PROVIDENT FINANCIAL SERVICES INC
Form 10-K
March 01, 2013
Table of Contents

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, 2012

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 **(State or Other Jurisdiction of Incorporation or Organization)**	**42-1547151** **(I.R.S. Employer Identification Number)**
239 Washington Street, Jersey City, New Jersey **(Address of Principal Executive Offices)**	**07302** **(Zip Code)**

(732) 590-9200

(Registrant s Telephone Number)

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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

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

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

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

As of February 1, 2013, there were 83,209,293 issued and 60,354,185 shares of the Registrant s Common Stock outstanding, including 416,123 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, 2012, as quoted by the NYSE, was approximately $820.9 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2013 Annual Meeting of Stockholders of the Registrant (Part III).

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC.

INDEX TO FORM 10-K

Table of Contents

Forward Looking Statements

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

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

PART I

Item 1. Business
Provident Financial Services, Inc.

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

At December 31, 2012, the Company had total assets of $7.28 billion, loans of $4.90 billion, total deposits of $5.43 billion, and total stockholders equity of $981.2 million. The Company s mailing address is 239 Washington Street, Jersey City, New Jersey 07302, and the Company s telephone number is (732) 590-9200.

Capital Management. The Company paid cash dividends totaling $40.7 million and repurchased 678,750 shares of its common stock at a cost of $9.4 million in 2012. At December 31, 2012, 4.1 million shares were eligible for repurchase. The Company and the Bank were well capitalized at December 31, 2012 under current regulatory standards.

Available Information. The Company is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission (SEC). These respective reports are on file and a matter of public record with the SEC and may be read and copied at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov). All filed SEC reports and interim filings can also be obtained from the Bank s website, www.providentnj.com, on the Investor Relations page, without charge from the Company.

The Provident Bank

Established in 1839, the Bank is a New Jersey-chartered capital stock savings bank currently operating 78 full-service branch offices in the New Jersey counties of Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset and Union, which the Bank considers its primary market area. As a community- and customer oriented institution, the Bank emphasizes personal service and customer convenience in serving the financial needs of the individuals, families and businesses residing in its primary markets areas. The Bank attracts deposits from the general public and businesses primarily in the areas surrounding its banking offices and uses those funds, together with funds generated from operations and borrowings, to originate commercial real estate loans, residential mortgage loans, commercial business loans and consumer loans. The Bank also invests in mortgage-backed securities and other permissible investments.

The following are highlights of The Provident Bank s operations:

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

Asset Quality. As of December 31, 2012, non-performing assets were $111.5 million or 1.53% of total assets, compared to $135.4 million or 1.91% of total assets at December 31, 2011. While the Bank s non-performing asset levels have been adversely impacted by the troubled real estate market and the challenging economic environment, the Bank continues to focus on conservative underwriting criteria and on active and timely 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 $4.47 billion at December 31, 2012, representing 82.4% of total deposits, compared with $4.03 billion, or 78.1% of total deposits at December 31, 2011. The Bank also focuses on increasing the number of households and businesses served and the number of banking products per customer.

Non-Interest Income. The Bank s focus on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. Fees derived from core deposit accounts are a primary source of non-interest income. The Bank also offers investment products and wealth and asset management services through its subsidiaries to generate non-interest income. Total non-interest income was $43.6 million for the year ended December 31, 2012, compared with $32.5 million for the year ended December 31, 2011, and fee income was $30.3 million for the year ended December 31, 2012, compared with $25.4 million for the year ended December 31, 2011.

Managing Interest Rate Risk. The Bank manages its exposure to interest rate risk through the origination and retention of adjustable rate and shorter-term loans. In addition, the Bank uses its investments in securities to manage interest rate risk. At December 31, 2012, 46.0% 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, 2012, the Bank s securities portfolio totaled $1.66 billion and had an expected average life of 3.75 years.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2012, the Bank operated a network of 78 full-service banking offices throughout eleven counties in northern and central New Jersey, comprised of 14 offices in Hudson County, 3 in Bergen, 7 in Essex, 1 in

Mercer, 22 in Middlesex, 9 in Monmouth, 10 in Morris, 4 in Ocean, 1 in Passaic, 4 in Somerset and 3 in Union Counties. The Bank also maintains its administrative offices in Iselin, New Jersey and satellite loan production offices in Convent Station and Princeton, New Jersey. The Bank s lending activities, though concentrated in the communities surrounding its offices, extend predominantly throughout the State of New Jersey.

The Bank s eleven-county primary market area includes a mix of urban and suburban communities and has a diversified mix of industries including pharmaceutical and other manufacturing companies, network communications, insurance and financial services, healthcare, and retail. According to the U.S. Census Bureau s most recent population data for 2012, the Bank s eleven-county market area has a population of 6.6 million, which was 74.6% of the state s total population. Because of the diversity of industries in the Bank s market area and, to a lesser extent, its proximity to the New York City financial markets, the area s economy can be significantly affected by changes in national and international economies. According to the U.S. Bureau of Labor Statistics, the unemployment rate in New Jersey remained elevated at 9.6% at December 31, 2012, and increased from 9.1% at December 31, 2011.

Within its primary market area, the Bank had an approximate 2.31% share of bank deposits as of June 30, 2012, the latest date for which statistics are available, and an approximate 1.95% deposit share of the New Jersey market statewide.

COMPETITION

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

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

LENDING ACTIVITIES

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

Residential mortgage loans are primarily underwritten to standards that allow the sale of the loans to the secondary markets, primarily to the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). To manage interest rate risk, the Bank generally sells fixed-rate residential mortgages that it originates with terms greater than 15 years. The Bank commonly retains biweekly payment fixed-rate residential mortgage loans with a term of 25 years or less and a majority of the originated adjustable rate mortgages for its portfolio.

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

Table of Contents

The Bank historically provided construction loans for both single family and condominium projects intended for sale and commercial projects that will be retained as investments by the borrower. Since 2008, the Bank significantly reduced for sale construction loan originations due to adverse market conditions. The Bank underwrites most construction loans for a term of three years or less. The majority of these loans are underwritten on a floating rate basis. The Bank recognizes that there is higher risk in construction lending than permanent lending. As such, the Bank takes certain precautions to mitigate this risk, including the retention of an outside engineering firm to perform plan and cost reviews and to review all construction advances made against work in place and a limitation on how and when loan proceeds are advanced. In most cases, for the single family/condominium projects, the Bank limits its exposure against houses or units that are not under contract. Similarly, commercial construction loans usually have commitments for significant pre-leasing, or funds are held back until the leases are finalized.

The Bank originates consumer loans that are secured, in most cases, by a borrower s assets. Home equity loans and home equity lines of credit that are secured by a first or second mortgage lien on the borrower s residence comprise the largest category of the Bank s consumer loan portfolio. The Bank s consumer loan portfolio also includes marine loans made on an indirect basis that are secured by a first lien on recreational boats. The marine loans were generated via boat dealers located on the East Coast of the United States. The Bank discontinued indirect marine lending in 2010. Marine loans are currently made on a direct, limited accommodation basis to existing customers.

Commercial loans are made to businesses of varying size and type within the Bank s market. The Bank lends to established businesses, and the loans are generally secured by business assets such as equipment, receivables, inventory, real estate or marketable securities. On a limited basis, the Bank makes unsecured commercial loans. Most commercial lines of credit are made on a floating interest rate basis and most term loans are made on a fixed interest rate basis, usually with terms of five years or less.

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

	At December 31,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential mortgage loans	$ 1,265,015	26.17%	$ 1,308,635	28.58%	$ 1,386,326	31.93%	$ 1,491,358	34.49%	$ 1,793,123	40.03%
Commercial mortgage loans	1,349,950	27.92	1,253,542	27.37	1,180,147	27.19	1,089,937	25.21	923,044	20.60
Multi-family mortgage loans	723,958	14.98	564,147	12.32	387,189	8.92	227,663	5.27	189,462	4.23
Construction loans	120,133	2.48	114,817	2.51	125,192	2.88	195,889	4.53	233,727	5.22
Total mortgage loans	3,459,056	71.55	3,241,141	70.78	3,078,854	70.92	3,004,847	69.50	3,139,356	70.08
Commercial loans	866,395	17.92	849,009	18.54	755,487	17.40	785,818	18.18	753,173	16.81
Consumer loans	579,166	11.98	560,970	12.25	569,597	13.12	586,459	13.56	624,282	13.94
Total gross loans	4,904,617	101.45	4,651,120	101.57	4,403,938	101.45	4,377,124	101.24	4,516,811	100.84
Premiums on purchased loans	4,964	0.10	5,823	0.13	6,771	0.16	8,012	0.19	10,980	0.24
Unearned discounts	(78)		(100)		(104)		(266)	(0.01)	(492)	(0.01)
Net deferred costs (fees)	(4,804)	(0.10)	(3,334)	(0.07)	(792)	(0.02)	(676)	(0.02)	(551)	0.01
Total loans	4,904,699	101.45	4,653,509	101.62	4,409,813	101.58	4,384,194	101.40	4,526,748	101.06
Allowance for loan losses	(70,348)	(1.45)	(74,351)	(1.62)	(68,722)	(1.58)	(60,744)	(1.40)	(47,712)	(1.07)
Total loans, net	$ 4,834,351	100.00%	$ 4,579,158	100.00%	$ 4,341,091	100.00%	$ 4,323,450	100.00%	$ 4,479,036	100.00%

4

Table of Contents

Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2012, regarding the maturities of loans in the loan portfolio. Demand loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due within one year.

