PROVIDENT FINANCIAL SERVICES INC
Form 10-K
March 02, 2009
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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, 2008

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File No. 1-31566

PROVIDENT FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(201) 333-1000

(Registrant s Telephone Number)

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

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

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

None

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

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

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

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

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

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

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

As of February 15, 2009, there were 83,209,293 issued and 60,271,472 shares of the Registrant s Common Stock outstanding, including 437,243 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, 2008, as quoted by the NYSE, was approximately $804.6 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2009 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 term variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which Provident Financial Services, Inc. (the Company) operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

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

PART I

Item 1. Business
Provident Financial Services, Inc.

The Company is a Delaware corporation which, on January 15, 2003, became the holding company for The Provident Bank (the Bank), following the completion of the conversion of the Bank to a stock chartered savings bank. On January 15, 2003, the Company issued an aggregate of 59,618,300 shares of its common stock, par value $0.01 per share in a subscription offering and contributed $4.8 million in cash and 1,920,000 shares of its common stock to The Provident Bank Foundation, a charitable foundation established by the Bank. As a result of the conversion and related stock offering, the Company raised $567.2 million in net proceeds, of which $293.2 million was utilized to acquire all of the outstanding common stock of the Bank. The Company owns all of the outstanding common stock of the Bank, and as such, is a bank holding company subject to regulation by the Federal Reserve Board. The Company completed the acquisition of First Sentinel Bancorp, Inc. on July 14, 2004, and completed the acquisition of First Morris Bank & Trust on April 1, 2007.

At December 31, 2008, the Company had total assets of $6.55 billion, net loans of $4.48 billion, total deposits of $4.23 billion, and total stockholders equity of $1.02 billion. The Company s mailing address is 830 Bergen Avenue, Jersey City, New Jersey 07306-4599, and the Company s telephone number is (201) 333-1000.

The Provident Bank

Originally established in 1839, the Bank is a New Jersey-chartered capital stock savings bank headquartered in Jersey City, New Jersey. The Bank is a community- and customer-oriented bank currently operating 82 full-service branch offices in the New Jersey counties of Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Somerset and Union, which the Bank considers its primary market area. The Bank emphasizes personal service and customer convenience in serving the financial needs of the individuals, families and businesses residing in its markets. The Bank attracts deposits from the general public in the areas surrounding its banking offices and uses those funds, together with funds generated from operations and borrowings, to originate commercial real estate loans, residential mortgage loans, commercial business loans and consumer loans. The Bank also invests in mortgage-backed securities and other permissible investments.

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The following are highlights of The Provident Bank s operations:

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

Asset Quality. As of December 31, 2008, non-performing assets were $62.6 million or 0.96% of total assets, compared to $35.7 million or 0.56% of total assets at December 31, 2007. While the Bank s non-performing asset levels have been adversely impacted by the recent slowdown in the residential real estate market and the challenging economic environment, the Bank continues to focus on conservative underwriting criteria and on aggressive collection efforts.

Emphasis on Relationship Banking and Core Deposits. The Bank emphasizes the acquisition and retention of core deposit accounts, such as checking and savings accounts, and expanding customer relationships. Core deposit accounts totaled $2.69 billion at December 31, 2008, representing 63.7% of total deposits, compared with $2.59 billion, or 61.2% of total deposits at December 31, 2007. 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 emphasis on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. A primary source of non-interest income is derived from fees on core deposit accounts. The Bank also offers investment products, estate management and wealth management services to generate non-interest income. Total non-interest income was $30.2 million for the year ended December 31, 2008, compared with $35.5 million for the year ended December 31, 2007, and fee income was $23.4 million for the year ended December 31, 2008, compared with $24.5 million for the year ended December 31, 2007. In 2007, the Company recorded a non-recurring gain on an insurance settlement of $5.9 million, before taxes, related to the resolution of previously disclosed litigation.

Managing Interest Rate Risk. Although the Bank s liabilities are more sensitive to changes in interest rates than its assets, the Bank manages its exposure to interest rate risk by emphasizing the origination and retention of adjustable rate and shorter-term loans. In addition, the Bank uses its investments in securities to manage interest rate risk. At December 31, 2008, 46.2% 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, 2008, the Bank s securities portfolio, excluding equity securities, totaled $1.15 billion and had an average expected life of 3.42 years.

Capital Management. The Company repurchased 101,200 shares of its common stock at a cost of $1.4 million and paid cash dividends totaling $24.7 million in 2008.

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

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2008, the Bank operated a network of 83 full-service banking offices throughout ten counties in northern and central New Jersey, comprised of 15 offices in Hudson County, 3 in Bergen, 6 in Essex,

1 in Mercer, 23 in Middlesex, 10 in Monmouth, 12 in Morris, 5 in Ocean, 5 in Somerset and 3 in Union Counties. The Bank also maintains The Provident Loan Center in Woodbridge, New Jersey as well as a satellite Loan Production office in Convent Station, New Jersey. In January 2009, the Bank consolidated an underperforming branch office in Monmouth County into another existing branch location. The Bank s lending activities, though concentrated in the communities surrounding its offices, extend predominantly throughout the State of New Jersey.

The Bank s ten-county primary market area includes a mix of urban and suburban communities and has a diversified mix of industries including pharmaceutical and other manufacturing companies, network communications, insurance and financial services, and retail. According to the U.S. Census Bureau s most recent population estimates as of 2007, the Bank s ten-county market area has a population of 6.0 million, which was 69.0% of the state s total population. Because of the diversity of industries in the Bank s market area and, to a lesser extent, because of its proximity to the New York City financial markets, the area s economy can be significantly affected by changes in national and international economies. According to the U.S. Bureau of Labor Statistics, employment trends in New Jersey during 2008 witnessed a slight increase in the total civilian labor force and an increase in the unemployment rate to 7.1% at December 31, 2008, compared to a rate of 4.2% at December 31, 2007.

Within its ten-county market area, the Bank had an approximate 2.36% share of bank deposits as of June 30, 2008, the latest date for which statistics are available, and an approximate 1.85% 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 our market area. The Bank s most direct competition for deposits has come from the several commercial banks and savings banks in the market area, especially large regional banks which have obtained a major share of the available deposit market due in part to acquisitions and consolidations. Many of these banks have substantially greater financial resources than the Bank and offer services that the Bank does not provide. In addition, the Bank faces significant competition for deposits from the mutual fund industry and from investors direct purchases of short-term money market securities and other corporate and government securities.

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

LENDING ACTIVITIES

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

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

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

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

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

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

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

	At December 31,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential mortgage loans	$ 1,793,123	40.03%	$ 1,705,747	40.08%	$ 1,623,374	43.28%	$ 1,773,288	47.83%	$ 1,866,614	50.82%
Commercial mortgage loans	1,017,008	22.70	847,907	19.93	701,519	18.70	594,788	16.04	653,312	17.78
Multi-family mortgage loans	95,498	2.13	67,546	1.59	69,356	1.85	77,112	2.08	85,785	2.34
Construction loans	233,727	5.22	309,569	7.27	282,898	7.54	289,453	7.81	188,902	5.14
Total mortgage loans	3,139,356	70.08	2,930,769	68.87	2,677,147	71.37	2,734,641	73.76	2,794,613	76.08
Commercial loans	753,173	16.81	712,062	16.73	503,786	13.43	436,285	11.77	386,151	10.51
Consumer loans	624,282	13.94	644,134	15.14	592,948	15.80	556,645	15.02	514,296	14.00
Total other loans	1,377,455	30.75	1,356,196	31.87	1,096,734	29.23	992,930	26.79	900,447	24.51
Premiums on purchased loans	10,980	0.24	9,793	0.23	11,285	0.30	13,190	0.35	14,421	0.39
Unearned discounts	(492)	(0.01)	(661)	(0.02)	(875)	(0.02)	(1,110)	(0.03)	(1,309)	(0.04)
Net deferred costs (fees)	(551)	0.01	194	0.00	(627)	(0.02)	(529)	(0.01)	(961)	(0.02)
Allowance for loan losses	(47,712)	(1.07)	(40,782)	(0.95)	(32,434)	(0.86)	(31,980)	(0.86)	(33,766)	(0.92)
Total loans, net	$ 4,479,036	100.00%	$ 4,255,509	100.00%	$ 3,751,230	100.00%	$ 3,707,142	100.00%	$ 3,673,445	100.00%

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Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2008, regarding the maturities of loans in the loan portfolio. Demand loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due within one year.

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years	Ten Through Twenty Years	Beyond Twenty Years	Total
				(In thousands)			
Residential mortgage loans	$ 9,128	$ 4,503	$ 32,001	$ 265,269	$ 391,938	$ 1,090,284	$ 1,793,123
Commercial mortgage loans	107,687	76,436	152,365	511,769	158,139	10,612	1,017,008
Multi-family mortgage loans	934	2,097	7,494	58,880	24,471	1,622	95,498
Construction loans	148,177	80,991		4,559			233,727
Total mortgage loans	265,926	164,027	191,860	840,477	574,548	1,102,518	3,139,356
Commercial loans	153,835	142,158	109,167	248,985	89,229	9,799	753,173
Consumer loans	6,853	20,308	30,399	99,904	344,927	121,891	624,282
Total loans	$ 426,614	$ 326,493	$ 331,426	$ 1,189,366	$ 1,008,704	$ 1,234,208	$ 4,516,811

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2008, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2009. Adjustable-rate loans are included based on contractual maturities.

	Due After December 31, 2009		
	Fixed	Adjustable	Total
		(In thousands)	
Residential mortgage loans	$ 924,408	$ 859,587	$ 1,783,995
Commercial mortgage loans	658,957	250,364	909,321
Multi-family mortgage loans	72,996	21,568	94,564
Construction loans	11,604	73,946	85,550
Total mortgage loans	1,667,965	1,205,465	2,873,430
Commercial loans	296,920	302,418	599,338
Consumer loans	465,693	151,736	617,429
Total loans	$ 2,430,578	$ 1,659,619	$ 4,090,197

Residential Mortgage Lending. A principal lending activity of the Bank is to originate loans secured by first mortgages on one- to four-family residences in the State of New Jersey. The Bank originates residential mortgages primarily through commissioned mortgage representatives, the internet and its branch offices. The Bank originates both fixed-rate and adjustable-rate mortgages. Residential mortgage lending represents the largest single component of the total loan portfolio. As of December 31, 2008, $1.79 billion or 39.7% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 52.1% were fixed-rate and 47.9% 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. Adjustable-rate mortgage loans are offered with a fixed-rate period of 1, 3, 5, 7 or 10 years prior to the first annual interest rate adjustment. The standard adjustment formula is the one-year constant maturity Treasury rate plus 2 3/4%, adjusting annually with a 2% maximum annual adjustment and a 6% maximum adjustment over the life of the loan.

Residential loans are primarily underwritten to Freddie Mac and Fannie Mae standards. The Bank s standard maximum loan to value ratio is 80%. However, working through mortgage insurance companies, the Bank underwrites loans for sale to Freddie Mac or Fannie Mae programs

that will finance up to 100% of the value of

the residence. Generally all fixed-rate loans with terms of 20 years or more, as well as loans with a loan-to-value ratio of 97% or more, are sold into the secondary market with servicing rights retained. Fixed-rate residential mortgage loans retained in the Bank s portfolio generally include loans with a term of 15 years or less and biweekly payment loans with a term of 25 years or less. The Bank retains the majority of the originated adjustable-rate mortgages for its portfolio.

Loans are sold without recourse, generally with servicing rights retained by the Bank. The percentage of loans sold into the secondary market will vary depending upon interest rates and the Bank s strategies for reducing exposure to interest rate risk. In 2008, $16.5 million, or 11.7% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2008 were long-term, fixed-rate mortgages.

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

The Bank has for many years offered discounted rates on loans to low- to moderate-income individuals. Loans originated in this category over the last five years have totaled $154.0 million. The Bank also offers a special rate program for first-time homebuyers under which originations have totaled over $28.4 million for the past five years.

Commercial Real Estate Loans. The Bank originates loans secured by mortgages on various commercial income producing properties, including office buildings, retail and industrial properties. Commercial real estate and construction loans were 27.7% of the portfolio at December 31, 2008. 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 have an amortization schedule of 20 or 25 years. As a result, the typical amortization schedule will result in a substantial principal payment upon maturity. The Bank generally underwrites commercial real estate loans to a maximum 75% advance against either the appraised value of the property, or its purchase price (for loans to fund the acquisition of real estate), whichever is less. The Bank generally requires minimum debt service coverage of 1.25 times. There is a potential risk that the borrower may be unable to pay off or refinance the outstanding balance at the loan maturity date. The Bank typically lends to experienced owners or developers who have knowledge and contacts in the commercial real estate market.

