehensive loss:									
Other-than-temporary impairment on debt securities available for sale (net of tax of ($3,681))				(5,331)					(5,331)
Unrealized holding gain on securities arising during the period (net of tax of $7,912)				11,333					11,333
Reclassification adjustment for losses included in net income (net of tax of ($184))				449					449
Amortization related to post-retirement obligations (net of tax of $489)				1,765					1,765
Total comprehensive loss									$ (113,608)
Cash dividends paid			(24,869)						(24,869)
Distributions from DDFP		(8)					92	(92)	(8)
Purchases of treasury stock					(119)				(119)
Allocation of ESOP shares		(1,114)				2,998			1,884
Allocation of SAP shares		1,888							1,888
Allocation of stock options		797							797
Balance at December 31, 2009	$ 832	$ 1,014,856	$ 307,751	$ 7,731	$ (384,973)	$ (61,642)	$ (7,575)	$ 7,575	$ 884,555

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2010, 2009 and 2008 (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:									
Net income			49,705						49,705
Other comprehensive loss:									
Other-than-temporary impairment on debt securities available for sale (net of tax of ($1,203))				(1,743)					(1,743)
Unrealized holding gain on securities arising during the period (net of tax of $7,246)				10,492					10,492
Reclassification adjustment for gains included in net income (net of tax of $292)				(423)					(423)
Amortization related to post-retirement obligations (net of tax of $900)				(1,303)					(1,303)
Total comprehensive income									$ 56,728
Cash dividends paid			(24,984)						(24,984)
Distributions from DDFP		(6)					93	(93)	(6)
Purchases of treasury stock					(193)				(193)
Option exercises		(21)			72				51
Allocation of ESOP shares		(762)				3,050			2,288
Allocation of SAP shares		2,422							2,422
Allocation of stock options		826							826
Balance at December 31, 2010	$ 832	$ 1,017,315	$ 332,472	$ 14,754	$ (385,094)	$ (58,592)	$ (7,482)	$ 7,482	$ 921,687

See accompanying notes to consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2010, 2009 and 2008

(Dollars in Thousands)

	Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ 49,705	$ (121,824)	$ 41,642
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Goodwill impairment		152,502	
Depreciation and amortization of intangibles	10,748	12,383	13,903
Impairment of premises and equipment	1,528		
Provision for loan losses	35,500	30,250	15,100
Deferred tax benefit	(3,739)	(5,375)	(4,767)
Increase in cash surrender value of Bank-owned Life Insurance	(5,948)	(5,390)	(5,282)
Net amortization of premiums and discounts on securities	9,983	3,608	355
Accretion of net deferred loan fees	(1,006)	(2,128)	(2,053)
Amortization of premiums on purchased loans	2,038	2,836	2,569
Net increase in loans originated for sale	(18,139)	(98,654)	(16,458)
Proceeds from sales of loans originated for sale	19,316	100,574	16,502
Proceeds from sales of foreclosed assets	8,410	4,017	7,260
Allocation of ESOP shares	1,840	1,494	2,162
Allocation of stock award shares	2,422	1,888	2,701
Allocation of stock options	826	797	1,929
Net gain on sale of loans	(1,177)	(1,920)	(44)
Net gain on securities transactions	(885)	(1,398)	(928)
Impairment charge on securities	170	2,031	1,410
Net gain on sale of premises and equipment	(17)	(181)	(113)
Net loss (gain) on sale of foreclosed assets	5	(17)	(1)
Contribution to pension plan	(5,085)	(6,486)	
Decrease (increase) in accrued interest receivable	540	(1,931)	799
Increase in other assets	(16,146)	(41,990)	(9,606)
Increase (decrease) in other liabilities	1,372	(1,573)	(4,531)
Net cash provided by operating activities	92,261	23,513	62,549
Cash flows from investing activities:			
Proceeds from maturities, calls and paydowns of investment securities held to maturity	48,816	52,008	44,108
Purchases of investment securities held to maturity	(60,227)	(40,034)	(33,482)
Proceeds from sales of securities available for sale	18,926	75,466	36,898
Proceeds from maturities and paydowns of securities available for sale	506,595	281,509	190,630
Purchases of securities available for sale	(566,082)	(777,893)	(222,348)
BOLI benefits paid	1,523		
Purchases of loans	(90,430)	(55,145)	(267,823)
Net decrease (increase) in loans	58,783	105,350	(28,234)
Proceeds from sales of premises and equipment	2,101	502	2,049
Purchases of premises and equipment, net	(8,506)	(8,123)	(6,374)
Net cash used in investing activities	(88,501)	(366,360)	(284,576)
Cash flows from financing activities:			
Net (decrease) increase in deposits	(21,443)	672,841	1,516
Increase (decrease) in mortgage escrow deposits	845	(1,361)	1,999
Purchase of treasury stock	(193)	(119)	(1,447)
Cash dividends paid to stockholders	(24,984)	(24,869)	(24,701)