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years (In thousands)	Ten Through Twenty Years	Beyond Twenty Years	Total
Residential mortgage loans	$ 2,885	$ 3,310	$ 17,817	$ 127,005	$ 397,679	$ 716,319	$ 1,265,015
Commercial mortgage loans	130,309	138,378	192,657	793,710	94,644	252	1,349,950
Multi-family mortgage loans	7,389	39,567	138,839	386,266	151,588	309	723,958
Construction loans	70,286	49,847					120,133
Total mortgage loans	210,869	231,102	349,313	1,306,981	643,911	716,880	3,459,056
Commercial loans	200,156	104,901	117,212	344,408	80,557	19,161	866,395
Consumer loans	25,857	7,059	19,536	92,676	303,298	130,740	579,166
Total loans	$ 436,882	$ 343,062	$ 486,061	$ 1,744,065	$ 1,027,766	$ 866,781	$ 4,904,617

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2012, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2013.

	Due After December 31, 2013		
	Fixed	Adjustable (In thousands)	Total
Residential mortgage loans	$ 838,681	$ 423,449	$ 1,262,130
Commercial mortgage loans	696,514	523,127	1,219,641
Multi-family mortgage loans	426,952	289,617	716,569
Construction loans	9,827	40,020	49,847
Total mortgage loans	1,971,974	1,276,213	3,248,187
Commercial loans	308,588	357,651	666,239
Consumer loans	367,104	186,205	553,309
Total loans	$ 2,647,666	$ 1,820,069	$ 4,467,735

Residential Mortgage Loans. The Bank originates residential mortgage loans secured by first mortgages on one- to four-family residences, generally located in the State of New Jersey. The Bank originates residential mortgages primarily through commissioned mortgage representatives, the Internet and its branch offices. The Bank originates both fixed-rate and adjustable-rate mortgages. As of December 31, 2012, $1.27 billion or 26.2% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 66.5% were fixed-rate and 33.5% were adjustable-rate loans.

The Bank originates fixed-rate fully amortizing residential mortgage loans with the principal and interest due each month, that typically have maturities ranging from 10 to 30 years. The Bank also originates fixed-rate residential mortgage loans with maturities of 15, 20 and 30 years that require the payment of principal and interest on a biweekly basis. Fixed-rate jumbo residential mortgage loans (loans over the maximum that one of the government-sponsored agencies will purchase) are originated with maturities of up to 30 years. The Bank has offered adjustable-rate mortgage loans with a fixed-rate period of 1, 3, 5, 7 or 10 years prior to the first annual interest rate adjustment. In October 2009, the Bank discontinued the origination of one- and three-year adjustable rate mortgage loans. The standard adjustment formula is the one-year constant maturity Treasury rate plus 2 $^{3}/_{4}$%, adjusting annually with a 2% maximum annual adjustment and a 6% maximum adjustment over the life of the loan.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated on a limited basis Alt-A mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50%. The balance of these Alt-A loans at December 31, 2012 was $9.5 million.

Residential loans are primarily underwritten to Freddie Mac and Fannie Mae standards. The Bank s standard maximum loan to value ratio is 80%. However, working through mortgage insurance companies, the Bank underwrites loans for sale to Freddie Mac or Fannie Mae programs that will finance up to 95% of the value of the residence. Generally all fixed-rate loans with terms of 20 years or more are sold into the secondary market with servicing rights retained. Fixed-rate residential mortgage loans retained in the Bank s portfolio generally include loans with a term of 15 years or less and biweekly payment residential mortgage loans with a term of 25 years or less. The Bank retains the majority of the originated adjustable-rate mortgages for its portfolio.

Loans are sold without recourse, generally with servicing rights retained by the Bank. The percentage of loans sold into the secondary market will vary depending upon interest rates and the Bank s strategies for reducing exposure to interest rate risk. In 2012, $36.7 million, or 19.9% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2012 were long-term, fixed-rate mortgages.

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

For many years, the Bank has offered discounted rates on residential mortgage loans to low- to moderate-income individuals. Loans originated in this category over the last five years have totaled $53.0 million. The Bank also offers a special rate program for first-time homebuyers under which originations have totaled over $8.5 million for the past five years.

Commercial Real Estate Loans. The Bank originates loans secured by mortgages on various commercial income producing properties, including multi-family apartment buildings, office buildings and retail and industrial properties. Commercial real estate loans were 27.9% of the loan portfolio at December 31, 2012. A substantial majority of the Bank s commercial real estate loans are secured by properties located in the State of New Jersey.

The Bank originates commercial real estate loans with adjustable rates and with fixed interest rates for a period that is generally five to ten years or less, which may adjust after the initial period. Typically these loans are written for maturities of ten years or less and generally have an amortization schedule of 20 or 25 years. As a result, the typical amortization schedule will result in a substantial principal payment upon maturity. The Bank generally underwrites commercial real estate loans to a maximum 75% advance against either the appraised value of the property, or its purchase price (for loans to fund the acquisition of real estate), whichever is less. The Bank generally requires minimum debt service coverage of 1.20 times. There is a potential risk that the borrower may be unable to pay off or refinance the outstanding balance at the loan maturity date. The Bank typically lends to experienced owners or developers who have knowledge and contacts in the commercial real estate market.

Among the reasons for the Bank s continued emphasis on commercial real estate lending is the desire to invest in assets bearing interest rates that are generally higher than interest rates on residential mortgage loans

Table of Contents

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

The Bank requires a full independent appraisal for commercial real estate. The appraiser must be selected from the Bank s approved list. The Bank also employs an independent review appraiser to ensure that the appraisal meets the Bank s standards. The underwriting guidelines generally provide that the loan-to-value ratio shall not exceed 75% of the appraised value and the debt service coverage should be at least 1.20 times. In addition, financial statements are required annually for review. The Bank s policy also requires that a property inspection of commercial mortgages over $2.5 million be completed at least every 18 months, or more frequently when warranted.

The Bank s largest commercial mortgage loan as of December 31, 2012 was a $28.9 million loan secured by a first mortgage lien on a 378 room, full service hotel and a 422 car parking garage located in Elizabeth, New Jersey. The loan has a risk rating of 4 (loans rated 1-4 are deemed to be acceptable quality see discussion of the Bank s nine-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, 2012.

Multi-family Loans. The Bank underwrites loans secured by apartment buildings that have five or more units. The Bank considers multi-family lending a component of the commercial real estate lending portfolio. The underwriting standards and procedures that are used to underwrite commercial real estate loans are used to underwrite multi-family loans, except the loan-to-value ratio shall not exceed 80% of the appraised value of the property, the debt-service coverage should be a minimum of 1.15 times and an amortization period of up to 30 years.

The Bank s largest multi-family loan as of December 31, 2012 was a $28.6 million loan on a 131-unit apartment community located in Morristown, New Jersey. The loan has a risk rating of 3 (loans rated 1-4 are deemed to be acceptable quality see discussion of the Bank s nine-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, 2012.

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

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

The Bank underwrites construction loans for a term of three years or less. The majority of the Bank s construction loans are floating-rate loans with a maximum 75% loan-to-value ratio for the completed project. The

Table of Contents

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 for competing projects. The Bank also obtains personal guarantees and conducts environmental due diligence as appropriate.

The Bank also employs other means to mitigate 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, 2012 was a $28.0 million loan secured by a first lien on a new 250 unit luxury multi-family apartment project located in Woolwich Township, Gloucester County, New Jersey. The loan had an outstanding balance of $18.4 million at December 31, 2012. The project is approximately 70% complete with 75 units leased and occupied. The loan has a risk rating of 4 (loans rated 1-4 are deemed to be acceptable quality see discussion of the Bank s nine-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, 2012.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 17.9% of the loan portfolio at December 31, 2012. The majority of the Bank s commercial loan customers are local businesses with revenues of less than $50.0 million. The Bank offers commercial loans for equipment purchases, lines of credit for working capital purposes, letters of credit and real estate loans where the borrower is the primary occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial term loans are fully amortized over a five-year period. Owner-occupied commercial real estate loans are generally underwritten to terms consistent with those utilized for commercial real estate; however, the maximum loan-to-value ratio for owner-occupied commercial real estate loans is 80%.