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

The Bank performs more extensive diligence in underwriting commercial real estate loans than loans secured by owner-occupied one- to four-family residential properties due to the larger loan amounts and the riskier nature of such loans. The Bank attempts to understand and control the risk in several ways, including

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inspection of all such properties and the review of the overall financial condition of the borrower and guarantors, which may include, for example, the review of the rent rolls and the verification of income. If applicable, a tenant analysis and market analysis are part of the underwriting. For commercial real estate secured loans in excess of $750,000 and for all other commercial real estate loans where it is appropriate, the Bank employs environmental experts to inspect the property and ascertain any potential environmental risks.

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

The Bank s largest commercial mortgage loan as of December 31, 2008 was a $24.3 million loan secured by a first mortgage on a 640,000 square foot, multi-tenanted industrial warehouse building located in North Brunswick, New Jersey. The loan has a risk rating of 3 (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, 2008.

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

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

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

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

Construction lending generally involves a greater degree of risk than one- to four-family mortgage lending. Repayment of a construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject project and the successful marketing of the sale or lease of the project. Construction delays, slower than anticipated absorption or the financial impairment of the builder may 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 and competing projects. The Bank also attempts to obtain personal guarantees and conducts environmental due diligence as appropriate.

The Bank also employs other means to control the risk of the construction lending process. For single family/condominium financing, the Bank generally requires payment for the release of a unit that exceeds the amount of the loan advance attributable to such unit. On commercial construction projects that the developer 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, 2008 was a $28.0 million construction mortgage loan secured by a first mortgage on a 7-story, 950 space parking garage, 8 townhomes and retail space located in Jersey City, New Jersey. The Bank s share of the total loan was $19.0 million, all of which was outstanding at December 31, 2008. As of December 31, 2008, a participation in the remaining $9.0 million was held by another lending institution. The borrowers are experienced developers in the State of New Jersey. The construction is complete and the property is in the final stages of stabilization. The loan has a risk rating of 3 and was performing in accordance with its terms and conditions as of December 31, 2008. Outstanding construction loans decreased to $233.7 million at December 31, 2008 from $309.6 million at December 31, 2007, 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 16.7% of the loan portfolio at December 31, 2008. The majority of the Bank s commercial loan customers are local businesses with revenues of less than $50.0 million. The Bank offers commercial loans for equipment purchases, lines of credit or letters of credit, as well as loans where the borrower is the primary occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial loans are fully amortized over a five-year period.

The Bank also underwrites Small Business Administration (SBA) guaranteed loans and guaranteed or assisted loans through various state, county and municipal programs. These governmental guarantees are typically used in cases where the borrower requires additional credit support. The Bank holds 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.

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

Commercial business loans generally bear higher interest rates than residential mortgage loans, but they also involve a higher risk of default since their repayment is generally dependent on the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. The Bank s largest commercial loan was a $25.0 million line of credit to a financial services firm which had a risk rating of 2. As of December 31, 2008, the line had an outstanding balance of $25.0 million and was performing in accordance with its terms and conditions.

Consumer Loans. The Bank offers a variety of consumer loans to individuals. Consumer loans represented 13.8% of the loan portfolio at December 31, 2008. Home equity loans and home equity lines of credit constituted 78.8% of the consumer loan portfolio as of December 31, 2008. Indirect marine loans comprised 17.2% of the consumer loan portfolio, and indirect auto loans comprised 2.3% of the consumer loan portfolio at December 31, 2008, respectively. The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, automobile loans and recreational vehicle loans. Effective September 30, 2007, the Bank ceased purchasing indirect auto loans.

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

to $350,000. The approved home equity lines and utilization amounts as of December 31, 2008 were $342.3 million and $122.8 million, respectively.

The Bank purchases marine loans from established dealers and brokers located on the East Coast of the United States, which are underwritten to the Bank s pre-established underwriting standards. The maximum marine loan is $1.0 million. All marine loans are collateralized by a first lien on the vessel. Originations of marine loans in 2008 declined 24% from 2007 as the Bank de-emphasized marine lending due to economic conditions.

The Bank s consumer loan portfolio contains other types of loans such as loans on automobiles, motorcycles, recreational vehicles and personal loans, which represent 1.7% of the consumer loan portfolio. Personal unsecured loans are originated primarily as an accommodation to existing customers.

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

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,		
	2008	**2007**	**2006**
		(In thousands)	
Originations:			
Residential mortgage	$ 141,318	$ 192,141	$ 95,753
Commercial mortgage	257,970	215,214	186,004
Multi-family mortgage	41,375	18,666	226
Construction	231,786	236,128	254,116
Commercial	473,661	421,345	391,161
Consumer	185,229	202,662	251,941
Subtotal of loans originated	1,331,339	1,286,156	1,179,201
Loans purchased	267,823	79,131	57,170
Total loans originated	1,599,162	1,365,287	1,236,371
Loans acquired from First Morris:			
Residential mortgage		73,913	
Commercial mortgage		28,490	
Multi-family mortgage			
Construction		15,273	
Commercial		158,766	
Consumer		58,867	
Total loans acquired from First Morris		335,309	
Loans sold or securitized	71,675	8,862	17,687

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	Year Ended December 31, 2008	2007 (In thousands)	2006
Repayments:			
Residential mortgage	251,744	249,252	284,475
Commercial mortgage	117,811	128,356	79,272
Multi-family mortgage	13,424	20,983	7,982
Construction	273,393	228,267	260,671
Commercial	430,079	341,635	322,636
Consumer	200,261	206,399	212,889
Total repayments	1,286,712	1,174,892	1,167,925
Total reductions	1,358,387	1,183,754	1,185,612
Other items, net[1]	(10,318)	(4,215)	(6,217)
Net increase	$ 230,457	$ 512,627	$ 44,542

(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. The Credit Committee currently consists of seven senior officers and requires a majority vote for credit approval. The Credit Committee has a $15.0 million approval authority and the Loan Committee of the Board of Directors of the Bank has approval authority exceeding $15.0 million. All credit approvals by the Loan Committee are reported to the Board of Directors of the Bank.

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

Loans to One Borrower. The regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of the Bank s unimpaired capital and surplus. As of December 31, 2008, the regulatory lending limit was $64.1 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, 2008, the Bank s largest total lending relationship with an individual borrower and its related entities was $63.0 million, consisting of a line of credit and ten commercial mortgage loans all with a risk rating of 3. The line of credit is partially secured by an assignment of partnership interests. Eight of the commercial mortgage loans are secured by first mortgages on retail and office buildings in New Jersey. The remaining two commercial mortgage loans are secured by second mortgages on retail buildings in New Jersey.

The borrower is an experienced and successful owner and operator of commercial properties. Management has determined that this exception to the internal policy limit is manageable and is mitigated by the borrower s diverse revenue mix as well as its reputation and proven successful track record. This lending relationship was approved as an exception to the internal policy limits by the Loan Committee of the Board of Directors and reported to the Board of Directors of the Bank, and conformed with the regulatory limit applicable to the Bank at the time of loan origination. As of December 31, 2008, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2008, the Bank had $980.7 million in loans outstanding to its 50 largest borrowers and their related entities.

ASSET QUALITY

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

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

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

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

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

Delinquent Loans and Non-performing Loans and Assets. The Bank s policies require that the Chief Lending Officer continuously monitor the status of the loan portfolios and report to the Board of Directors on a monthly basis. These reports include information on impaired loans, delinquent loans, criticized and classified assets, and foreclosed assets. An impaired loan is defined as a loan for which it is probable, based on current information, that the Bank will not collect amounts due under the contractual terms of the loan agreement. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans. Impaired loans are individually identified and reviewed to determine that each loan s carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows. As of December 31, 2008, there were ten impaired loans totaling $37.8 million.

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

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

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

The Bank s determination as to the classification of assets and the amount of the valuation allowances is subject to review by the FDIC and the New Jersey Department of Banking and Insurance, each of which can require the establishment of additional general or specific loss allowances. 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, 2008, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

Loans are classified in accordance with the risk rating system described above. At December 31, 2008, $34.1 million of loans were classified as substandard, which consisted of $14.5 million in residential loans, $7.2 million in commercial and multi-family mortgage loans, $6.5 million in commercial loans and $5.9 million in consumer loans. At that same date, loans classified as doubtful totaled $34.3 million, consisting of $23.3 million in commercial and multi-family mortgage loans and $11.0 million in construction loans. There were no loans classified as loss at December 31, 2008. As of December 31, 2008, $50.4 million of loans were designated special mention.

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

	At December 31, 2008				At December 31, 2007				At December 31, 2006			
	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	28	$ 5,786	60	$ 14,503	17	$ 4,109	27	$ 4,228	14	$ 2,023	38	$ 4,426
Commercial mortgage loans			9	24,830			10	3,452				
Multi-family mortgage loans							1	742			1	742
Construction loans			2	9,403			3	375			2	569
Total mortgage loans	28	5,786	71	48,736	17	4,109	41	8,797	14	2,023	41	5,737
Commercial loans	16	1,482	20	4,456	11	590	7	498	8	1,112	4	508
Consumer loans	74	1,356	72	5,926	59	2,270	30	2,297	40	1,327	39	1,304
Total loans	118	$ 8,624	163	$ 59,118	87	$ 6,969	78	$ 11,592	62	$ 4,462	84	$ 7,549

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 as defined in Statement of Financial Accounting Standards (SFAS) No. 114 at any of the dates indicated. Loans are generally placed on non-accrual status when they become 90 days or more past due or if they have been identified as presenting uncertainty with respect to the collectibility of interest or principal.

	At December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$ 14,503	$ 4,228	$ 4,426	$ 3,956	$ 4,184
Commercial mortgage loans	24,830	21,918			
Multi-family mortgage loans		742	742		
Construction loans	9,403	375	569		
Commercial loans	4,456	5,083	234	843	862
Consumer loans	5,926	2,298	1,304	1,206	1,149
Total non-accruing loans	59,118	34,644	7,275	6,005	6,195
Accruing loans delinquent 90 days or more			274		
Total non-performing loans	59,118	34,644	7,549	6,005	6,195
Foreclosed assets	3,439	1,041	528	670	140
Total non-performing assets	$ 62,557	$ 35,685	$ 8,077	$ 6,675	$ 6,335
Total non-performing assets as a percentage of total assets	0.96%	0.56%	0.14%	0.11%	0.10%
Total non-performing loans to total loans	1.31%	0.81%	0.20%	0.16%	0.17%

If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $2.3 million during the year ended December 31, 2008. At December 31, 2008, there were no commitments to lend additional funds to borrowers whose loans were on non-accrual status.

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

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

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

- results of the routine loan quality reviews by the Loan Review Department and by outside third parties retained by the Loan Review Department;
- general economic and business conditions affecting key lending areas;
- credit quality trends (including trends in non-performing loans, including anticipated trends based on market conditions);
- collateral values;
- loan volumes and concentrations;
- seasoning of the loan portfolio;
- specific industry conditions within portfolio segments;
- recent loss experience in particular segments of the loan portfolio; and
- duration 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 are then confirmed by the Loan Review Department, and for loans requiring Credit Committee approval, are periodically reviewed by the Credit Committee in the credit renewal or approval process.

Each quarter the lending groups prepare individual Credit Risk Management Reports for the Credit Administration Department. These reports review all commercial loans and commercial mortgage loans that have been determined to involve above-average risk (risk rating of 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.

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

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

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

Based on the composition of the loan portfolio, management believes the primary risks inherent in the portfolio are a possible further decline in the economy, a possible further decline in real estate market values and possible increases in interest rates. 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.