Stock options exercised	51		
Proceeds from long-term borrowings	245,800	106,000	410,600
Payments on long-term borrowings	(322,043)	(204,342)	(349,049)
Net increase (decrease) in short-term borrowings	46,693	(150,106)	111,026
Net cash (used in) provided by financing activities	(75,274)	398,044	149,944
Net (decrease) increase in cash and cash equivalents	(71,514)	55,197	(72,083)
Cash and cash equivalents at beginning of period	123,743	68,546	140,629
Cash and cash equivalents at end of period	52,229	$ 123,743	$ 68,546
Cash paid during the period for:			
Interest on deposits and borrowings	$ 79,009	$ 112,970	$ 132,875
Income taxes	$ 17,622	14,417	16,701
Non cash investing activities:			
Transfer of loans receivable to foreclosed assets	4,995	6,786	9,867
Loan securitizations	$	84,855	55,217

See accompanying notes to consolidated financial statements

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(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 about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities and disclosures about contingent assets and liabilities as of the dates of the consolidated statements of financial condition, and revenues and expenses for the periods then ended. Such estimates are used in connection with the determination of the allowance for loan losses, evaluation of goodwill for impairment, evaluation of other-than-temporary impairment on securities, evaluation of the need for valuation allowances on deferred tax assets, and determination of liabilities related to retirement and other post-retirement benefits, among others. These estimates and assumptions are based on management s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using 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 market 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.

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 held to maturity 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 estimated fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders equity, net of deferred taxes.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

The estimated fair values of the Company s securities are affected by changes in interest rates, credit spreads, and market illiquidity. 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. To determine if a decline in value is other-than- temporary, the Company evaluates if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. 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 earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. 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. Turmoil in the credit markets resulted in a lack of liquidity in certain sectors of 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. To determine if a decline in value is other-than- temporary, the Company evaluates if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery.

Premiums and discounts on securities are amortized and accreted to income using a method that approximates the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Dividend and interest income are recognized when earned. The cost of securities sold is based on the specific identification method.

Fair Value of Financial Instruments

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.

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.

Loans

Loans receivable are carried at unpaid principal balances plus unamortized premiums, purchase accounting mark-to-market adjustments, certain deferred direct loan origination costs and deferred loan origination fees and discounts, less the allowance for loan losses.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

The Bank defers loan origination fees and certain direct loan origination costs and accretes such amounts as an adjustment of yield over the expected lives of the related loans using the interest method. Premiums and discounts on loans purchased are amortized or accreted as an adjustment of yield over the contractual lives, of the related loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

Loans are generally placed on non-accrual status when they are past due 90 days or more as to contractual obligations or when other circumstances indicate that collection is questionable. When a loan is placed on non-accrual status, any interest accrued but not received is reversed against interest income. Payments received on a non-accrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on an assessment of the ability to collect the loan. A non-accrual loan is restored to accrual status when principal and interest payments become less than 90 days past due and its future collectibility is reasonably assured.