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

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

Commercial loans generally bear higher interest rates than residential mortgage loans, but they also involve a higher risk of default since their repayment is generally dependent on the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself and the general economic environment. The Bank s largest commercial loan was a $38.0 million line of credit to a general contracting company specializing in bridge and highway construction with a risk rating of 3 (loans rated 1-4 are deemed acceptable quality -see discussion of the Bank s nine-point risk rating system for loans under Allowance for Loan Losses in the Asset Quality section). The line is used primarily for bid bonding and working capital purposes. The Bank sold a participation interest of $10.0 million in the line of credit to another financial institution, which reduced the Bank s exposure to $28.0 million. As of December 31, 2012, the line of credit did not have an outstanding balance.

Consumer Loans. The Bank offers a variety of consumer loans to individuals. Consumer loans represented 12.0% of the loan portfolio at December 31, 2012. Home equity loans and home equity lines of credit constituted 90.8% of the consumer loan portfolio and indirect marine loans constituted 7.2% of the consumer loan portfolio as of December 2012. The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, direct auto loans and recreational vehicle loans, which represented 2.0% of the consumer loan portfolio. The Bank no longer purchases indirect auto or recreational vehicle 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 $500,000. The approved home equity lines and utilization amounts as of December 31, 2012 were $456.2 million and $191.1 million, respectively, representing utilization of 41.9%.

The Bank previously purchased marine loans from established dealers and brokers located on the East Coast of the United States, which were underwritten to the Bank s pre-established underwriting standards. The maximum marine loan is $500,000. All marine loans are collateralized by a first lien on the vessel. Originations of marine loans have declined significantly as the Bank discontinued indirect marine lending in 2010. Marine loans are currently made only on a direct, limited accommodation basis to existing customers. At December 31, 2012, marine loans totaled $41.7 million.

Consumer loans generally entail greater credit risk than residential mortgage loans, particularly in the case of home equity loans and lines of credit secured by second lien positions, 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 which 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,		
	2012	2011 (In thousands)	2010
Originations:			
Residential mortgage	$ 184,327	$ 146,742	$ 152,002
Commercial mortgage	270,190	240,930	197,718
Multi-family mortgage	219,068	150,625	134,052
Construction	92,291	119,245	51,066
Commercial	658,228	664,199	490,004
Consumer	228,401	184,955	111,407
Subtotal of loans originated	1,652,505	1,506,696	1,136,249
Loans purchased	73,740	79,521	90,430
Total loans originated	1,726,245	1,586,217	1,226,679
Loans sold or securitized	36,723	21,394	18,139

Table of Contents

	Year Ended December 31, 2012	2011 (In thousands)	2010
Repayments:			
Residential mortgage	270,251	285,848	327,379
Commercial mortgage	179,937	159,742	110,117
Multi-family mortgage	59,599	21,065	11,556
Construction	73,116	86,447	71,158
Commercial	622,851	555,535	508,269
Consumer	206,654	187,040	123,782
Total repayments	1,412,408	1,295,676	1,152,261
Total reductions	1,449,131	1,317,070	1,170,400
Other items, net[(1)]	(25,924)	(25,451)	(30,660)
Net increase (decrease)	$ 251,190	$ 243,696	$ 25,619

(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 $10.0 million, which is only available to the Chief Executive Officer and the Chief Lending Officer for permanent commercial real estate loans. The Chief Executive Officer and the Chief Lending Officer have individual lending authority up to $7.5 million for all other loan facilities. Loans in excess of these limits, or which when combined with existing credits of the borrower or related borrowers exceed these limits, are presented to the management Credit Committee for approval. The Credit Committee currently consists of seven senior officers including the Chief Executive Officer, the Chief Lending Officer, the Chief Financial Officer and the Chief Credit Officer, and requires a majority vote for credit approval.

While the Bank discourages loan policy exceptions, from time to time, based upon reasonable business considerations exceptions to the policy may be warranted. The business reason and mitigants for the exception must be noted on the loan approval document. The policy exception requires the approval of the Chief Lending Officer or the Department Manager of the lending department responsible for the underlying loan, if it is within his or her approval authority limit. All other policy exceptions must be approved by the Credit Committee. The Credit Administration Department reports the type and frequency of loan policy exceptions to the Credit Committee and the Risk Committee of the Board of Directors on a quarterly basis, or more frequently if necessary.

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

Loans to One Borrower. The regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of the Bank s unimpaired capital and surplus. As of December 31, 2012, the regulatory lending limit was $90.1 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 $80.0 million for loans with a risk rating of 2 or better, $70.0 million for loans with a risk rating of 3 and $50.0 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, 2012, the Bank s largest group exposure with an individual borrower and its related entities was $70.6 million, consisting of three commercial mortgage loans secured by first liens on three institutional quality multi-family apartment projects with a total of 370 units located in northern New Jersey. Each of these loans has a credit risk rating of 3. The borrower, headquartered in New Jersey, is one of the largest privately held real estate owners and developers in the United States. Management has determined that this exception to the internal group exposure policy limit is manageable and is mitigated by the borrower s diverse revenue mix as well as its reputation and proven successful track record. This lending relationship was approved as an exception to the internal policy limits by the Management Credit Committee and reported to the Risk Committee of the Board of Directors, and conformed to the regulatory limit applicable to the Bank at the time of loan origination. As of December 31, 2012, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2012, the Bank had $1.5 billion in loans outstanding to its 50 largest borrowers and their related entities.

ASSET QUALITY

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

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

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

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

Loans deemed uncollectible are proposed for charge-off on a monthly basis. Any charge-off recommendation of $250,000 or greater is submitted to Executive Management for approval.

Delinquent Loans and Non-performing Loans and Assets. The Bank s policies require that the Chief Credit Officer continuously monitor the status of the loan portfolios and report to the Board of Directors on a monthly basis. These reports include information on impaired loans, delinquent loans, criticized and classified assets, and foreclosed assets. An impaired loan is defined as a non-homogenous loan greater than $1.0 million for which it is probable, based on current information, that the Bank will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings (TDRs). A loan is deemed to be a TDR when a modification resulting in a concession is made by the Bank in an effort to mitigate potential loss arising from a borrower s financial difficulty. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans, except for modified loans previously discussed. 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, 2012, there were 108 impaired loans totaling $109.6 million. Included in this total were 80 TDRs to 70 borrowers totaling $58.4 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2012.

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

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

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

The Bank s determination as to the classification of assets and the amount of the valuation allowances is subject to review by the FDIC and the New Jersey Department of Banking and Insurance, each of which can require the establishment of additional general or specific loss allowances. The FDIC, in conjunction with the other federal banking agencies, issued an interagency policy statement on the allowance for loan and lease losses. The policy statement provides updated guidance for financial institutions on both the responsibilities of the board of directors and management for the maintenance of adequate allowances, and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement reaffirms that institutions should have effective loan review systems and controls to identify, monitor and address asset quality problems; that loans deemed uncollectible are promptly charged off; and that the institution s process for determining an adequate level for its valuation allowance is based on a comprehensive, adequately documented, and consistently applied analysis of the institution s loan and lease portfolio. While management believes that on the basis of information currently available to it, the allowance for loans losses is adequate as of December 31, 2012, 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, 2012, $182.4 million of loans were classified as substandard, which consisted of $79.6 million in commercial and multi-family mortgage loans, $54.2 million in commercial loans, $29.3 million in residential loans, $13.6 million in construction loans and $5.7 million in consumer loans. At that same date, loans classified as doubtful totaled $464,000, consisting solely of commercial loans. There were no loans classified as loss at December 31, 2012. As of December 31, 2012, $45.7 million of loans were designated special mention.