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,				
	2008	**2007**	**2006**	**2005**	**2004**
	(Dollars in thousands)				
Balance at beginning of period	$ 40,782	$ 32,434	$ 31,980	$ 33,766	$ 20,631
Charge offs:					
Residential mortgage loans	20	24	9	18	71
Commercial mortgage loans	3,529			22	
Multi-family mortgage loans					
Construction loans	88				
Commercial loans	1,967	1,044	1,025	1,008	1,671
Consumer loans	4,821	2,127	1,800	2,986	4,619
Total	10,425	3,195	2,834	4,034	6,361
Recoveries:					
Residential mortgage loans	2	138	158	155	186
Commercial mortgage loans	480	13	14	93	
Multi-family mortgage loans					
Construction loans	88				
Commercial loans	372	622	305	340	432
Consumer loans	1,313	1,415	1,491	1,060	2,353
Total	2,255	2,188	1,968	1,648	2,971
Net charge-offs	8,170	1,007	866	2,386	3,390
Provision for loan losses	15,100	6,530	1,320	600	3,600
Allowance of acquired institution		2,825			12,925
Balance at end of period	$ 47,712	$ 40,782	$ 32,434	$ 31,980	$ 33,766
Ratio of net charge-offs during the period to average loans outstanding during the period	0.19%	0.02%	0.02%	0.07%	0.12%

Allowance for loan losses to total loans	1.05%	0.95%	0.86%	0.86%	0.91%
Allowance for loan losses to non-performing loans	80.71%	117.72%	429.65%	532.56%	545.05%

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,									
	2008		2007		2006		2005		2004	
	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	$ 4,142	39.70%	$ 2,882	39.79%	$ 2,736	43.01%	$ 2,854	47.57%	$ 3,000	50.52%
Commercial mortgage loans	14,938	22.52	8,977	19.78	8,873	18.59	7,246	15.96	7,893	17.68
Multi-family mortgage loans	973	2.11	735	1.58	768	1.84	773	2.07	930	2.32
Construction loans	5,264	5.17	7,947	7.22	4,837	7.50	4,397	7.77	2,918	5.11
Commercial loans	12,697	16.68	10,841	16.61	6,311	13.35	5,676	11.70	7,400	10.45
Consumer loans	6,854	13.82	6,764	15.02	6,119	15.71	5,760	14.93	5,889	13.92
Unallocated	2,844		2,636		2,790		5,274		5,736	
Total	$ 47,712	100.00%	$ 40,782	100.00%	$ 32,434	100.00%	$ 31,980	100.00%	$ 33,766	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 Operating Officer, Chief Financial Officer, Treasurer and Assistant Treasurer are authorized to make investment decisions consistent with the investment policy. Investment transactions for the Bank are reported to the Board of Directors of the Bank on a monthly basis.

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

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

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

Securities in the investment portfolio are classified as held to maturity, available for sale or held for trading. Securities that are classified as held to maturity are securities that the Bank or the Company has the intent and ability to hold until their contractual maturity date and are reported at cost. Securities that are classified as available for sale are reported at fair value. Available for sale securities include U.S. Treasury and Agency obligations, U.S. Agency and privately-issued CMOs, corporate debt obligations and equities. Sales of securities

may occur from time to time in response to changes in market rates and liquidity needs and to facilitate balance sheet reallocation to effectively manage interest rate risk. At the present time, there are no securities that are classified as held for trading.

The Company conducts a periodic review and evaluation of securities available for sale and held to maturity to determine if any declines in the fair values of securities are other than temporary. If such a decline were deemed other than temporary, the Company would write down the security to fair value through a charge to current period operations. The market value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the market value of fixed-rate securities decreases and as interest rates fall, the market value of fixed-rate securities increases. The current turmoil in the credit markets, primarily as a result of the continued fallout from sub-prime lending, has resulted in a lack of liquidity in the mortgage-backed securities market. Increases in delinquencies and foreclosures, primarily in securities that are backed by sub-prime loans, have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company evaluates its intent and ability to hold securities to maturity or for a sufficient period of time to recover the recorded principal balance. The Company also has investments in common stock issued by several publicly-traded financial institutions, the valuation of which is affected by the institutions performance and market conditions.

CMOs are a type of debt security issued by a special-purpose entity that aggregates pools of mortgages and mortgage-related securities and creates different classes of CMO securities with varying maturities and amortization schedules as well as a residual interest with each class possessing different risk characteristics. In contrast to mortgage-backed securities from which cash flow is received (and prepayment risk is shared) pro rata by all securities holders, the cash flow from the mortgages or mortgage-related securities underlying CMOs is paid in accordance with predetermined priority to investors holding various tranches of such securities or obligations. A particular tranche of CMOs may therefore carry prepayment risk that differs from that of both the underlying collateral and other tranches. Accordingly, CMOs attempt to moderate risks associated with conventional mortgage-related securities resulting from unexpected prepayment activity. In declining interest rate environments, the Bank attempts to purchase CMOs with principal lock-out periods, reducing prepayment risk in the investment portfolio. During rising interest rate periods, the Bank s strategy is to purchase CMOs that are receiving principal payments that can be reinvested at higher current yields. Investments in CMOs involve a risk that actual prepayments will differ from those estimated in pricing the security, which may result in adjustments to the net yield on such securities. Additionally, the market value of such securities may be adversely affected by changes in the market interest rates. Management believes these securities may represent attractive alternatives relative to other investments due to the wide variety of maturity, repayment and interest rate options available. At December 31, 2008, the Bank held $110.6 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 tables sets forth certain information regarding the amortized cost and fair values of the Company s securities as of the dates indicated.

	At December 31,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	$ 91,435	$ 91,109	$ 120,254	$ 119,894	$ 153,628	$ 151,054
State and municipal obligations	256,049	260,514	238,237	239,805	236,028	235,326
Total held-to-maturity	$ 347,484	$ 351,623	$ 358,491	$ 359,699	$ 389,656	$ 386,380
Available for Sale:						
U.S. Treasury obligations	$ 997	$ 1,013	$ 3,980	$ 4,035	$ 10,998	$ 10,971
State and municipal obligations	17,664	18,107	20,678	20,912	10,917	10,863
Mortgage-backed securities	692,020	689,461	646,056	645,622	693,274	681,803
FHLMC obligations	20,102	20,826	32,084	32,504	9,870	9,882
FNMA obligations			10,006	10,072	10,016	9,987
FHLB obligations	66,249	68,546	26,000	26,119	29,893	29,813
FFCB obligations	5,009	5,102	5,031	5,095		
Corporate obligations	3,558	3,345	3,977	3,984	11,999	11,999
Equity securities	14,617	13,929	22,822	21,272	25,837	25,576
Total available for sale	$ 820,216	$ 820,329	$ 770,634	$ 769,615	$ 802,804	$ 790,894
Average expected life of securities[1]	3.42 years		3.96 years		3.87 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, 2008:		
FNMA	$ 267,627	$ 240,552
FHLMC	366,035	372,553

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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, 2008. 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, 2008									
	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	$	%	$ 2,511	3.98%	$ 37,386	4.83%	$ 51,538	4.99%	$ 91,435	4.90%
State and municipal obligations	10,814	3.91	70,594	3.65	111,286	3.81	63,355	3.91	256,049	3.79
Total held to maturity	$ 10,814	3.91%	$ 73,105	3.66%	$ 148,672	4.07%	$ 114,893	4.39%	$ 347,484	4.08%
Available for sale:										
U.S. Treasury obligations	$ 1,013	4.59%	$	%	$	%	$	%	$ 1,013	4.59%
State and municipal obligations	676	4.23	10,305	4.31	7,126	4.06			18,107	4.21
Mortgage-backed securities			21,882	4.43	190,788	4.64	476,791	5.04	689,461	4.91
Agency obligations	30,494	4.19	63,980	3.49					94,474	3.72
Corporate obligations	1,000	5.03	2,345	5.12					3,345	5.09
Total available for sale	$ 33,183	4.23%	$ 98,512	3.82%	$ 197,914	4.62%	$ 476,791	5.04%	$ 806,400	4.75%

(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 considering deposit pricing, the Bank considers

competitive market rates, FHLB advance rates and rates on other sources of funds. Core deposits, defined as savings accounts, interest and non-interest bearing checking accounts and money market deposit accounts represented 63.7% of total deposits at December 31, 2008 and 61.2% of total deposits at December 31, 2007. As of December 31, 2008 and December 31, 2007, time deposits maturing in less than one year amounted to $1.17 billion and $1.43 billion, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2008.

			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	$ 126,781	$ 81,089	$ 128,926	$ 108,670	$ 445,466
Certificates of deposit less than $100,000	308,354	232,787	288,679	257,225	1,087,045
Total certificates of deposit	$ 435,135	$ 313,876	$ 417,605	$ 365,895	$ 1,532,511

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

	Period to Maturity from December 31, 2008						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	2008	2007	2006
					(In thousands)				
Rate:									
0.00 to 0.99%	$ 3,216	$ 4	$ 3	$ 1	$ 2	$	$ 3,226	$ 3,779	$ 2,288
1.00 to 2.00%	28,669			129	167	129	29,094	201	1,159
2.01 to 3.00%	770,370	9,596	2,688		54		782,708	14,867	47,829
3.01 to 4.00%	324,298	149,592	14,625	546	25,679	791	515,531	435,883	547,986
4.01 to 5.00%	36,068	58,704	13,869	19,732	40,416	1,440	170,229	1,053,351	539,810
5.01 to 6.00%	3,441	425	15,109	8,995	248	24	28,242	127,708	411,468
6.01 to 7.00%	533	1,942	739	150		51	3,415	3,532	8,821
Over 7.01%	20	4		42			66	149	141
Total	$ 1,166,615	$ 220,267	$ 47,033	$ 29,595	$ 66,566	$ 2,435	$ 1,532,511	$ 1,639,470	$ 1,559,502

Borrowed Funds. At December 31, 2008, the Bank had $1.25 billion of borrowed funds. Borrowed funds consist primarily of FHLB advances and repurchase agreements. Repurchase agreements are contracts for the sale of securities owned or borrowed by the Bank, with an agreement to repurchase those securities at an agreed-upon price and date. The Bank uses wholesale repurchase agreements, as well as retail repurchase agreements as an investment vehicle for its commercial sweep checking product. Bank policies limit the use of repurchase agreements to collateral consisting of U.S. Treasury obligations, U.S. government agency obligations or mortgage-related securities.

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

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

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Maximum Balance:			
FHLB advances	$ 650,425	$ 522,544	$ 495,436
FHLB line of credit	106,000	96,000	91,000
Securities sold under agreements to repurchase	606,749	537,315	434,483
Average Balance:			
FHLB advances	529,859	344,087	437,612
FHLB line of credit	67,727	49,657	46,033
Securities sold under agreements to repurchase	565,945	439,217	366,933
Weighted Average Interest Rate:			
FHLB advances	3.96%	3.83%	3.50%
FHLB line of credit	1.84	5.33	5.29
Securities sold under agreements to repurchase	3.73	4.32	3.86

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

	At December 31,		
	2008	2007	2006
	(Dollars in thousands)		
FHLB advances	$ 557,277	$ 522,544	$ 429,788
FHLB line of credit	96,000	72,000	58,000
Securities sold under repurchase agreements	594,404	480,560	353,202
Total borrowed funds	$ 1,247,681	$ 1,075,104	$ 840,990
Weighted average interest rate of FHLB advances	3.83%	3.92%	3.68%
Weighted average interest rate of FHLB line of credit	0.45%	4.17%	5.39%
Weighted average interest rate of securities sold under agreements to repurchase	3.32%	4.47%	4.16%

WEALTH MANAGEMENT SERVICES

The Bank offers a full range of wealth management services primarily to individuals. These services include investment management and investment advisory accounts, as well as custody accounts. The Bank also serves as trustee for living and testamentary trusts. Trust officers also provide estate settlement services when the Bank has been named executor or guardian of an estate. At December 31, 2008, the book value of assets under administration was $310.0 million and the number of accounts under administration was 718.

SUBSIDIARY ACTIVITIES

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

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.

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

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

TPB Realty, LLC, is a wholly-owned subsidiary of the Bank formed to invest in real estate development joint ventures principally targeted at meeting the housing needs of low- and moderate-income communities in the Bank s market. At December 31, 2008, TPB Realty had total assets of $2.4 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, 2008, Bergen Avenue Realty had total assets of $2.0 million.

PERSONNEL

As of December 31, 2008, the Company had 881 full-time and 146 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

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.

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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.

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

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

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

Examination and Enforcement. The New Jersey Department of Banking and Insurance may examine the Company and the Bank whenever it deems an examination advisable. The Department examines the Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or 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 the 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, 2008:

	As of December 31, 2008		
	Capital	Percent of Assets[(1)]	Capital Requirements[(1)]
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 394,201	6.64%	4.00%
Tier 1 risk-based capital	394,201	9.50	4.00
Total risk-based capital	441,913	10.65	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, 2008, 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 . Pursuant to the CPP, the Treasury proposed to purchase up to $250 billion of senior preferred shares on standardized terms from qualifying financial institutions. The purpose of the CPP is to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. 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.

On November 10, 2008, the Company announced that it would not make application to participate in the CPP, citing the Company s existing capital base which the Company deems adequate to support its growth plans and to provide a stable base for its ongoing lending operations.

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.

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, 2008, dividends paid by the FHLB to the Bank totaled $2.4 million.

Deposit Insurance. The Federal Deposit Insurance Corporation (FDIC) imposes an assessment against financial institutions for deposit insurance. This assessment is based on the risk category of the institution and currently ranges from 5 to 43 basis points of the institution s deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects that it will do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund s reserve ratio. As of June 30, 2008, the designated reserve ratio was 1.01% of estimated insured deposits at March 31, 2008. As a result of this reduced reserve ratio, on October 16, 2008, the FDIC published a proposed rule that would restore the reserve ratio to its required level of 1.15 percent within five years. On February 27, 2009, the FDIC took action to extend the restoration plan horizon to seven years.