An impaired loan is defined as a loan for which it is probable, based on current information, that the lender will not collect all 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.

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, 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 the lower of the outstanding loan balance at the time of foreclosure or fair value, less estimated costs to sell. Fair 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.

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

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(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. 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. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Trust Assets

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 Bank s Wealth Management Group) 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 GAAP, goodwill with an indefinite useful life is not amortized, but is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. Goodwill is analyzed for impairment each year at September 30, and the impairment test at September 30, 2010 indicated that there was no impairment.

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 the lower of amortized cost or 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.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

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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. GAAP 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 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 Bank has an Employee Stock Ownership Plan (ESOP). 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.

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. Expense related to stock awards 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.

In connection with the First Sentinel acquisition in July 2004, 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, 2010, there were 428,003 shares held by the DDFP.

Postretirement Benefits Other Than Pensions

The Bank provides postretirement health care and life insurance plans to certain of 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. GAAP 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.

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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.

Impact of Recent Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance temporarily delaying the effective date of additional disclosures about troubled debt restructurings. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. The deferral is effective upon issuance.

In July 2010, the FASB issued guidance to enhance the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of this guidance, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in this guidance encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The adoption of this guidance is reflected in the Company s consolidated financial statements at December 31, 2010.

In April 2010, the FASB issued guidance under which modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This

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update became effective for the Company for the interim reporting period beginning after June 15, 2010 and did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In January 2010, the 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.

Effective January 1, 2010, the Company adopted the amended guidance on the consolidation of variable interest entities. This guidance affects all entities and enterprises currently within its scope, as well as qualifying special purpose entities that were previously outside of its scope, and is effective for fiscal years beginning after November 15, 2009, with early adoption prohibited. The adoption of this guidance did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

(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, 2010, the liquidation account, which is an off-balance sheet memorandum account, amounted to $25,959,000.

(3) Restrictions on Cash and Due from Banks

Included in cash on hand and due from banks at December 31, 2010 and 2009 is $2,273,000 and $1,323,000, respectively, representing reserves required by banking regulations.

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(4) Investment Securities Held to Maturity

Investment securities held to maturity at December 31, 2010 and 2009 are summarized as follows (in thousands):

	2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 2,749	3	(29)	2,723
Mortgage-backed securities	39,493	1,677		41,170
State and municipal obligations	294,527	6,316	(2,604)	298,239
Corporate obligations	9,253	315	(20)	9,548
	$ 346,022	8,311	(2,653)	351,680

	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 Company generally purchases securities for long-term investment purposes, and differences between carrying and fair values may fluctuate during the investment period. Securities held to maturity having a carrying value of $261,432,000 and $70,079,000 at December 31, 2010 and 2009, 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, 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.

	2010	
	Amortized cost	Fair value
Due in one year or less	$ 34,467	34,626
Due after one year through five years	96,675	99,959
Due after five years through ten years	96,411	99,353
Due after ten years	78,976	76,572
Mortgage-backed securities	39,493	41,170

	$ 346,022	351,680

During 2010, the Company recognized a gain of $68,000 related to calls on certain securities in the held to maturity portfolio, with proceeds from the calls totaling $7,674,000. No gains or losses were recognized during 2009.

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

	December 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	$ 1,470	(29)			1,470	(29)
Mortgage-backed securities						
State and municipal obligations	67,812	(2,604)			67,812	(2,604)
Corporate obligations	518	(20)			518	(20)
	$ 69,800	(2,653)			69,800	(2,653)

	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 December 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, 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.

(5) Securities Available for Sale

Securities available for sale at December 31, 2010 and 2009 are summarized as follows (in thousands):

	2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury obligations	$			

Agency obligations	109,271	616	(44)	109,843
Mortgage-backed securities	1,223,869	29,137	(5,480)	1,247,526
State and municipal obligations	11,188	496	(55)	11,629
Corporate obligations	9,543	386		9,929
	$ 1,353,871	30,635	(5,579)	1,378,927

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