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

	At December 31, 2012				At December 31, 2011				At December 31, 2010			
	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	43	$ 11,986	146	$ 29,293	35	$ 7,936	184	$ 40,386	29	$ 8,370	167	$ 41,247
Commercial mortgage loans	5	12,194	11	14,932	2	1,155	9	11,928	1	4,286	9	14,478
Multi-family mortgage loans			2	412			1	997			1	200
Construction loans												
Total mortgage loans	48	24,180	159	44,637	37	9,091	194	53,311	30	12,656	177	55,925
Commercial loans	2	70	46	15,682	11	526	40	15,059	8	562	63	12,437
Consumer loans	33	1,808	65	5,666	29	1,908	78	8,533	33	3,487	83	6,215
Total loans	83	$ 26,058	270	$ 65,985	77	$ 11,525	312	$ 76,903	71	$ 16,705	323	$ 74,577

Table of Contents

Non-Accrual Loans and Non-Performing Assets. The following table sets forth information regarding non-accrual loans and other non-performing assets. At December 31, 2012, there were 14 troubled debt restructured loans totaling $25.7 million that were classified as non-accrual, compared to 10 non-accrual troubled debt restructured loans which totaled $24.3 million at December 31, 2011; no troubled debt restructurings were non-accrual at any of the prior periods. Loans are generally placed on non-accrual status when they become 90 days or more past due or if they have been identified as presenting uncertainty with respect to the collectability of interest or principal.

	At December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$ 29,293	$ 40,386	$ 41,247	$ 28,622	$ 14,503
Commercial mortgage loans	29,072	29,522	16,091	23,356	24,830
Multi-family mortgage loans	412	997	201		
Construction loans	8,896	11,018	9,412	13,186	9,403
Commercial loans	25,467	32,093	23,505	12,548	4,456
Consumer loans	5,850	8,533	6,808	6,765	5,926
Total non-accruing loans	98,990	122,549	97,264	84,477	59,118
Accruing loans delinquent 90 days or more					
Total non-performing loans	98,990	122,549	97,264	84,477	59,118
Foreclosed assets	12,473	12,802	2,858	6,384	3,439
Total non-performing assets	$ 111,463	$ 135,351	$ 100,122	$ 90,861	$ 62,557
Total non-performing assets as a percentage of total assets	1.53%	1.91%	1.47%	1.33%	0.96%
Total non-performing loans to total loans	2.02%	2.63%	2.21%	1.93%	1.31%

Non-performing commercial mortgage loans decreased $449,000 to $29.1 million at December 31, 2012, from $29.5 million at December 31, 2011. At December 31, 2012, the Company held 10 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a $12.9 million loan secured by a first mortgage on a 200,000 square foot office/industrial building located in Eatontown, New Jersey, which has been negatively impacted by the loss of a major tenant that relied upon contracts with the Federal Government. The loan has been restructured and payments are current at December 31, 2012. The borrower continues to make efforts to lease the property. There is no contractual commitment to advance additional funds to this borrower.

Non-performing commercial loans decreased $6.6 million, to $25.5 million at December 31, 2012, from $32.1 million at December 31, 2011. Non-performing commercial loans at December 31, 2012 consisted of 54 loans. The largest non-performing commercial loan relationship consisted of four loans to a power systems manufacturer with total outstanding balances of $8.7 million at December 31, 2012. All contractual payments on these loans, based upon modified terms, were current at December 31, 2012.

Non-performing construction loans decreased $2.1 million, to $8.9 million at December 31, 2012, from $11.0 million at December 31, 2011. At December 31, 2012, non-performing construction loans consisted of one loan secured by a first mortgage on a 77,000 square foot newly constructed Class A office building, and a parcel of land with approvals for an 110,000 square foot office building located in Parsippany, New Jersey. The office building is completed, except for tenant improvements, but not leased due to weakness in the market. The property is being marketed and the principals are supporting the project. All contractual payments on this loan, based upon modified terms, were current at December 31, 2012. The Company has an unfunded commitment of $3.6 million on this loan at December 31, 2012.

Table of Contents

Non-performing multi-family loans declined $585,000, to $412,000 at December 31, 2012, from $997,000 at December 31, 2011 as a result of a $997,000 note sale, partially offset by inflows of two smaller loans.

Non-performing residential mortgage loans decreased $11.1 million to $29.3 million at December 31, 2012, from $40.4 million at December 31, 2011. Gross charge-offs of residential loans were $4.6 million for the year ended December 31, 2012.

Non-performing consumer loans decreased $2.6 million, to $5.9 million at December 31, 2012, from $8.5 million at December 31, 2011. Gross consumer loan charge-offs were $3.5 million for the year ended December 31, 2012.

At December 31, 2012, the Company held $12.5 million of foreclosed assets, compared with $12.8 million at December 31, 2011. Foreclosed assets at December 31, 2012 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $6.5 million of commercial real estate, $5.0 million of residential properties, and $583,000 of marine vessels at December 31, 2012.

Non-performing assets totaled $111.5 million, or 1.53% of total assets at December 31, 2012, compared to $135.4 million, or 1.91% of total assets at December 31, 2011. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $3.0 million during the year ended December 31, 2012.

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

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

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

- results of the routine loan quality reviews performed by an outside third party;
- general economic and business conditions affecting key lending areas;
- credit quality trends (including trends in non-performing loans, including anticipated trends based on market conditions);
- collateral values;
- loan volumes and concentrations;
- seasoning of the loan portfolio;
- specific industry conditions within portfolio segments;

recent loss experience in particular segments of the loan portfolio; and

duration and breadth of the current business cycle.

Table of Contents

When assigning a risk rating to a loan, management utilizes the Bank s internal nine-point risk rating system. Loans deemed to be acceptable quality are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to be of questionable quality are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings for loans requiring Credit Committee approval are periodically reviewed by the Credit Committee in the credit approval or renewal process. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports by the independent third party are presented directly to the Audit and Risk Committees of the Board of Directors.

Each quarter, the lending groups prepare individual Credit Risk Management Reports for the Credit Administration Department. These reports review all commercial loans and commercial mortgage loans that have been determined to involve above-average risk (risk rating of 5 or worse). The Credit Risk Management Reports contain the reason for the risk rating assigned to each loan, status of the loan and any current developments. These reports are submitted to a committee chaired by the Chief Credit Officer. Each loan officer reviews the loan and the corresponding Credit Risk Management Report with the committee and the risk rating is evaluated for appropriateness.

Management assigns general valuation allowance (GVA) percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type, as well as qualitative and environmental factors such as:

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

The appropriateness of these percentages is evaluated by management at least annually and monitored on a quarterly basis, with changes made when they are required. In the first quarter of 2012, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, GVA percentages applied to the marine portfolio were increased to reflect an increase in historical loss experience.

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

The provision for loan losses is established after considering the allowance for loan loss analysis, the amount of the allowance for loan losses in relation to the total loan balance, loan portfolio growth, loan portfolio composition, loan delinquency trends and peer group analysis. As a result of this process, management has established an unallocated portion of the allowance for loan losses. The unallocated portion of the allowance for

Table of Contents

loan losses is warranted based on factors such as the geographic concentration of the loan portfolio, current economic conditions and the losses inherent in commercial lending, as these types of loans are typically riskier than residential mortgages.

Management believes the primary risks inherent in the portfolio are a continued decline in the economy, generally, a continued decline in real estate market values, rising unemployment or a protracted period of unemployment at current elevated levels, increasing vacancy rates in commercial investment properties and possible increases in interest rates in the absence of economic improvement. Any one or a combination of these events may adversely affect borrowers ability to repay the loans, resulting in increased delinquencies, loan losses and future levels of provisions. Accordingly, the Company has provided for loan losses at the current level to address the current risk in its loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level given current economic conditions, interest rates and the composition of the portfolio. Management will continue to review the entire loan portfolio to determine the extent, if any, to which further additional loan loss provisions may be deemed necessary. The allowance for loan losses is maintained at a level that represents management s best estimate of probable losses related to specifically identified loans as well as probable losses inherent in the remaining loan portfolio. There can be no assurance that the allowance for loan losses will be adequate to cover all losses that may in fact be realized in the future or that additional provisions for loan losses will not be required.