The amended restoration plan was accompanied by a final rule that sets assessment rates and makes adjustments that improve how the assessment system differentiates for risk. Currently, most banks are in the best risk category and pay anywhere from 12 to 14 cents per $100 of deposits for insurance. Under the final rule, banks in this category will pay initial base rates ranging from 12 to 16 cents per $100 on an annual basis, beginning on April 1, 2009.

The FDIC also adopted an interim rule imposing a 20 basis point emergency special assessment on the industry on June 30, 2009. The assessment is to be collected on September 30, 2009. The interim rule would also permit the FDIC to impose an emergency special assessment after June 30, 2009, of up to 10 basis points if necessary to maintain public confidence in federal deposit insurance.

The Emergency Economic Stabilization Act of 2008 (EESA), temporarily raises the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor until December 31, 2009. Additionally, the FDIC has implemented a temporary program to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through December 31, 2009. The FDIC implemented the Temporary Liquidity Guarantee Program (TLG Program) on November 21, 2008. The TLG Program guarantees newly issued senior secured debt of banks, thrifts and certain holding companies. Although the Company had no outstanding debt guaranteed under the TLG program at December 31, 2008, the Company is eligible to issue guaranteed debt under the TLG program.

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.

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

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- 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.

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

An institution will be treated as well capitalized if:

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

An institution will be treated as adequately capitalized if:

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

An institution will be treated as undercapitalized if:

its total risk-based capital is less than 8%; or

its Tier 1 risk-based-capital is less than 4%; and

- its leverage ratio is less than 4% (or less than 3% if the institution receives the highest rating under the Uniform Financial Institutions Rating System).

An institution will be treated as significantly undercapitalized if:

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

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

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

Loans to a Bank s Insiders

Federal Regulation. A bank s loans to its executive officers, directors, any owner of 10% or more of its stock (each, an insider) and any of certain entities affiliated with any such person (an insider s related interest) are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the Federal Reserve Board s Regulation O. Under these restrictions, the aggregate amount of the loans to any insider and the insider s related interests may not exceed the loans-to-one-borrower limit applicable to national banks, which is comparable to the loans-to-one-borrower limit applicable to loans by the Bank. All loans by a bank to all insiders and insiders related interests in the aggregate may not exceed the bank s unimpaired capital and unimpaired surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer s children and certain loans secured by the officer s residence, may not exceed at any one time the higher of 2.5% of the bank s unimpaired capital and unimpaired surplus or $25,000, but in no event more than $100,000. Regulation O also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the board of directors of the bank, with any interested directors not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider s related interests, would exceed either (1) $500,000; or (2) the greater of $25,000 or 5% of the bank s unimpaired capital and surplus. Generally, loans to insiders must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons, and not involve more than the normal risk of payment or present other unfavorable features.

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

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

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

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

Federal Reserve System

Under Federal Reserve Board regulations, the Bank is required to maintain non-interest earning reserves against its transaction accounts. The Federal Reserve Board regulations generally require that reserves of 3% must be maintained against aggregate transaction accounts over $10.3 million and up to $44.4 million, subject to adjustment by the Federal Reserve Board, and an initial reserve of $1.0 million plus 10% against that portion of total transaction accounts in excess of up to $44.4 million. The first $10.3 million of otherwise reservable balances, subject to adjustments by the Federal Reserve Board, are exempted from the reserve requirements. The Bank is in compliance with these requirements. Because required reserves must be maintained in the form of either vault cash, a non-interest bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce the Bank s interest-earning assets.

Internet Banking

Technological developments are significantly altering the ways in which most companies, including financial institutions, conduct their business. The growth of the Internet is prompting banks to reconsider business strategies and adopt alternative distribution and marketing systems. The federal bank regulatory agencies have conducted seminars and published materials targeted to various aspects of internet banking, and have indicated their intention to reevaluate their regulations to ensure that they encourage banks efficiency and competitiveness consistent with safe and sound banking practices. There can be no assurance that the bank regulatory agencies will adopt new regulations that will not materially affect the Bank s internet operations or restrict any such further operations.

The USA PATRIOT Act

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

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

Holding Company Regulation

Federal Regulation. The Company is regulated as a bank holding company. Bank holding companies are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for the Bank. As of December 31, 2008, the Company s total capital and Tier 1 capital ratios exceed these minimum capital requirements.

The following table shows the Company s leverage ratio, Tier 1 risk-based capital ratio and the total risk-based capital ratio as of December 31, 2008:

	As of December 31, 2008		
	Capital	Percent of Assets[1]	Capital Requirements[1]
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 504,847	8.48%	4.00%
Tier 1 risk-based capital	504,847	12.13	4.00
Total risk-based capital	552,559	13.28	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, 2008, the Company was well capitalized under Federal Reserve Board guidelines.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under the prompt corrective action provisions discussed above, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of such an undercapitalized bank. If the undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the Federal Reserve Board may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution without the prior approval of the Federal Reserve Board.

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

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

In addition, a bank holding company which does not qualify as a financial holding company under applicable federal law is generally prohibited from engaging in, or acquiring direct or indirect control of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities

found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be permissible. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking as to be permissible are:

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

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

- each of its depository institution subsidiaries is well capitalized ;
- each of its depository institution subsidiaries is well managed ;
- each of its depository institution subsidiaries has at least a satisfactory Community Reinvestment Act rating at its most recent examination; and
- the bank holding company has filed a certification with the Federal Reserve Board that it elects to become a financial holding company.

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

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

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

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

of 1934.

American Reinvestment and Recovery Act of 2009

On February 17, 2009, the President signed into law H.R. 1, the American Reinvestment and Recovery Act of 2009 (ARRA), widely described as the Stimulus Bill. ARRA is intended to preserve and create jobs, stimulate investment in infrastructure and assist the unemployed. ARRA also includes new executive compensation standards applicable to financial and other institutions receiving governmental assistance under the Troubled Assets Relief Program (TARP), as established by the Emergency Economic Stabilization Act of 2008.

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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, 2008 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, 2008, the Bank had an unrecognized tax liability of $21.2 million with respect to this reserve.

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

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2008, the Company had no net operating loss carryforwards for federal income tax purposes.

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

State Taxation

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

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

New Jersey tax law does not and has not allowed for a taxpayer to file a tax return on a combined or consolidated basis with another member of the affiliated group where there is common ownership. However, if the taxpayer cannot demonstrate by clear and convincing evidence that the tax filing discloses the true earnings of the taxpayer on its business carried on in the State of New Jersey, the New Jersey Director of the Division of Taxation may, at the director s discretion, require the taxpayer to file a consolidated return of the entire operations of the affiliated group or controlled group, including its own operations and income.

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

Item 1A. Risk Factors.

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

Continued and Prolonged Deterioration in the Housing Sector and Related Markets and the Economy May Adversely Affect Our Business and Financial Results

Throughout the course of 2008, economic conditions continued to worsen, due in large part to the fallout from the collapse of the sub-prime mortgage market. While we did not invest in sub-prime mortgages and related investments, our lending business is tied, in large part, to the housing market. 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. We do not expect improvement in financial market conditions in the near future. 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, 2008, the average loan size for a commercial mortgage loan was $1.8 million, for a commercial loan was $298,000, and for a construction loan was $2.7 million, compared to an average loan size of $208,000 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 the significant job losses related to Wall Street, 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.

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

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

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

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

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, as required by Statement of Financial Accounting Standards (SFAS) No. 141. At December 31, 2008, goodwill totaling $498.8 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. These fair value measurements are subject to the provisions of SFAS No. 157 which we adopted on January 1, 2008.

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.

We performed impairment tests at September 30, 2008 and December 31, 2008 and the results of both analyses indicated no goodwill impairment. Subsequent to the year-end testing, there has been a significant decline in the stock market, the financial sector of the market and of the market price of our common stock. 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 Write-Downs, 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 and the common stock of local community banks. 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 Not Stabilize the Banking System

The potential exists for additional federal or state laws and regulations regarding 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 will 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.

Our Expenses Will Increase As A Result Of Increases In FDIC Insurance Premiums

The Federal Deposit Insurance Corporation (FDIC) imposes an assessment against financial institutions for deposit insurance. This assessment is based on the risk category of the institution and currently ranges from 5 to 43 basis points of the institution s deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects that it will do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund s reserve ratio. As of June 30, 2008, the designated reserve ratio was 1.01% of estimated insured deposits at March 31, 2008. As a result of this reduced reserve ratio, on December 22, 2008, the FDIC published a final rule raising the current deposit insurance assessment rates uniformly for all institutions by seven basis points (to a range from 12 to 50 basis points) for the first quarter of 2009. On February 27, 2009, the FDIC adopted a final rule under which banks in the best risk category will pay initial base rates ranging from 12 to 16 cents per $100 on an annual basis, beginning on April 1, 2009.

The FDIC also adopted an interim rule imposing a 20 basis point emergency special assessment on the industry on June 30, 2009. The assessment is to be collected on September 30, 2009. The cost of this emergency special assessment to us will be approximately $5.1 million. The interim rule would also permit the FDIC to impose an emergency special assessment after June 30, 2009, of up to 10 basis points if necessary to maintain public confidence in federal deposit insurance.

In addition, the Emergency Economic Stabilization Act of 2008 (EESA) temporarily increased the limit on FDIC insurance coverage for deposits to $250,000 through December 31, 2009, and the FDIC took action to provide coverage for newly-issued senior unsecured debt and non-interest bearing transaction accounts in excess of the $250,000 limit, for which institutions will be assessed additional premiums.

These actions will significantly increase our non-interest expense in 2009 and in future years as long as the increased premiums are in place.

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

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations are affected substantially by our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Changes in interest rates could have an adverse affect on net interest income because, as a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would result in a decrease in our average interest rate spread and net interest income, which would have a negative effect on our profitability. In the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no actions to mitigate the effect of such change, we are projecting that our net interest income would decrease 1.9% or $3.5 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, 2008, our available for sale securities portfolio totaled $820.3 million. Unrealized gains and losses on securities available for sale are reported as a separate component of stockholders equity. Decreases in the fair value of securities available for sale resulting from increases in interest rates therefore could have an adverse effect on stockholders equity.

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We are also subject to prepayment and reinvestment risk related to interest rate movements. Changes in interest rates can affect the average life of loans and mortgage related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage related securities, as borrowers refinance to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest such prepayments at rates that are comparable to the rates on existing loans or securities.

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

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

If Our Investment in the Federal Home Loan Bank of New York is Classified as Other-Than-Temporarily Impaired or as Permanently Impaired, Our Earnings and Stockholders Equity Could Decrease

We own common stock of the Federal Home Loan Bank of New York (FHLB-NY). We hold the FHLB-NY common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB-NY s advance program. The aggregate cost and fair value of our FHLB-NY common stock as of December 31, 2008 was $42.8 million based on its par value. There is no market for our FHLB-NY common stock.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB-NY, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in FHLB-NY common stock could be deemed other-than-temporarily impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders equity to decrease by the after-tax amount of the impairment charge.

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

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

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 Federal Deposit Insurance Corporation. 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.

Future Legislative or Regulatory Actions Responding to Perceived Financial and Market Problems Could Impair Our Rights Against Delinquent Borrowers.

There have been legislative and regulatory proposals made that would reduce the amount distressed borrowers may otherwise be contractually obligated to pay under their mortgage loans and limit an institution s ability to foreclose on mortgage collateral. Were proposals such as these, or other proposals limiting our rights as a creditor, to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor.

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, 2008, the Bank conducted business through 83 full-service branch offices located in Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Somerset and Union Counties, New Jersey. The aggregate net book value of premises and equipment was $75.8 million at December 31, 2008.

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of the Company s stockholders during the fourth quarter of the year ended December 31, 2008.

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PART II

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

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

As of December 31, 2008, there were 83,209,293 shares of the Company s common stock issued and 59,610,623 shares outstanding and 6,137 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.

	2008			2007		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First Quarter	$ 14.18	$ 11.97	$ 0.11	$ 18.42	$ 16.75	$ 0.10
Second Quarter	16.13	13.01	0.11	17.59	15.76	0.10
Third Quarter	19.50	13.08	0.11	17.73	13.87	0.11
Fourth Quarter	16.47	11.09	0.11	17.49	13.92	0.11

On January 28, 2009, the Board of Directors declared a quarterly cash dividend of $0.11 per common share, which was paid on February 27, 2009, to common stockholders of record as of the close of business on February 13, 2009. The Company s Board of Directors intends to review the payment of dividends quarterly and plans to continue to maintain a regular quarterly cash dividend in the future, subject to financial condition, results of operations, tax considerations, industry standards, economic conditions, regulatory restrictions that affect the payment of dividends by the Bank to the Company and other relevant factors.

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

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Stock Performance Graph

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company s common stock for the period beginning January 16, 2003, the first date that the Company s common stock traded, as reported by the New York Stock Exchange (at a closing price of $15.50 per share on such date), through December 31, 2008, (b) the cumulative total return on stocks included in the Russell 2000 Index over such period, and (c) the cumulative total return of the SNL Thrift Index over such period. The SNL Thrift Index, produced by SNL Financial LC, contains all thrift institutions traded on the New York, American and NASDAQ stock exchanges. The initial offering price of the Company s common stock in the mutual-to-stock conversion of The Provident Bank, which was completed on January 15, 2003, was $10.00 per share. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an assumed investment of $100.

PROVIDENT FINANCIAL SERVICES, INC.

	Period Ending					
Index	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**
Provident Financial Services, Inc.	100.00	103.84	101.03	101.11	82.49	90.23
Russell 2000	100.00	118.33	123.72	146.44	144.15	95.44
SNL Thrift	100.00	111.42	115.35	134.46	80.67	51.34

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The following table reports information regarding purchases of the Company s common stock during the fourth quarter of 2008 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, 2008 Through October 31, 2008				2,150,148
November 1, 2008 Through November 30, 2008				2,150,148
December 1, 2008 Through December 31, 2008	134	14.07	134	2,150,014
Total	134	14.07	134	

(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,				
	2008	2007	2006	2005	2004
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 6,548,748	$ 6,359,391	$ 5,742,964	$ 6,052,374	$ 6,433,322
Loans, net[1]	4,479,036	4,255,509	3,751,230	3,707,142	3,673,445
Investment securities held to maturity	347,484	358,491	389,656	410,914	445,633
Securities available for sale	820,329	769,615	790,894	1,082,957	1,406,340
Deposits	4,226,336	4,224,820	3,826,463	3,921,458	4,050,473
Borrowed funds	1,247,681	1,075,104	840,990	970,108	1,166,064
Stockholders equity	1,018,590	1,000,794	1,019,156	1,076,295	1,136,776

	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Selected Operations Data:					
Interest income	$ 304,320	$ 302,577	$ 282,139	$ 276,462	$ 229,543
Interest expense	132,251	147,699	117,611	95,007	67,185
Net interest income	172,069	154,878	164,528	181,455	162,358
Provision for loan losses	15,100	6,530	1,320	600	3,600
Net interest income after provision for loan losses	156,969	148,348	163,208	180,855	158,758

Non-interest income	30,211	35,537	31,951	29,221	29,151
Non-interest expense	130,601	133,013	118,273	124,178	119,334
Income before income tax expense	56,579	50,872	76,886	85,898	68,575
Income tax expense	14,937	13,492	23,201	27,399	19,274
Net income	$ 41,642	$ 37,380	$ 53,685	$ 58,499	$ 49,301
Earnings Per Share:					
Basic earnings per share	$ 0.74	$ 0.63	$ 0.88	$ 0.89	$ 0.80
Diluted earnings per share	$ 0.74	$ 0.63	$ 0.87	$ 0.88	$ 0.80

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

	At or For the Year Ended December 31,				
	2008	2007	2006	2005	2004
Selected Financial and Other Data[1]					
Performance Ratios:					
Return on average assets	0.65%	0.62%	0.92%	0.94%	0.93%
Return on average equity	4.12	3.63	5.17	5.32	5.06
Average net interest rate spread	2.78	2.52	2.80	3.01	3.09
Net interest margin[2]	3.11	2.96	3.23	3.34	3.40
Average interest-earning assets to average interest-bearing liabilities	1.13	1.16	1.18	1.18	1.22
Non-interest income to average total assets	0.47	0.59	0.55	0.47	0.55
Non-interest expenses to average total assets	2.04	2.19	2.02	2.00	2.24
Efficiency ratio[3]	64.56	69.85	60.20	58.94	62.31
Asset Quality Ratios:					
Non-performing loans to total loans	1.31%	0.81%	0.20%	0.16%	0.17%
Non-performing assets to total assets	0.96	0.56	0.14	0.11	0.10
Allowance for loan losses to non-performing loans	80.71	117.72	429.65	532.56	545.05
Allowance for loan losses to total loans	1.05	0.95	0.86	0.86	0.91
Capital Ratios:					
Leverage capital[4]	8.48%	8.29%	11.21%	11.98%	11.88%
Total risk based capital[4]	13.28	12.92	15.79	18.45	19.80
Average equity to average assets	15.82	16.95	17.77	17.68	18.34
Other Data:					
Number of full-service offices	83	85	75	76	78
Full time equivalent employees	954	942	877	892	926

(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.

Efficiency Ratio Calculation:	**12/31/2008**	**12/31/2007**	**12/31/2006**	**12/31/2005**	**12/31/2004**
Net interest income	$ 172,069	$ 154,878	$ 164,528	$ 181,455	$ 162,358
Non-interest income	30,211	35,537	31,951	29,221	29,151
Total income	$ 202,280	$ 190,415	$ 196,479	$ 210,676	$ 191,509
Non-interest expense	$ 130,601	$ 133,013	$ 118,273	$ 124,178	$ 119,334
Expense/income	64.56%	69.85%	60.20%	58.94%	62.31%

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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 82 full-service branches in ten counties throughout northern and central New Jersey.

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

Strategy

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

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

In recent years, the Bank has focused on commercial real estate, construction, multi-family and commercial loans as part of its strategy to diversify the loan portfolio and reduce interest rate risk. These types of loans generally have adjustable rates that initially are higher than residential mortgage loans and generally have a higher rate of risk. The Bank s credit policy focuses on quality underwriting standards and close monitoring of the loan portfolio. At December 31, 2008, retail loans accounted for 53.5% of the loan portfolio and commercial loans accounted for 46.5%. 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, 2008, core deposits were 63.7% of total deposits.

A significant amount of capital was raised in the conversion of the Bank to a stock-chartered bank in 2003. Management has developed a capital management strategy to effectively utilize excess capital and improve return on equity and earnings per share growth. The Company s capital management strategy includes the following components: payment of cash dividends; stock repurchases; acquisitions; and use of wholesale leverage. The Company declared and paid its first cash dividend in the second quarter of 2003, and has since increased the quarterly cash dividend per share seven times for a total of 175.0%. The Company s Board of Directors approved the most recent quarterly cash dividend of $0.11 per common share paid on February 27, 2009. In 2008, the Company repurchased 101,200 shares of its common stock at an average cost of $14.30 per share. At December 31, 2008, approximately 2.2 million shares remained eligible for repurchase under the current common stock repurchase authorization.

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

Critical Accounting Policies

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

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

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

When assigning a risk rating to a loan, management utilizes a nine point internal risk rating system. Loans deemed to be acceptable quality are rated 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 and construction loans are rated individually and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings are then confirmed by the Loan Review Department and, for loans requiring Credit Committee approval, they are periodically reviewed by the Credit Committee in the credit renewal or approval process.

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

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

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

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. 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 during the fourth quarter as of September 30 to test the aggregate balance of goodwill for impairment. For purposes of goodwill impairment evaluation, the Bank is identified as the reporting unit. The fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies. 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. These fair value measurements are subject to the provisions of SFAS No. 157 which the Company adopted on January 1, 2008.

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.

Impairment tests were performed at September 30, 2008 and December 31, 2008 and the results of both analyses indicated no impairment. Subsequent to the year-end testing, there has been a significant decline in the stock market, the financial sector of the market and of the market price of the Company s common stock. Although it was determined that no impairment existed at September 30 or December 31, 2008, any continued decline in the market price of the Company s common stock could be considered a triggering event, requiring a re-measurernent of goodwill in order to determine if impairment exists. If the carrying amount of goodwill pursuant to this analysis were to exceed the implied fair value of goodwill, an impairment loss would be recognized. No impairment loss was required to be recognized for the years ended December 31, 2008, 2007 or 2006. Notwithstanding the foregoing, the results of impairment testing on goodwill has no impact on the Company s tangible book value or regulatory capital levels.

The Company s available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income (loss) in stockholders equity. Estimated fair values are based on market quotations or matrix pricing as discussed in Note 18 to the 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 securities available for sale and held to maturity to determine if any declines in the fair values of securities are other than temporary. If such a decline were deemed other than temporary, the Company

would write down the security to fair value through a charge to current period operations. The market value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the market value of fixed-rate securities decreases and as interest rates fall, the market value of fixed-rate securities increases. The current turmoil in the credit markets, primarily as a result of the continued fallout from sub-prime lending, has resulted in a lack of liquidity in the mortgage-backed securities market. Increases in delinquencies and foreclosures, primarily in securities that are backed by sub-prime loans, have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company evaluates its intent and ability to hold securities to maturity or for a sufficient period of time to recover the recorded principal balance. The Company also has investments in common stock issued by several publicly-traded financial institutions, the valuation of which is affected by the institutions performance and market conditions. During the year ended December 31, 2008, the Company recognized impairment charges totaling $1.4 million related to investments in a debt security issued by Lehman Brothers Holdings, Inc. and the common stock of two publicly-traded financial institutions. During the year ended December 31, 2007, the Company recognized an impairment charge totaling $1.0 million, related to an investment in the common stock of a publicly-traded financial institution.

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. 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.

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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, 2008, 2007 and 2006. 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,								
	2008			2007			2006		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Federal funds sold and short-term investments	$ 16,238	$ 510	3.14%	$ 5,200	$ 275	5.28%	$ 7,655	$ 404	5.27%
Investment securities[1]	354,079	14,431	4.08	373,733	15,406	4.12	405,701	16,828	4.15
Securities available for sale	839,226	40,158	4.79	780,836	35,794	4.58	925,010	39,758	4.30
Federal Home Loan Bank Stock	39,424	2,432	6.17	31,470	2,313	7.35	36,015	2,118	5.88
Net loans[2]	4,280,478	246,789	5.77	4,036,193	248,789	6.16	3,714,388	223,031	6.00
Total interest-earning assets	5,529,445	304,320	5.50	5,227,432	302,577	5.79	5,088,769	282,139	5.54
Non-interest earning assets	862,104			843,310			754,789		
Total assets	$ 6,391,549			$ 6,070,742			$ 5,843,558		
Interest-bearing liabilities:									
Savings deposits	$ 941,057	9,915	1.05%	$ 1,168,530	18,674	1.60%	$ 1,313,997	18,198	1.38%
Demand deposits	1,215,059	23,273	1.92	849,235	21,269	2.50	579,366	8,020	1.38
Time deposits	1,545,794	55,699	3.60	1,659,191	72,980	4.40	1,527,721	57,973	3.79
Borrowed funds	1,163,531	43,364	3.73	832,961	34,776	4.17	875,011	33,420	3.82
Total interest-bearing liabilities	4,865,441	132,251	2.72	4,509,917	147,699	3.27	4,296,095	117,611	2.74
Non-interest bearing liabilities	515,142			532,070			508,840		
Total liabilities	5,380,583			5,041,987			4,804,935		
Stockholders equity	1,010,966			1,028,755			1,038,623		
Total liabilities and equity	$ 6,391,549			$ 6,070,742			$ 5,843,558		
Net interest income		$ 172,069			$ 154,878			$ 164,528	
Net interest rate spread			2.78%			2.52%			2.80%
Net interest earning assets	$ 664,004			$ 717,515			$ 792,674		
Net interest margin[3]			3.11%			2.96%			3.23%

Ratio of interest-earning assets to total interest-bearing liabilities	1.14x	1.16x	1.18x

(1) Average outstanding balance amounts are at amortized cost.
(2) Average outstanding balances are net of the allowance for loan losses, deferred loan fees and expenses, and loan premiums and discounts and include non-accrual loans.
(3) Net interest income divided by average interest-earning assets.

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

	Year Ended December 31,					
	2008 vs. 2007			2007 vs. 2006		
	Increase/(Decrease) Due to		Total Increase/ (Decrease)	Increase/(Decrease) Due to		Total Increase/ (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Federal funds sold and short-term investments	$ 384	$ (149)	$ 235	$ (130)	$ 1	$ (129)
Investment securities	(823)	(152)	(975)	(1,303)	(119)	(1,422)
Securities available for sale	2,705	1,659	4,364	(6,450)	2,486	(3,964)
Federal Home Loan Bank Stock	527	(408)	119	(290)	485	195
Loans	14,619	(16,619)	(2,000)	19,597	6,161	25,758
Total interest-earning assets	17,412	(15,669)	1,743	11,424	9,014	20,438
Interest-bearing liabilities:						
Savings deposits	(3,167)	(5,592)	(8,759)	(2,174)	2,650	476
Demand deposits	7,705	(5,701)	2,004	4,831	8,418	13,249
Time deposits	(4,721)	(12,560)	(17,281)	5,228	9,779	15,007
Borrowed funds	12,575	(3,987)	8,588	(1,641)	2,997	1,356
Total interest-bearing liabilities	12,392	(27,840)	(15,448)	6,244	23,844	30,088
Net interest income	$ 5,020	$ 12,171	$ 17,191	$ 5,180	$ (14,830)	$ (9,650)

Comparison of Financial Condition at December 31, 2008 and December 31, 2007

Total assets increased to $6.55 billion at December 31, 2008, compared to $6.36 billion at December 31, 2007, due primarily to increases in loans and securities available for sale.