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,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Balance at beginning of period	$ 74,351	$ 68,722	$ 60,744	$ 47,712	$ 40,782
Charge offs:					
Residential mortgage loans	4,622	5,229	1,996	2,712	20
Commercial mortgage loans	3,253	3,408	10,452	619	3,529
Multi-family mortgage loans	19				
Construction loans	238	123	1,384	1,089	88
Commercial loans	12,259	8,634	11,196	7,576	1,967
Consumer loans	3,516	7,659	4,439	7,624	4,821
Total	23,907	25,053	29,467	19,620	10,425
Recoveries:					
Residential mortgage loans	105	197	359	19	2
Commercial mortgage loans	56	15	30	6	480
Multi-family mortgage loans	1				
Construction loans		4	47		88
Commercial loans	2,771	1,018	727	1,367	372
Consumer loans	971	548	782	1,010	1,313
Total	3,904	1,782	1,945	2,402	2,255
Net charge-offs	20,003	23,271	27,522	17,218	8,170
Provision for loan losses	16,000	28,900	35,500	30,250	15,100
Allowance of acquired institution					
Balance at end of period	$ 70,348	$ 74,351	$ 68,722	$ 60,744	$ 47,712
Ratio of net charge-offs to average loans outstanding during the period	0.43%	0.52%	0.64%	0.39%	0.19%
Allowance for loan losses to total loans	1.43%	1.60%	1.56%	1.39%	1.05%
Allowance for loan losses to non-performing loans	71.07%	60.67%	70.66%	71.91%	80.71%

Table of Contents

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,									
	2012		2011		2010		2009		2008	
	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Residential mortgage loans	$ 6,053	25.79%	$ 5,873	28.14%	$ 6,628	31.48%	$ 5,324	34.07%	$ 4,142	39.70%
Commercial mortgage loans	21,639	27.52	22,308	26.95	20,441	26.80	23,578	24.90	14,938	20.44
Multi-family mortgage loans	7,163	14.76	6,933	12.13	4,065	8.79	2,309	5.20	973	4.19
Construction loans	3,107	2.45	4,329	2.47	7,282	2.84	4,134	4.48	5,264	5.17
Commercial loans	20,315	17.67	25,381	18.25	22,210	17.15	16,572	17.95	12,697	16.68
Consumer loans	5,224	11.81	5,515	12.06	5,616	12.94	5,964	13.40	6,854	13.82
Unallocated	6,847		4,012		2,480		2,863		2,844	
Total	$ 70,348	100.00%	$ 74,351	100.00%	$ 68,722	100.00%	$ 60,744	100.00%	$ 47,712	100.00%

INVESTMENT ACTIVITIES

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

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

The Investment Policy does not currently permit the purchase of any securities that are below investment grade.

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

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

Management conducts a periodic review and evaluation of the securities portfolio to determine if any securities with a market value below book value were other-than-temporarily impaired. If such an impairment were deemed other-than-temporary, management would measure the total credit-related component of the unrealized loss, and the Company would recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. The fair value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the fair value of fixed-rate securities decreases and as interest rates fall, the fair value of fixed-rate securities increases. The market for non-investment grade, privately issued mortgage-backed securities remains illiquid and prices have not appreciated despite favorable movements in interest rates. The Company evaluates if it has the intent to sell these securities and if it is not more likely than not that the Company would be required to sell the securities before the anticipated recovery.

CMOs are a type of debt security issued by a special-purpose entity that aggregates pools of mortgages and mortgage-related securities and creates different classes of CMO securities with varying maturities and amortization schedules as well as a residual interest with each class possessing different risk characteristics. In contrast to pass-through mortgage-backed securities from which cash flow is received (and prepayment risk is shared) pro rata by all securities holders, the cash flow from the mortgages or mortgage-related securities underlying CMOs is paid in accordance with predetermined priority to investors holding various tranches of such securities or obligations. A particular tranche of CMOs may therefore carry prepayment risk that differs from that of both the underlying collateral and other tranches. Accordingly, CMOs attempt to moderate risks associated with conventional mortgage-related securities resulting from unexpected prepayment activity. In declining interest rate environments, the Bank attempts to purchase CMOs with principal lock-out periods, reducing prepayment risk in the investment portfolio. During rising interest rate periods, the Bank s strategy is to purchase CMOs that are receiving principal payments that can be reinvested at higher current yields. Investments in CMOs involve a risk that actual prepayments will differ from those estimated in pricing the security, which may result in adjustments to the net yield on such securities. Additionally, the fair 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, 2012, the Bank held $42.0 million in privately-issued CMOs 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.

Table of Contents

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

	At December 31,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	$ 11,123	$ 11,583	$ 22,321	$ 23,180	$ 39,493	$ 41,170
FHLB obligations	500	500	500	504	250	250
FHLMC obligations	1,300	1,305	499	503	750	744
FNMA obligations	2,905	2,934	2,648	2,676	1,749	1,729
FFCB obligations						
State and municipal obligations	336,078	350,825	314,108	330,902	294,527	298,239
Corporate obligations	7,558	7,769	8,242	8,531	9,253	9,548
Total held-to-maturity	$ 359,464	$ 374,916	$ 348,318	$ 366,296	$ 346,022	$ 351,680
Available for Sale:						
State and municipal obligations	9,933	10,316	11,066	11,614	11,188	11,629
Mortgage-backed securities	1,134,647	1,162,325	1,221,988	1,251,003	1,223,869	1,247,526
FHLMC obligations	38,812	39,026	24,077	24,155	20,080	20,077
FHLB obligations	13,196	13,234	43,546	43,669	85,188	85,770
FNMA obligations	38,435	38,757	33,506	33,725		
FFCB obligations			4,001	4,009	4,003	3,996
Corporate obligations			7,517	7,636	9,543	9,929
Equity securities	307	344	307	308		
Total available for sale	$ 1,235,330	$ 1,264,002	$ 1,346,008	$ 1,376,119	$ 1,353,871	$ 1,378,927
Average expected life of securities(1)	3.75 years		3.00 years		3.42 years	

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

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

	Carrying Value	Fair Value
At December 31, 2012:		
FNMA	$ 559,461	$ 572,592
FHLMC	550,063	562,662

Table of Contents

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, 2012. 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, 2012									
	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	$	%	$ 845	4.73%	$ 10,278	4.34%	$	%	$ 11,123	4.37%
Agency obligations			4,005	1.15	700	2.07			4,705	1.29
Corporate obligations	1,515	5.06	5,753	3.60	290	1.65			7,558	3.81
State and municipal obligations	41,617	2.42	70,221	3.61	83,165	3.80	141,075	3.02	336,078	3.26
Total held to maturity	$ 43,132	2.51%	$ 80,824	3.50%	$ 94,433	3.84%	$ 141,075	3.02%	$ 359,464	3.28%
Available for sale:										
State and municipal obligations	$ 2,665	2.85%	$ 7,205	3.97%	$ 446	3.90%	$	%	$ 10,316	3.67%
Mortgage-backed securities	241	3.94	6,653	4.66	134,296	3.34	1,021,135	2.47	1,162,325	2.59
Agency obligations	35,291	0.57	55,726	0.80					91,017	0.71
Total available for sale[2]	$ 38,197	0.75%	$ 69,584	1.50%	$ 134,742	3.34%	$ 1,021,135	2.47%	$ 1,263,658	2.46%

(1) Yields are not tax equivalent

(2) Totals excludes $344,000 of available for sale equity securities

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 of New York (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 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 and Pricing Committee. Deposit pricing is set weekly by the Bank s Treasury Department. When setting deposit pricing, the Bank considers competitive market rates, FHLB advance rates and rates on other sources of funds. Core deposits,

Table of Contents

defined as savings accounts, interest and non-interest bearing checking accounts and money market deposit accounts represented 82.4% of total deposits at December 31, 2012 and 78.1% of total deposits at December 31, 2011. As of December 31, 2012 and December 31, 2011, time deposits maturing in less than one year amounted to $624 million and $755 million, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2012.

	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	$ 76,562	$ 51,371	$ 67,927	$ 129,041	$ 324,901
Certificates of deposit less than $100,000	146,101	123,779	158,721	203,971	632,572
Total certificates of deposit	$ 222,663	$ 175,150	$ 226,648	$ 333,012	$ 957,473

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

	Period to Maturity from December 31, 2012						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	2012	2011	2010
					(In thousands)				
Rate:									
0.00 to 0.99%	$ 506,674	$ 67,511	$ 14,593	$ 18	$ 13	$	$ 588,809	$ 609,021	$ 569,143
1.00 to 2.00%	41,186	13,392	2,235	23,851	42,251	1,173	124,088	205,321	342,161
2.01 to 3.00%	12,403	30,325	71,837	14,787			129,352	168,354	173,921
3.01 to 4.00%	21,664	46,642	350			4	68,660	71,441	88,028
4.01 to 5.00%	42,244	3,124	253	434	123		46,178	64,806	78,959
5.01 to 6.00%	290	24		7			321	9,506	24,997
6.01 to 7.00%								188	946
Over 7.01%		39			26		65	89	107
Total	$ 624,461	$ 161,057	$ 89,268	$ 39,097	$ 42,413	$ 1,177	$ 957,473	$ 1,128,726	$ 1,278,262

Borrowed Funds. At December 31, 2012, the Bank had $803.3 million of borrowed funds. Borrowed funds consist primarily of FHLB advances and repurchase agreements. Repurchase agreements are contracts for the sale of securities owned or borrowed by the Bank, with an agreement to repurchase those securities at an agreed-upon price and date. The Bank uses wholesale repurchase agreements, as well as retail repurchase agreements as an investment vehicle for its commercial sweep checking product. Bank policies limit the use of repurchase agreements to collateral consisting of U.S. Treasury obligations, U.S. government agency obligations or mortgage-related securities.