Total loans at December 31, 2008 were $4.53 billion, compared to $4.30 billion at December 31, 2007. For the year ended December 31, 2008, loan originations totaling $1.33 billion and loan purchases of $267.8 million were partially offset by repayments of $1.29 billion, securitizations of $55.2 million and sales of $16.5 million. Residential mortgage loans increased $87.4 million to $1.79 billion at December 31, 2008, compared to $1.71 billion at December 31, 2007. Residential mortgage loan originations totaled $141.3 million and one- to four-family loans purchased totaled $267.8 million for the year ended December 31, 2008. Principal repayments on residential mortgage loans totaled $251.7 million, $55.2 million of conforming one- to four- family 30-year fixed-rate residential mortgage loans were securitized, and residential mortgage loans sold totaled $16.5 million for the year ended December 31, 2008. Commercial real estate loans increased $169.1 million to $1.02 billion at December 31, 2008, compared to $847.9 million at December 31, 2007. Commercial real estate loan originations totaled $258.0 million and repayments on commercial real estate loans totaled $117.8 million for the year ended December 31, 2008. Multi-family loans increased $28.0 million to $95.5 million at December 31, 2008, compared to $67.5 million at December 31, 2007. Construction loans decreased $75.8 million to $233.7 million at December 31, 2008, compared to $309.6 million at December 31, 2007, as a result of de-emphasis due to market conditions. Commercial loans increased $41.1 million to $753.2 million at December 31, 2008, compared

to $712.1 million at December 31, 2007. Consumer loans decreased $19.9 million to $624.3 million at December 31, 2008, compared to $644.1 million at December 31, 2007. Retail loans, which consist of one- to four-family residential mortgages and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $2.42 billion and accounted for 53.5% of the loan portfolio at December 31, 2008, compared to $2.35 billion, or 54.8%, of the portfolio at December 31, 2007. The decrease in retail loans as a percentage of the total loan portfolio was largely the result of organic growth in the commercial mortgage and commercial loan portfolios. The Company continues to rebalance the loan portfolio over time, consistent with its strategy towards a more commercial mix. Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $2.10 billion, accounting for 46.5% of the loan portfolio at December 31, 2008, compared to $1.94 billion, or 45.2%, at December 31, 2007.

The allowance for loan losses increased $6.9 million to $47.7 million at December 31, 2008, as a result of provisions for loan losses of $15.1 million, partially offset by net charge-offs of $8.2 million during 2008. The increase in the allowance for loan losses was attributable to growth in the loan portfolio, an increase in non-performing loans, and an increase in commercial loans as a percentage of the loan portfolio to 46.5% at December 31, 2008, from 45.2% at December 31, 2007, as well as ongoing uncertainty with respect to general economic conditions. Total non-performing loans at December 31, 2008 were $59.1 million, or 1.31% of total loans, compared with $34.6 million, or 0.81% of total loans at December 31, 2007. At December 31, 2008, impaired loans totaled $37.8 million with related specific reserves of $6.0 million. Within total impaired loans, there were $13.2 million of loans with an average loan-to-value ratio of 68.3% based on current collateral valuations for which no specific reserves were required in accordance with Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*. At December 31, 2008, the Company s allowance for loan losses was 1.05% of total loans, compared with 0.95% of total loans at December 31, 2007.

Total investments increased $42.8 million, or 3.7%, during the year ended December 31, 2008. The increase included $55.2 million of residential mortgage loan pools that were securitized by the Company and held as securities available for sale.

Total deposits increased $1.5 million to $4.23 billion at December 31, 2008, from $4.22 billion at December 31, 2007. At December 31, 2008, core deposits represented 63.7% of total deposits, compared with 61.2% at December 31, 2007. Core deposits increased $108.5 million to $2.69 billion at December 31, 2008, from $2.59 billion at December 31, 2007. Certificates of deposit decreased $107.0 million to $1.53 billion at December 31, 2008, from $1.64 billion at December 31, 2007.

Borrowed funds increased $172.6 million to $1.25 billion at December 31, 2008, from $1.08 billion at December 31, 2007. The increase was the result of an increase in the use of wholesale funding to fund commercial loan originations and securities purchases resulting from a more positively sloped yield curve in 2008.

Total stockholders equity increased $17.8 million to $1.02 billion at December 31, 2008, from $1.00 billion at December 31, 2007. This increase was a result of comprehensive income of $36.8 million and the allocation of shares to stock-based compensation plans of $7.1 million, partially offset by cash dividends of $24.7 million and common stock repurchases of $1.4 million.

Comparison of Operating Results for the Years Ended December 31, 2008 and December 31, 2007

General. Net income for the year ended December 31, 2008 was $41.6 million, compared to net income of $37.4 million for the year ended December 31, 2007. Return on average assets for the year ended December 31, 2008 was 0.65%, compared to 0.62% for 2007. Return on average equity was 4.12% for the year ended December 31, 2008, compared to 3.63% for 2007. Basic and diluted earnings per share were $0.74 for the year ended December 31, 2008, compared to basic and diluted earnings per share of $0.63 for 2007. The primary reason for the increase in net income for 2008 compared with 2007 was expansion of the net interest margin as a

result of lower funding costs, partially offset by an increase in the provision for loan losses as a result of growth in the loan portfolio, an increase in non-performing loans, an increase in commercial loans as a percentage of the loan portfolio, and ongoing concerns about general economic conditions.

Earnings and per share data for the year ended December 31, 2008 reflect severance costs totaling $503,000, net of tax. In addition, the Company recorded other-than-temporary impairment charges on investments in a debt security issued by Lehman Brothers Holdings, Inc. and the common stock of two publicly-traded financial institutions totaling $869,000, net of tax, in 2008. Results for the year ended December 31, 2008, were also impacted by a $180,000 net after-tax gain recorded in connection with the ownership and mandatory redemption of a portion of the Company s Class B Visa, Inc. shares as part of Visa s initial public offering in the first quarter of 2008, and a $175,000 net after-tax gain resulting from the sale of a branch office.

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

Net Interest Income. Net interest income increased $17.2 million, or 11.1%, to $172.1 million for 2008, from $154.9 million for 2007. The average interest rate spread increased 26 basis points to 2.78% for 2008, from 2.52% for 2007. The net interest margin increased 15 basis points to 3.11% for 2008, compared to 2.96% for 2007.

Interest income increased $1.7 million, or 0.6%, to $304.3 million for 2008, compared to $302.6 million for 2007. The increase in interest income was primarily attributable to an increase in loan volume, partially offset by a decrease in the yield on average earning assets. Average interest-earning assets increased $302.0 million, or 5.8%, to $5.53 billion for 2008, compared to $5.23 billion for 2007. Average outstanding loan balances increased $244.3 million, or 6.1%, to $4.28 billion for 2008 from $4.04 billion for 2007. The average balance of investment securities decreased $19.7 million, or 5.3%, to $354.1 million for 2008, compared to $373.7 million for 2007. The average balance of securities available for sale increased $58.4 million, or 7.5%, to $839.2 million for 2008, compared to $780.8 million for 2007. Average federal funds sold and short-term investment balances increased $11.0 million, to $16.2 million for 2008, from $5.2 million for 2007. The yield on interest-earning assets decreased 29 basis points to 5.50% for 2008, from 5.79% for 2007.

Interest expense decreased $15.4 million, or 10.5%, to $132.3 million for 2008, from $147.7 million for 2007. The decrease in interest expense was attributable to lower short-term interest rates and a shift in the deposit mix to lower-costing core deposits. The average balance of interest-bearing liabilities increased $355.5 million, or 7.9%, to $4.87 billion for 2008, compared to $4.51 billion for 2007. The average rate paid on interest-bearing liabilities decreased 55 basis points to 2.72% for 2008, from 3.27% for 2007. Average interest-bearing deposits increased $25.0 million, or 0.7%, to $3.70 billion for 2008, from $3.68 billion for 2007. The average rate paid on interest-bearing deposits decreased 67 basis points to 2.40% for 2008, from 3.07% for 2007. Average interest-bearing core deposits increased $138.4 million, or 6.9%, for 2008, compared with 2007, while average time deposits decreased $113.4 million, or 6.8%, for 2008, compared with 2007. Average outstanding borrowings increased $330.6 million, or 39.7%, to $1.16 billion for 2008, compared with $833.0 million for 2007. The average rate paid on borrowings decreased 44 basis points to 3.73% for 2008, from 4.17% for 2007.

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

The provision for loan losses was $15.1 million in 2008, compared to $6.5 million in 2007. The increase in the provision for loan losses was primarily attributable to growth in the loan portfolio, an increase in non-performing loans, and an increase in commercial loans as a percentage of the loan portfolio to 46.5% at December 31, 2008, from 45.2% at December 31, 2007, as well as ongoing uncertainty with respect to general economic conditions. Net charge-offs for 2008 were $8.2 million, compared to $1.0 million for 2007. Total charge-offs for the year ended December 31, 2008 were $10.4 million, compared to $3.2 million for the year ended December 31, 2007. Recoveries for the year ended December 31, 2008 were $2.3 million, compared to $2.2 million for the year ended December 31, 2007. The allowance for loan losses at December 31, 2008 was $47.7 million, or 1.05% of total loans, compared to $40.8 million, or 0.95% of total loans at December 31, 2007. At December 31, 2008, non-performing loans as a percentage of total loans were 1.31%, compared to 0.81% at December 31, 2007. Non-performing assets as a percentage of total assets were 0.96% at December 31, 2008, compared to 0.56% at December 31, 2007. At December 31, 2008, non-performing loans were $59.1 million, compared to $34.6 million at December 31, 2007, and non-performing assets were $62.6 million at December 31, 2008, compared to $35.7 million at December 31, 2007.

Non-Interest Income. For the year ended December 31, 2008, non-interest income totaled $30.2 million, a decrease of $5.3 million, or 15.0%, compared to 2007. In 2007, the Company recorded a non-recurring gain on an insurance settlement of $5.9 million, before taxes, related to the resolution of previously disclosed litigation. In addition, fee income declined $1.1 million, or 4.7% for the year ended December 31, 2008, compared with 2007, due to decreased loan fees, reductions in income on funds underlying outstanding official checks as a result of lower short-term interest rates, and reductions in the market value of equity fund holdings. Partially offsetting these decreases in non-interest income, net losses on securities transactions, including other-than-temporary impairment charges, declined to $482,000 for the year ended December 31, 2008, compared with net losses of $2.0 million for 2007.

Non-Interest Expense. For the year ended December 31, 2008, non-interest expense decreased $2.4 million, or 1.8%, to $130.6 million, compared to $133.0 million for the year ended December 31, 2007. Compensation and benefits expense decreased $4.4 million, as a result of previous staff reductions and lower stock-based compensation costs. The Company incurred $878,000 in pre-tax severance costs during 2008, compared with $4.5 million in severance charges recognized in 2007. Advertising costs decreased $836,000 for the year ended December 31, 2008, compared with 2007, as prior year costs included charges related to the First Morris acquisition. Amortization of intangibles decreased $509,000 for the year ended December 31, 2008, compared with 2007, as a result of scheduled reductions in the amortization of core deposit intangibles. Partially offsetting these decreases, other operating expenses increased $1.9 million for the year ended December 31, 2008, compared with 2007, due to increases in several categories, including an expense of $426,000 associated with the Company s proportionate share of a litigation reserve established by Visa, as well as increases in attorneys fees and costs associated with foreclosed assets. Net occupancy expense increased $1.4 million for the year ended

December 31, 2008, compared with 2007, due in part to the addition of nine branch locations in connection with the acquisition of First Morris.

The Company s non-interest expense as a percentage of average assets improved to 2.04% for the year ended December 31, 2008, from 2.19% for 2007. The efficiency ratio (non-interest expense divided by the sum of net interest income and non-interest income) improved to 64.56% for the year ended December 31, 2008, from 69.85% for 2007.

Income Tax Expense. Income tax expense increased $1.4 million, to $14.9 million, on income before taxes of $56.6 million resulting in an effective tax rate of 26.4% in 2008, compared to income tax expense of $13.5 million on income before taxes of $50.9 million in 2007, resulting in an effective tax rate of 26.5%.

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

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

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

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

Interest income increased $20.4 million, or 7.2%, to $302.6 million for 2007, compared to $282.1 million for 2006. The increase in interest income was attributable to an increase in the yield on average earning assets and to an increase in loan volume resulting from organic growth and the First Morris acquisition. Average interest-earning assets increased $138.7 million, or 2.7%, to $5.23 billion for 2007, compared to $5.09 billion for 2006. Average outstanding loan balances increased $321.8 million, or 8.7%, to $4.04 billion for 2007 from $3.71 billion for 2006. The average balance of investment securities decreased $32.0 million, or 7.9%, to $373.7 million for 2007, compared to $405.7 million for 2006. The average balance of securities available for

sale decreased $144.2 million, or 15.6%, to $780.8 million for 2007, compared to $925.0 million for 2006. Average federal funds sold and short-term investment balances decreased $2.5 million, or 32.1%, to $5.2 million for 2007, from $7.7 million for 2006. The yield on interest-earning assets increased 25 basis points to 5.79% for 2007, from 5.54% for 2006.

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

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

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

Non-Interest Expense. For the year ended December 31, 2007, non-interest expense increased $14.7 million, or 12.5%, to $133.0 million, compared to $118.3 million for the year ended December 31, 2006. Compensation and benefits expense increased $8.9 million, primarily as a result of one-time severance costs totaling $4.2 million in connection with a previously announced voluntary resignation program and an executive separation agreement, as well as the addition of branch and lending staff from First Morris and the addition of small business and middle market relationship managers. Data processing expense increased $781,000 due primarily to merger-related charges recorded in connection with the acquisition of First Morris. Amortization of intangibles increased $698,000 for the year ended December 31, 2007, compared with the same period in 2006, primarily as

a result of the amortization of the core deposit intangible recorded in connection with the First Morris acquisition. Additional increases in occupancy expense of $1.4 million and advertising expense of $1.1 million for the year ended December 31, 2007, compared with the same period in 2006, are also due primarily to the acquisition and integration of First Morris operations. Other operating expenses increased $1.9 million for the year ended December 31, 2007, compared with the same period in 2006, due to increases in several categories, including Community Reinvestment Act related grants for the origination of mortgages to low- and moderate-income borrowers, printing and supplies costs, examination fees, debit card expense, loan collection expense and miscellaneous losses.

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

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

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, 2008, $96.0 million in borrowings were outstanding against these lines of credit.

Cash flows from loan payments and maturing investment securities are a fairly predictable source of funds. Changes in interest rates, local economic conditions and the competitive marketplace can influence loan prepayments, prepayments on mortgage-backed securities and deposit flows. For each of the years ended December 31, 2008 and 2007, loan repayments totaled $1.29 billion and $1.17 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 $1.60 billion for the year ended December 31, 2008, compared to $1.37 billion for the year ended December 31, 2007. Purchases for the investment portfolio totaled $255.8 million for the year ended December 31, 2008, compared to $172.4 million for the year ended December 31, 2007.

At December 31, 2008, the Bank had outstanding loan commitments to borrowers of $699.6 million, including undisbursed home equity lines and personal credit lines of $225.0 million at December 31, 2008. Total deposits increased $1.5 million for the year ended December 31, 2008. 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 $1.17 billion at December 31, 2008. 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.

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As of December 31, 2008, the Bank s leverage (Tier 1) capital ratio was 6.64%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2008, the Bank s total risk-based capital ratio was 10.65%. Under current regulations, the minimum required ratio of total capital to risk-weighted assets is 8.00%. A bank is considered to be well-capitalized if it has a leverage (Tier 1) capital ratio of at least 5.00% and a risk-based capital ratio of at least 10.00%.

Off-Balance Sheet and Contractual Obligations

Off-balance sheet and contractual obligations as of December 31, 2008, are summarized below:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(In thousands)				
Off-Balance Sheet:					
Long-term commitments	$ 671,026	$ 490,980	$ 125,825	$ 325	$ 53,896
Letters of credit	28,607	18,827	9,780		
Total Off-Balance Sheet	699,633	509,807	135,605	325	53,896
Contractual Obligations:					
Operating leases	14,669	3,317	5,611	3,091	2,650
Certificate of deposits	1,532,511	1,166,615	267,300	96,161	2,435
Total Contractual Obligations	1,547,180	1,169,932	272,911	99,252	5,085
Total	$ 2,246,813	$ 1,679,739	$ 408,516	$ 99,577	$ 58,981

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 $699.6 million at December 31, 2008, a decrease of $67.9 million, or 8.8%, from $767.5 million at December 31, 2007.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There were no securities purchases that were entered into in December 2008 or 2007 that would have settled in January 2009 or 2008, respectively. Total contractual obligations at December 31, 2008 were $1.55 billion, a decrease of $107.1 million, or 6.5%, compared to $1.65 billion at December 31, 2007. Contractual obligations under operating leases decreased $157,000, or 1.1%, to $14.7 million at December 31, 2008, and certificate of deposit accounts decreased $107.0 million, or 6.5%, to $1.53 billion at December 31, 2008, from $1.64 billion at December 31, 2007.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

The Company s strategy for liabilities has been to maintain a stable core-funding base by focusing on core deposit account acquisition and increasing products and services per household. Certificate of deposit accounts as a percentage of total deposits were 36.3% at December 31, 2008 compared to 38.8% at December 31, 2007. Certificate of deposit accounts are generally short-term. As of December 31, 2008, 76.1% of all time deposits had maturities of one year or less compared to 87.2% at December 31, 2007. The Company s ability to retain maturing certificate of deposit accounts is the result of a strategy to remain competitively priced within the marketplace, typically within the upper quartile of rates offered by competitors. The Company s pricing strategy may vary depending upon funding needs and the Company s ability to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB during periods of pricing dislocation.

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

- Parallel yield curve shifts for market rates;
- Current asset and liability spreads to market interest rates are fixed;
- Traditional savings and interest bearing demand accounts move at 10% of the rate ramp in either direction;
- Money Market accounts move at 5% of the rate ramp in either direction; and
- Higher-balance demand deposit tiers and promotional demand accounts move at 50% of the rate ramp in either direction.

The following table sets forth the results of the twelve month projected net interest income model as of December 31, 2008.

Change in Interest Rates in Basis Points (Rate Ramp)	**Net Interest Income**		
	Amount ($)	**Change ($)**	**Change (%)**
	(Dollars in thousands)		
-200	$ 171,339	$ (7,161)	(4.0)%
-100	175,481	(3,019)	(1.7)
Static	178,500		
+100	177,156	(1,344)	(0.8)
+200	175,031	(3,469)	(1.9)

The above table indicates that as of December 31, 2008, in the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, the Company would experience a 1.9%, or $3.5

million decrease in net interest income. In the event of a 200 basis point decrease in interest rates, whereby rates ramp down 200 basis points evenly over a twelve-month period, the Company would experience a 4.0%, or $7.2 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, 2008.

Change in	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
Interest Rates	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
(Basis Points)	(Dollars in thousands)				
-200	$ 1,425,328	$ (13,422)	(0.9)%	20.3%	(1.3)%
-100	1,467,632	28,882	2.0	20.8	1.2
Flat	1,438,750			20.6	
+100	1,375,476	(63,274)	(4.4)	19.9	(3.0)
+200	1,274,238	(164,512)	(11.4)	18.8	(8.6)

The preceding table indicates that as of December 31, 2008, in the event of an immediate and sustained 200 basis point increase in interest rates, the Company would experience an 11.4%, or $164.5 million reduction in the present value of equity. If rates were to decrease 200 basis points, the Company would experience a 0.9%, or $13.4 million decrease 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.

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, 2008 and 2007

(2) Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006

(3) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2008, 2007 and 2006

(4) Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

(5) Notes to Consolidated Financial Statements

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

(1) Condensed Statement of Financial Condition as of December 31, 2008 and 2007

(2) Condensed Statement of Income for the years ended December 31, 2008, 2007 and 2006

(3) Condensed Statement of Cash Flows for the years ended December 31, 2008, 2007 and 2006

The supplementary data required by this Item (selected quarterly financial data) is provided in Note 20 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, 2008 and 2007, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Provident Financial Services, Inc. and subsidiary s internal control over financial reporting as of December 31, 2008, 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 2, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey

March 2, 2009

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Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders

Provident Financial Services, Inc.:

We have audited Provident Financial Services, Inc. and subsidiary s (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included on page 105 of the Annual Report on Form 10-K, Item 9A., Controls and Procedures Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Provident Financial Services, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 2, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Short Hills, New Jersey

March 2, 2009

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2008 and 2007

(Dollars in Thousands, except share data)

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 66,315	$ 83,737
Federal funds sold		18,000
Short-term investments	2,231	38,892
Total cash and cash equivalents	68,546	140,629
Investment securities held to maturity (fair value of $351,623 and $359,699 at December 31, 2008 and December 31, 2007, respectively)	347,484	358,491
Securities available for sale, at fair value	820,329	769,615
Federal Home Loan Bank Stock	42,833	39,764
Loans	4,526,748	4,296,291
Less allowance for loan losses	47,712	40,782
Net loans	4,479,036	4,255,509
Foreclosed assets, net	3,439	1,041
Banking premises and equipment, net	75,750	79,138
Accrued interest receivable	23,866	24,665
Intangible assets	514,684	520,722
Bank-owned life insurance	126,956	121,674
Other assets	45,825	48,143
Total assets	$ 6,548,748	$ 6,359,391
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 1,821,437	$ 1,553,625
Savings deposits	872,388	1,031,725
Certificates of deposit of $100,000 or more	445,466	480,362
Other time deposits	1,087,045	1,159,108
Total deposits	4,226,336	4,224,820
Mortgage escrow deposits	20,074	18,075
Borrowed funds	1,247,681	1,075,104
Other liabilities	36,067	40,598
Total liabilities	5,530,158	5,358,597
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 59,610,623 shares outstanding at December 31, 2008; and 83,209,293 shares issued and 59,646,936 shares outstanding at December 31, 2007, respectively	832	832

Additional paid-in capital		1,013,293		1,009,120
Retained earnings		454,444		437,503
Accumulated other comprehensive (loss) income		(485)		4,335
Treasury stock		(384,854)		(383,407)
Unallocated common stock held by the Employee Stock Ownership Plan		(64,640)		(67,589)
Common stock acquired by the Directors Deferred Fee Plan		(7,667)		(7,759)
Deferred compensation Directors Deferred Fee Plan		7,667		7,759
Total stockholders equity		1,018,590		1,000,794
Total liabilities and stockholders equity	$	6,548,748	$	6,359,391

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years ended December 31, 2008, 2007 and 2006

(Dollars in Thousands, except share data)

	Years ended December 31,		
	2008	2007	2006
Interest income:			
Real estate secured loans	$ 167,063	$ 167,506	$ 160,192
Commercial loans	42,999	42,151	27,840
Consumer loans	36,727	39,132	34,999
Investment securities	14,431	15,406	16,828
Securities available for sale	42,590	38,107	41,876
Other short-term investments	344	153	161
Federal funds	166	122	243
Total interest income	304,320	302,577	282,139
Interest expense:			
Deposits	88,887	112,923	84,191
Borrowed funds	43,364	34,776	31,884
Subordinated debentures			1,536
Total interest expense	132,251	147,699	117,611
Net interest income	172,069	154,878	164,528
Provision for loan losses	15,100	6,530	1,320
Net interest income after provision for loan losses	156,969	148,348	163,208
Non-interest income:			
Fees	23,391	24,538	23,305
Gain on insurance settlement		5,947	
Bank-owned life insurance	5,282	5,403	5,196
Impairment charge on securities	(1,410)	(1,003)	
Net gain (loss) on securities transactions	928	(984)	1,170
Other income	2,020	1,636	2,280
Total non-interest income	30,211	35,537	31,951
Non-interest expense:			
Compensation and employee benefits	67,770	72,183	63,295
Net occupancy expense	20,809	19,431	18,054
Data processing expense	9,194	9,106	8,325
Amortization of intangibles	6,077	6,586	5,888
Advertising and promotion expense	4,106	4,942	3,819
Other operating expenses	22,645	20,765	18,892
Total non-interest expenses	130,601	133,013	118,273

Income before income tax expense	$ 56,579	$ 50,872	$ 76,886
Income tax expense	14,937	13,492	23,201
Net income	$ 41,642	$ 37,380	$ 53,685
Basic earnings per share	$ 0.74	$ 0.63	$ 0.88
Average basic shares outstanding	56,031,273	59,067,438	60,968,533
Diluted earnings per share	$ 0.74	$ 0.63	$ 0.87
Average diluted shares outstanding	56,031,318	59,067,438	61,703,906