As a member of the FHLB, 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.

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,		
	2012	2011	2010
	(Dollars in thousands)		
Maximum Balance:			
FHLB advances	$ 518,215	$ 585,234	$ 578,168
FHLB line of credit	178,000	64,000	53,000
Securities sold under agreements to repurchase	357,164	366,460	454,451
Average Balance:			
FHLB advances	516,440	560,420	546,910
FHLB line of credit	29,004	9,918	512
Securities sold under agreements to repurchase	319,031	338,839	391,889
Weighted Average Interest Rate:			
FHLB advances	2.51%	2.81%	3.66%
FHLB line of credit	0.39	0.47	0.42
Securities sold under agreements to repurchase	2.04	2.18	2.52

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

	At December 31,		
	2012	2011	2010
	(Dollars in thousands)		
Federal Funds Purchased	$	$ 10,000	$
FHLB advances	507,648	518,347	570,072
FHLB line of credit		30,000	53,000
Securities sold under repurchase agreements	295,616	361,833	346,611
Total borrowed funds	$ 803,264	$ 920,180	$ 969,683
Weighted average interest rate of Federal Funds Purchased	%	0.50%	%
Weighted average interest rate of FHLB advances	2.47%	2.51%	3.17%
Weighted average interest rate of FHLB line of credit	%	0.35%	0.44%
Weighted average interest rate of securities sold under agreements to repurchase	1.91%	1.99%	2.35%

WEALTH MANAGEMENT SERVICES

As part of the Company s strategy to increase its wealth management business, on August 11, 2011, the Company s wholly owned subsidiary, The Provident Bank, completed its acquisition of Beacon Trust Company, a New Jersey limited purpose trust company, and Beacon Global Asset Management, Inc., an SEC-registered investment advisor incorporated in Delaware (collectively Beacon). Subsequent to the acquisition, Beacon Global Asset Management was merged with and into Beacon Trust Company. Beacon s expertise in trust and wealth management services strategically positions the Company to increase market share and enhance the Company s non-interest earnings growth.

In addition to its trust and estate administrative services, Beacon is a provider of asset management services in New Jersey. The services are often introduced to existing clients through the Bank s extensive branch network throughout the state. It offers a full range of asset management services to individuals, municipalities, non-profits, corporations and pension funds. These services include investment management, asset allocation, trust and fiduciary services, financial planning, family office services, estate settlement services and custody.

Table of Contents

Beacon focuses on delivering personalized investment strategies based on the client s risk profile. These strategies are focused on maximizing clients investment returns, while minimizing expenses. Most of the fee income generated by Beacon is based on assets under management.

SUBSIDIARY ACTIVITIES

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

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

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

PSB Funding Corporation is a majority owned subsidiary of Gregory Investment Corporation. It was established as a New Jersey corporation to engage in the business of a real estate investment trust for the purpose of acquiring mortgage loans and other real estate related assets from the Bank.

TPB Realty, LLC, is a wholly owned subsidiary of the Bank formed to invest in real estate development joint ventures principally targeted at meeting the housing needs of low- and moderate-income communities in the Bank s market. At December 31, 2012, TPB Realty, LLC had total assets of $2.9 million.

Bergen Avenue Realty, LLC, is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure. At December 31, 2012, Bergen Avenue Realty, LLC had total assets of $1.1 million.

Bergen Delaware Realty, LLC, is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure. At December 31, 2012, Bergen Delaware Realty, LLC had total assets of $5.5 million.

Beacon Trust Company, a New Jersey limited purpose trust company, is a wholly owned subsidiary of the Bank acquired on August 11, 2011.

PERSONNEL

As of December 31, 2012, the Company had 827 full-time and 114 part-time employees. None of the Company s employees are represented by a collective bargaining group. The Company believes its working relationship with its employees is good.

REGULATION and SUPERVISION

General

As a bank holding company controlling the Bank, the Company is subject to the Bank Holding Company Act of 1956, as amended (BHCA), and the rules and regulations of the Federal Reserve Board under the BHCA. The Company is also subject to the provisions of the New Jersey Banking Act of 1948 (the New Jersey Banking Act) and the regulations of the Commissioner of the New Jersey Department of Banking and Insurance (Commissioner) under the New Jersey Banking Act applicable to bank holding companies. The Company and the Bank are required to file reports with, and otherwise comply with the rules and regulations of the Federal

Table of Contents

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 its deposit insurer. The Bank files 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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) made extensive changes in the regulation of depository institutions and their holding companies. Certain provisions of the Dodd-Frank Act are impacting the Company and the Bank. For example, the Dodd-Frank Act created the Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau has assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to principal regulators, and will have authority to impose new requirements. However, institutions of less than $10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their principal regulator, although the Consumer Financial Protection Bureau will have back-up authority to examine and enforce consumer protection laws against all institutions, including those with less than $10 billion in assets.

The material laws and regulations applicable to the Company and the Bank are summarized below and elsewhere in the Form 10-K.

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.

Table of Contents

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

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

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

Minimum Capital Requirements. Regulations of the Commissioner impose on New Jersey chartered depository institutions, including the Bank, minimum capital requirements similar to those imposed by the FDIC on insured state banks. At December 31, 2012, the Bank was considered well capitalized under FDIC guidelines.

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 a bank s interest rate risk management process;

the overall financial condition of the bank; and

the level of other risks at the bank for which capital is needed.

Institutions with significant interest rate risk may be required to maintain additional capital.

The following table shows the Bank s leverage ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio, at December 31, 2012:

	As of December 31, 2012		
	Capital	Percent of Assets[1]	Capital Requirements[1]
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 539,478	7.80%	4.00%
Tier 1 risk-based capital	539,478	11.08	4.00
Total risk-based capital	600,448	12.33	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, 2012, the Bank was considered well capitalized under FDIC guidelines.

On June 6, 2012, the FDIC and the other federal bank regulatory agencies issued a series of proposed rules that would revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. Among other things, the proposed rules would establish a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 capital to risk-based assets requirement (6% of risk-weighted assets) and assign higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The proposed rules would also require unrealized gains and losses on certain securities holdings to be included for purposes of calculating regulatory capital requirements. The proposed rules would limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The proposed rules indicated that the final rules would become effective on January 1, 2013, and the changes set forth in the final rules will be phased in from January 1, 2013 through January 1, 2019. However, the agencies subsequently indicated that, due to the volume of public comments received, the final rule has been delayed past January 1, 2013.

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 fund. 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 Agency (FHFA). 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, 2012, dividends paid by the FHLB to the Bank totaled $37.5 million.

Deposit Insurance. As a member institution of the FDIC, deposit accounts at the Bank are generally insured up to a maximum of $250,000 for each separately insured depositor. The Dodd-Frank Act provided certain non-interest-bearing transaction accounts with full insurance regardless of the dollar amount until December 31, 2012.

Under the FDIC s risk-based assessment system, insured institutions are assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution s assessment rate depends upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower assessments. The FDIC may adjust the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

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

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

The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution s total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

On February 7, 2011, the FDIC issued a final rule that establishes a target size for the Deposit Insurance Fund (DIF) at 2 percent of insured deposits as mandated by the Dodd-Frank Act. The rule also implements a lower assessment rate schedule when the DIF reaches 1.15 percent of total insured deposits. The 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

Table of Contents

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

- 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 August 2011.

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,

Table of Contents

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.

The recently proposed rules that would increase regulatory capital standards would adjust the prompt corrective action categories accordingly.

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

Table of Contents

be maintained against aggregate transaction accounts over $12.4 million and up to $79.5 million, and 10% against that portion of total transaction accounts in excess of up to $79.5 million. The first $12.4 million of otherwise reservable balances are exempted from the reserve requirements. The Bank is in compliance with these requirements. These requirements are adjusted annually by the Federal Reserve Board. Because required reserves must be maintained in the form of either vault cash, a non-interest bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce the Bank s interest-earning assets. The Bank is authorized to borrow from the Federal Reserve Bank discount window.

Internet Banking

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

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted. This law has significantly changed the current bank regulatory structure and is affecting the lending, deposit, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for some time.

A provision of the Dodd-Frank Act that became effective on July 1, 2011, repealed the federal prohibitions on paying interest on demand deposits, thus permitting depository institutions to pay interest on business transaction and other accounts. Depending on competitive responses, this significant change to existing law could increase interest expense at depository institutions like the Bank. The legislation also provided for originators of certain securitized loans to retain a percentage of the risk for transferred credits, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contained a number of reforms related to mortgage origination.