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, 2008, 2007 and 2006

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	UNVESTED AND UNALLOCATED STOCK AWARDS	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2005	$ 799	$ 964,555	$ 395,589	$ (8,906)	$ (167,113)	$ (73,316)	$ (35,313)	$ (13,224)	$ 13,224	$ 1,076,295
Comprehensive income:										
Net income			53,685							53,685
Other comprehensive income:										
Unrealized holding gain on securities arising during the period (net of tax of $1,729)				2,633						2,633
Reclassification adjustment for gains included in net income (net of tax of $389)				(781)						(781)
Total comprehensive income										$ 55,537
Adoption of SFAS No. 158 (net of tax of $66)				(96)						(96)
Cash dividends paid			(24,316)							(24,316)
Distributions from DDFP		43						214	(214)	43
Purchases of treasury stock					(99,583)					(99,583)
Option exercises		3			109					112
Allocation of ESOP shares		188				2,836				3,024
Allocation of SAP shares		4,810								4,810
Adoption of SFAS No. 123R		(35,313)					35,313			
Allocation of stock options		3,330								3,330

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2008, 2007 and 2006 (Continued)

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	UNVESTED AND UNALLOCATED STOCK AWARDS	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2006	$ 799	$ 937,616	$ 424,958	$ (7,150)	$ (266,587)	$ (70,480)	$	$ (13,010)	$ 13,010	$ 1,019,156
Comprehensive income:										
Net income			37,380							37,380
Other comprehensive income:										
Unrealized holding gain on securities arising during the period (net of tax of $3,403)				5,128						5,128
Reclassification adjustment for losses included in net income (net of tax of ($717))				1,270						1,270
Amortization related to post- retirement obligations (net of tax of $3,513)				5,087						5,087
Total comprehensive income										$ 48,865
Common stock issued in connection with the First Morris acquisition	33	61,902								61,935
Cash dividends paid			(24,835)							(24,835)
Tax contingency reserve reversal		2,048								2,048
Distributions from DDFP		(148)						5,251	(5,251)	(148)
Purchases of treasury stock					(116,820)					(116,820)
Allocation of ESOP shares		(137)				2,891				2,754
Allocation of SAP shares		4,594								4,594
Allocation of stock options		3,245								3,245

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2008, 2007 and 2006 (Continued)

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	UNVESTED AND UNALLOCATED STOCK AWARDS	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
Balance at December 31, 2008	$ 832	$ 1,013,293	$ 454,444	$ (485)	$ (384,854)	$ (64,640)	$	$ (7,667)	$ 7,667	$ 1,018,590

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2008, 2007 and 2006

(Dollars in Thousands)

	Years Ended December 31,		
	2008	**2007**	**2006**
Cash flows from operating activities:			
Net income	$ 41,642	$ 37,380	$ 53,685
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangibles	13,903	14,129	13,214
Provision for loan losses	15,100	6,530	1,320
Deferred tax (benefit) expense	(4,767)	(637)	215
Increase in cash surrender value of Bank-owned Life Insurance	(5,282)	(5,403)	(5,196)
Net amortization of premiums and discounts On securities	355	909	2,688
Accretion of net deferred loan fees	(2,053)	(1,822)	(1,904)
Amortization of premiums on purchased loans	2,569	3,100	3,762
Net increase in loans originated for sale	(16,458)	(8,862)	(17,687)
Proceeds from sales of loans originated for sale	16,502	9,019	17,805
Proceeds from sales of foreclosed assets	7,260	762	1,091
Allocation of ESOP shares	2,162	2,495	2,842
Allocation of stock award shares	2,701	4,594	4,810
Allocation of stock options	1,929	3,245	3,330
Net gain on sale of loans	(44)	(157)	(118)
Net (gain) loss on securities available for sale	(928)	984	(1,170)
Impairment charge on securities	1,410	1,003	
Net gain on sale of premises and equipment	(113)	(153)	(46)
Net gain on sale of foreclosed assets	(1)		
Decrease (increase) in accrued interest receivable	799	(680)	1,450
(Increase) decrease in other assets	(9,606)	8,154	6,164
(Decrease) increase in other liabilities	(4,531)	(4,049)	1,209
Net cash provided by operating activities	62,549	70,541	87,464
Cash flows from investing activities:			
Proceeds from maturities, calls and paydowns of investment securities	44,108	44,199	44,042
Purchases of investment securities	(33,482)	(13,261)	(23,485)
Proceeds from sales of securities available for sale	36,898	124,917	47,121
Proceeds from maturities and paydowns of securities available for sale	190,630	201,932	313,076
Purchases of securities available for sale	(222,348)	(159,099)	(65,759)
Cash consideration paid to acquire First Morris, net of cash and cash equivalents received		(1,383)	
Purchases of loans	(267,823)	(79,131)	(57,170)
Net (increase) decrease in loans	(28,234)	(100,736)	9,821
Proceeds from sales of premises and equipment	2,049	328	57
Purchases of premises and equipment, net	(6,374)	(9,200)	(6,199)
Net cash (used in) provided by investing activities	(284,576)	8,566	261,504
Cash flows from financing activities:			
Net increase (decrease) in deposits	1,516	(110,649)	(94,995)
Increase (decrease) in mortgage escrow deposits	1,999	459	(505)
Purchase of treasury stock	(1,447)	(116,820)	(99,583)
Cash dividends paid to stockholders	(24,701)	(24,835)	(24,316)
Stock options exercised			112
Proceeds from long-term borrowings	410,600	435,700	224,500
Payments on long-term borrowings	(349,049)	(169,291)	(378,985)

Net increase (decrease) in short-term borrowings	111,026	(45,099)	25,367
Redemption of subordinated debentures			(25,774)
Net cash provided by (used in) financing activities	149,944	(30,535)	(374,179)
Net (decrease) increase in cash and cash equivalents	(72,083)	48,572	(25,211)
Cash and cash equivalents at beginning of period	140,629	92,057	117,268
Cash and cash equivalents at end of period	$ 68,546	$ 140,629	$ 92,057
Cash paid during the period for:			
Interest on deposits and borrowings	$ 132,875	$ 145,341	$ 116,872
Income taxes	$ 16,701	$ 19,373	$ 23,639
Non cash investing activities:			
Transfer of loans receivable to foreclosed assets	$ 9,867	$ 1,275	$ 949
Loan securitizations	$ 55,217		
Fair value of assets acquired	$	$ 554,204	$
Goodwill and core deposit intangible	$	$ 97,513	$
Liabilities assumed	$	$ 527,737	$
Common stock issued for First Morris acquisition	$	$ 61,935	$

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

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(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 include the valuation of loans and securities, goodwill, intangible assets, other long-lived assets, legal contingencies and assumptions used in the calculation of income taxes, 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 and securities available for sale. Securities that the Company has the positive intent and ability to hold to maturity are classified as investment securities held to maturity and reported at amortized cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as securities available for sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of equity, net of deferred taxes. SFAS No. 157 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

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy under SFAS No. 157 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. Gains or losses on the sale of securities are based upon the specific identification method. All securities are adjusted for amortization of premiums and accretion of discounts using the level-yield method over the estimated lives of the securities.

Federal Home Loan Bank of New York Stock

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

Loans

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

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

Loan Origination and Commitment Fees and Related Costs

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

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Allowance for Loan Losses

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

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

Foreclosed Assets

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell. Fair 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 (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.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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 Wealth Management Department) are not included in the accompanying consolidated statements of financial condition because such properties are not assets of the Bank.

Intangible Assets

Intangible assets of the Bank consist of goodwill, core deposit premiums, and mortgage servicing rights. Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired through purchase acquisitions. In accordance with 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, 2008 indicated that there was no impairment. The market prices of financial service institution stocks and the market price of the Company s common stock have declined significantly subsequent to December 31, 2008, triggering an additional analysis of goodwill at December 31, 2008. Although it was determined that no impairment existed at September 30 or December 31, 2008, any continued decline in the market price of the Company s common stock could be considered a triggering event, requiring a re-measurement of goodwill in order to determine if impairment exists.

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

Bank-owned Life Insurance

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

Employee Benefit Plans

The Bank maintains a pension plan which covers full-time employees hired prior to April 1, 2003. The Bank s policy is to fund at least the minimum contribution required by the Employee Retirement Income Security Act of 1974. On April 1, 2003, the pension plan was frozen. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan s assets and its obligations that determine its funded status at the end of the employer s fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The Company adopted SFAS No. 158 effective December 31, 2006. Upon adoption of SFAS No. 158, the impact related to the pension plan was an increase in other comprehensive income of $598,000, net of tax.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

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

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

In connection with the First Sentinel acquisition, the Company assumed the First Savings Bank Directors Deferred Fee Plan (the DDFP). The DDFP was frozen prior to the acquisition. The Company recorded a deferred compensation equity instrument and corresponding contra-equity account for the value of the shares held by the DDFP at the July 14, 2004 acquisition date. These accounts will be liquidated as shares are distributed from the DDFP in accordance with the plan document. At December 31, 2008, there were 438,563 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. In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The Company adopted SFAS No. 158 effective December 31, 2006. Upon adoption of SFAS No. 158, the impact to postretirement healthcare and life insurance plans was a decrease in other comprehensive income of $640,000, net of tax.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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 June 2008, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 08-3, Accounting by Lessees for Nonrefundable Maintenance Deposits . EITF Issue No. 08-3 requires that all nonrefundable maintenance deposits be accounted for as a deposit with the deposit expensed or capitalized in accordance with the lessee s maintenance accounting policy when the underlying maintenance is performed. Once it is determined that an amount on deposit is not probable of being used to fund future maintenance expense, it is to be recognized as additional expense at the time such determination is made. EITF Issue No. 08-3 is effective for fiscal years beginning after July 1, 2009. The adoption of EITF Issue No. 08-3 is not expected to have a material impact on its financial condition, results of operations or financial statement disclosures.

In January 2009, the FASB issued FASB Staff Position (FSP) EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. This FSP amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities , and other related guidance. FSP EITF 99-20-1 shall be effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of FSP EITF 99-20-1 did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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In October 2008, FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, was issued. FSP 157-3 clarifies the application of SFAS No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The Company considered the guidance in FSP 157-3 in determining the fair value of financial instruments as discussed in Note 18 to the consolidated financial statements.

In June 2008, FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, was issued. FSP EITF 03-6-1 requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents to be treated as participating securities as defined in EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in SFAS No. 128, Earnings Per Share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, all previously reported earnings per share data must be retroactively adjusted to conform with the requirements of the FSP. The Company is currently evaluating the impact of the adoption of FSP EITF 03-6-1 on its calculation of earnings per share.

In March 2008, the FASB issued SFAS No. 161. Disclosure about Derivative Instruments and Hedging activities, an Amendment of FASB Statement No. 133. The new standard establishes enhanced disclosure requirements about (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, and is not expected to have a significant impact on the Company s financial condition, results of operations or financial statement disclosures.

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The adoption of SFAS No. 157 on January 1, 2008 did not have a material impact on the Company s financial condition or results of operations. The disclosures required by this standard are included in Note 18 to the consolidated financial statements.

Effective January 1, 2008, the Company adopted the provisions of EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 states that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified unvested equity shares, unvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. The adoption of EITF 06-11 did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In February 2008, FSP No. 157-2, Effective Date of FASB Statement No. 157, was issued. FSP No. 157-2 delayed the application of SFAS No. 157 for non-financial assets and non-financial liabilities until January 1, 2009. The Company is currently evaluating the impact of the adoption of FSP No. 157-2 on its financial statement disclosures.

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

On January 1, 2008, the Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure selected financial assets and liabilities at fair value. The adoption of SFAS No. 159 did not impact the Company s financial condition, results of operations or financial statement disclosures, as the Company did not elect the fair value option for any assets or liabilities.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS No. 141R), which replaces SFAS No. 141, Business Combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS No. 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS No. 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS No. 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS No. 141. Under SFAS No. 141R, the requirements of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, Accounting for Contingencies. SFAS No. 141R is effective for all business combinations closing on or after January 1, 2009 and could have a significant impact on the Company s accounting for business combinations on or after such date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB Statement No. 51. This standard amends the guidance in Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. The new standard establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS No. 160 is effective on January 1, 2009, and is not expected to have a significant impact on the Company s financial condition, results of operations or financial statement disclosures.

In November 2007, the Securities and Exchange Commission (SEC) issued SEC Staff Accounting Bulletin (SAB) No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings. SAB No. 109 supersedes SAB No. 105, Application of Accounting Principles to Loan Commitments, and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB No. 109 is applied on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company s adoption of SAB No. 109 did not have a material impact on its financial condition, results of operations or financial statement disclosures.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

(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, 2008, the liquidation account, which is an off-balance sheet memorandum account, amounted to $34,922,000.

Acquisition

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

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

(3) Restrictions on Cash and Due from Banks

Included in cash on hand and due from banks at December 31, 2008 and 2007 is $10,680,000 and $11,067,000, respectively, representing reserves required by banking regulations.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

(4) Investment Securities Held to Maturity

Investment securities held to maturity at December 31, 2008 and 2007 are summarized as follows (in thousands):

	2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	$ 91,435	910	(1,236)	91,109
State and municipal obligations	256,049	5,485	(1,020)	260,514
	$ 347,484	6,395	(2,256)	351,623

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