The Dodd-Frank Act required publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The USA PATRIOT Act

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

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

Holding Company Regulation

Federal Regulation. The Company is regulated as a bank holding company, and as such, is subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis structured similarly, but not identically, to those of the FDIC for the Bank. As of December 31, 2012, the Company s total capital and Tier 1 capital ratios exceed these minimum capital requirements.

The following table shows the Company s Tier 1 leverage ratio, Tier 1 risk-based capital ratio and the Total risk-based capital ratio as of December 31, 2012:

	As of December 31, 2012		
	Capital	Percent of Assets[1]	Capital Requirements[1]
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 617,145	8.93%	4.00%
Tier 1 risk-based capital	617,145	12.68	4.00
Total risk-based capital	678,113	13.93	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, 2012, the Company was well capitalized under Federal Reserve Board guidelines. The Dodd-Frank Act directs the Federal Reserve Board to issue consolidated capital requirements for depository institution holding companies that are not less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. That will eliminate from Tier 1 capital the inclusion of certain instruments such as trust preferred securities that are currently includable by bank holding companies. Instruments issued prior to May 19, 2010 are grandfathered for bank holding companies of under $15 billion in consolidated assets. The Company has no trust preferred securities in its Tier 1 capital.

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. Federal Reserve Board policies generally provide that bank holding companies should pay dividends only out of current earnings and only if the prospective rate of earnings retention in the holding company appears consistent with the organization s capital needs, asset quality and overall financial condition. 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 dividends 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.

Table of Contents

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 opt to become a financial holding company under applicable federal law is generally prohibited from engaging in, or acquiring direct or indirect control of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be permissible. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking as to be permissible are:

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

Bank holding companies that qualify and opt to become 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.

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 and the Company s Certificate of Incorporation and Bylaws.

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, 2012 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, 2012, the Bank had an unrecognized tax liability of $21.2 million with respect to this reserve.

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

Net Operating Loss Carryovers. Under the general rule, a financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2012, the Company had no net operating loss carryforwards for federal income tax purposes.

Table of Contents

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

State Taxation

New Jersey State Taxation. The Company and the Bank file New Jersey Corporation Business Tax returns. Generally, the income of financial institutions in New Jersey, which is calculated based on federal taxable income subject to certain adjustments, is subject to New Jersey tax. The Company and the Bank are currently subject to the corporate business tax (CBT) at 9% of taxable income.

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

Item 1A. Risk Factors.

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

Deterioration in the housing sector and related markets and prolonged elevated unemployment levels may adversely affect our business and financial results.

During 2012, general economic conditions did not materially improve. While we did not invest in sub-prime mortgages and related investments, our lending business and investments in mortgage-backed securities are tied, in large part, to the housing market. Lower home prices, the continued high level of foreclosures, the protracted foreclosure process in New Jersey and high unemployment have adversely impacted the credit performance of real estate related loans, resulting in reductions in collateral values. The housing slump has resulted in reduced demand for the construction of single-family housing, declines in home prices, and has contributed to elevated delinquencies on residential and commercial mortgage loans. These conditions may potentially cause a reduction in loan demand, and increases in our non-performing assets, net charge-offs and provisions for loan losses. A worsening of these negative economic conditions could adversely impact our prospects for growth, asset and goodwill valuations, and could result in a decrease in our interest income and a material increase in our provision for loan losses.

Our commercial real estate, multi-family, and commercial loans expose us to increased lending risks.

Our strategy continues to be to increase our commercial mortgage loans, commercial loans and, to a lesser extent, construction loans. These loans are generally regarded as having a higher risk of default and loss than single-family residential mortgage loans, because repayment of these loans often depends on the successful operation of a business or of the underlying property. In addition, our construction loans, commercial mortgage loans and commercial loans have significantly larger average loan balances compared to our single-family residential mortgage loans. At December 31, 2012, the average loan size for a construction loan was $3.6 million, for a commercial mortgage loan was $2.0 million, and for a commercial loan was $428,000, compared to an average loan size of $206,000 for a single-family residential mortgage loan. Also, many of our borrowers of

Table of Contents

these types of loans have more than one loan outstanding with us. Consequently, any adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to one single-family residential mortgage loan.

Our continuing concentration of loans in our primary market area may increase our risk.

Our success depends primarily on the general economic conditions in northern and central New Jersey. Unlike some larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in northern and central New Jersey. The local economic conditions in northern and central New Jersey, including an unemployment rate of 9.6% at December 31, 2012, 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 further decline in local 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.

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, or if delinquencies do not continue to improve or non-accrual and non-performing loans increase, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to the allowance would materially decrease our net income.

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

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

Changes in interest rates could adversely affect our results of operations and financial condition.

Our financial condition and results of operations are significantly affected by changes in market interest rates. Our results of operations substantially depend on our net interest income, which is the difference between the interest income we earn on our interest-earning assets and the interest expense we pay on our interest-bearing liabilities. Our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets. If rates increase rapidly, we may have to increase the rates we pay on our deposits and borrowed funds more quickly than any changes in interest rates earned on our loans and investments, resulting in a negative effect on interest spreads and net interest income. In addition, the effect of rising rates could be compounded if deposit customers move funds from savings accounts to higher rate certificate of deposit accounts. Conversely, should market interest rates fall below current levels, our net interest margin could also be negatively affected if competitive pressures keep us from further reducing rates on our deposits, while the yields on our assets decrease more rapidly through loan prepayments and interest rate adjustments. In the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no actions to mitigate the effect of such change, we are projecting that our net interest income would decrease 5.6% or $12.0 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, 2012, our available for sale securities portfolio totaled $1.26 billion. Unrealized gains and losses on securities available for sale are reported as a separate component of stockholders equity. Decreases in the fair value of securities available for sale resulting from increases in interest rates therefore could have an adverse effect on stockholders equity.

We are also subject to prepayment and reinvestment risk related to interest rate movements. Changes in interest rates can affect the average life of loans and mortgage related securities. Decreases in interest rates can result in the prepayment or refinancing of loans and loans underlying mortgage related securities, resulting in accelerated cash flows subject to reinvestment at reduced market interest rates and increased premium amortization. Under these circumstances, we are subject to reinvestment risk to the extent that such prepayments are not available to reinvest at prevailing market rates at a profitable spread in excess of our funding costs. Increases in interest rates can result in reduced prepayments of loans and mortgage related securities, as borrowers retain existing loans to maintain lower borrowing costs.

Historically low interest rates may adversely affect our net interest income and profitability.

The Federal Reserve Board has recently maintained interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which has resulted in increases in net interest income in the short term. Our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest-earning assets may continue to decrease. The Federal Reserve Board has indicated its intention to maintain low interest rates through late 2014 or until the national unemployment rate decreases to 6.5%. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may decrease, which may have an adverse affect on our profitability.

We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings could decline.

We record all assets and liabilities acquired by the Company in purchase acquisitions, including goodwill and other intangible assets, at fair value. At December 31, 2012, goodwill totaling $352.6 million was not amortized but remains subject to impairment tests at least annually, or more often if events or circumstances indicate it may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a potential inability to realize the carrying amount. The initial recording and subsequent impairment testing of goodwill and other intangible assets requires subjective judgments about the estimates of the fair value of assets acquired.

The Company early adopted amended guidance related to the annual goodwill impairment assessment. The guidance provides the option to qualitatively determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before proceeding with a two step quantitative impairment analysis. If a company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required perform Step 1 of the quantitative impairment analysis and then, if needed, Step 2 to determine whether goodwill is impaired. 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. If the carrying amount of the reporting unit exceeds its fair value, an additional test must be performed. The second step test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied value.

Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other factors. Estimated cash flows may extend far into the future and by their nature are difficult to determine over an extended time frame. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates.

It is possible that our future impairment testing could result in an impairment of the value of goodwill or other identified 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 other identified intangible assets have no impact on our tangible book value or regulatory capital levels.

Further declines in the value of certain investment securities could require an other-than-temporary impairment charge which would reduce our earnings.

Our securities portfolio includes securities that have declined in value due to the lack of liquidity for securities that are real estate related and weaker credit performance of collateral underlying such securities. These securities include private label mortgage-backed securities. A prolonged decline in the value of these securities could result in an other-than-temporary impairment write-down which would reduce our earnings.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

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

The potential exists for additional Federal or state laws and regulations regarding capital requirements, lending and funding practices and liquidity standards, and bank regulatory agencies are expected to remain active in responding to concerns and trends identified in examinations, including the potential issuance of formal enforcement orders. Actions taken to date, as well as potential actions, may not have the beneficial effects that are intended. In addition, new laws, regulations, and other regulatory changes could increase our 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.

The Dodd-Frank Act, among other things, created a new consumer financial protection bureau, tightened capital standards and resulted in new laws and regulations that are expected to increase our costs of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) has significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impacts of the Dodd-Frank Act may still not be known for some time. However, it is expected that the legislation and implementing regulations may materially increase our operating and compliance costs.

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

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk-based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, and directs the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

Because the financial services business involves a high volume of transactions, we face significant operational risks.

We operate in diverse market segments and rely on the ability of our employees, systems and third party providers to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and suffer damage to our reputation.

Risks associated with cyber-security, system failures, interruptions, or other breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, financial reporting, securities investments, deposits, and loans. The financial services industry has experienced an increase in both the number and severity of reported cyber attacks aimed at gaining unauthorized access to bank systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not fully protect our systems from compromises or breaches of security.

Table of Contents

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

Our risk management program may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management program is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

Acts of terrorism, severe weather and other external events could impact our ability to conduct business.

Our business is subject to risk from external events. Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising their operating and communication systems. The metropolitan New York and Northern New Jersey areas remain central targets for potential acts of terrorism. Additionally, recent severe weather-related events have adversely impacted customers in our market area, especially those in areas located near coastal waters and flood prone areas. Events such as these may become more common in the future and could cause significant damage, impact the stability of our facilities and result in additional expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing the repayment of our loans, and result in the loss of revenue. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

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 have substantially greater resources and lending limits than we do, and may offer certain services or credit criteria that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our market area.

Item 1B. Unresolved Staff Comments

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

Table of Contents

Item 2. Properties

Property

At December 31, 2012, the Bank conducted business through 78 full-service branch offices located in Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset and Union Counties, New Jersey. The aggregate net book value of premises and equipment was $66.1 million at December 31, 2012.

In the first quarter of 2011, the Company s executive offices were relocated to a leased facility which also houses the Bank s Main Office at 239 Washington Street, Jersey City, New Jersey. This was necessitated by the relocation of the Bank s administrative offices from 830 Bergen Avenue, Jersey City, New Jersey to a leased facility at 100 Wood Avenue South, Iselin, New Jersey, which was completed during the second quarter 2011. The Bank s 830 Bergen Avenue administrative office building and its former loan administration center building at 1000 Woodbridge Center Drive, Woodbridge, New Jersey were sold in the fourth quarter of 2011.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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, 2012, there were 83,209,293 shares of the Company s common stock issued and 59,937,955 shares outstanding and 5,593 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.

	2012			2011		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First Quarter	$ 14.90	$ 13.32	$ 0.12	$ 15.47	$ 13.90	$ 0.11
Second Quarter	15.35	13.40	0.13	14.85	13.02	0.12
Third Quarter	16.02	14.99	0.13	15.12	10.75	0.12
Fourth Quarter	16.13	13.37	0.33	14.21	10.12	0.12

The Company paid a special dividend of $0.20 per common share on December 21, 2012.

On February 1, 2013, the Board of Directors declared a quarterly cash dividend of $0.13 per common share, which was paid on February 28, 2013, to common stockholders of record as of the close of business on February 15, 2013. 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.

Table of Contents

Stock Performance Graph

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company s common stock for the period December 31, 2007 through December 31, 2012, (b) the cumulative total return on stocks included in the Russell 2000 Index over such period, and (c) the cumulative total return of the SNL Thrift Index over such period. The SNL Thrift Index, produced by SNL Financial LC, contains all thrift institutions traded on the New York, American and NASDAQ stock exchanges. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an assumed investment of $100 on December 31, 2007.

PROVIDENT FINANCIAL SERVICES, INC.

	Period Ending					
Index	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**
Provident Financial Services, Inc.	100.00	109.37	79.42	117.02	107.26	125.53
Russell 2000	100.00	66.21	84.20	106.82	102.36	119.09
SNL Thrift	100.00	63.64	59.35	62.01	52.17	63.45

45

Table of Contents

The following table reports information regarding purchases of the Company s common stock during the fourth quarter of 2013 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)(2)
October 1, 2012 Through October 31, 2012				1,365,625
November 1, 2012 Through November 30, 2012	241,845	$ 13.97	241,845	1,123,780
December 1, 2012 Through December 31, 2012	29,200	$ 14.24	29,200	4,112,350
Total	271,045	$ 14.00	271,045	

(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.

(2) On December 20, 2012, the Company s Board of Directors approved the purchase of up to 3,017,770 shares of its common stock under an eighth general repurchase program which will commence 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.

	2012	2011	At December 31, 2010 (In thousands)	2009	2008
Selected Financial Condition Data:					
Total assets	$ 7,283,695	$ 7,097,403	$ 6,824,528	$ 6,836,172	$ 6,548,748
Loans, net(1)	4,834,351	4,579,158	4,341,091	4,323,450	4,479,036
Investment securities held to maturity	359,464	348,318	346,022	335,074	347,484
Securities available for sale	1,264,002	1,376,119	1,378,927	1,333,163	820,329
Deposits	5,428,271	5,156,597	4,877,734	4,899,177	4,226,336
Borrowed funds	803,264	920,180	969,683	999,233	1,247,681
Stockholders equity	981,246	952,477	921,687	884,555	1,018,590

	2012	For the Year Ended December 31, 2011	2010 (In thousands)	2009	2008
Selected Operations Data:					
Interest income	$ 262,259	$ 275,719	$ 286,534	$ 292,559	$ 304,320
Interest expense	44,922	59,729	77,569	111,542	132,251

Net interest income	217,337	215,990	208,965	181,017	172,069
Provision for loan losses	16,000	28,900	35,500	30,250	15,100
Net interest income after provision for loan losses	201,337	187,090	173,465	150,767	156,969
Non-interest income	43,613	32,542	31,552	31,452	30,211
Non-interest expense[(2)]	148,828	142,446	138,748	297,036	130,601
Income (loss) before income tax expense[(2)]	96,122	77,186	66,269	(114,817)	56,579
Income tax expense	28,855	19,842	16,564	7,007	14,937
Net income (loss)[(2)]	$ 67,267	$ 57,344	$ 49,705	$ (121,824)	$ 41,642
Earnings (loss) per share:					
Basic earnings (loss) per share[(2)]	$ 1.18	$ 1.01	$ 0.88	$ (2.16)	$ 0.74
Diluted earnings (loss) per share[(2)]	$ 1.18	$ 1.01	$ 0.88	$ (2.16)	$ 0.74

46

Table of Contents

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

	At or For the Year Ended December 31,				
	2012	2011	2010	2009	2008
Selected Financial and Other Data[1]					
Performance Ratios:					
Return on average assets[5]	0.94%	0.83%	0.73%	(1.83%)	0.65%
Return on average equity[5]	6.88	6.09	5.46	(13.33)	4.12
Average net interest rate spread	3.25	3.33	3.27	2.82	2.78
Net interest margin[2]	3.38	3.49	3.45	3.06	3.11
Average interest-earning assets to average interest-bearing liabilities	1.19	1.16	1.14	1.13	1.13
Non-interest income to average total assets	0.61	0.47	0.47	0.47	0.47
Non-interest expenses to average total assets[5]	2.08	2.07	2.05	4.45	2.04
Efficiency ratio[3][5]	57.03	57.31	57.69	139.80	64.56
Asset Quality Ratios:					
Non-performing loans to total loans	2.02%	2.63%	2.21%	1.93%	1.31%
Non-performing assets to total assets	1.53	1.91	1.47	1.33	0.96
Allowance for loan losses to non-performing loans	71.07	60.67	70.66	71.91	80.71
Allowance for loan losses to total loans	1.43	1.60	1.56	1.39	1.05
Capital Ratios:					
Leverage capital[4]	8.93%	8.74%	8.57%	7.99%	8.48%
Total risk based capital[4]	12.68	12.80	13.00	12.17	13.28
Average equity to average assets	13.93	14.05	14.26	13.42	15.82
Other Data:					
Number of full-service offices	78	82	81	82	83
Full time equivalent employees	884	906	899	931	954

(1) Averages presented are daily averages.
(2) Net interest income divided by average interest earning assets.
(3) Represents the ratio of non-interest expense divided by the sum of net interest income and non-interest income.
(4) Leverage capital ratios are presented as a percentage of quarterly average tangible assets. Risk-based capital ratios are presented as a percentage of risk-weighted assets.
(5) Reflects the impact of a $152,502 goodwill impairment charge recognized in 2009.

Efficiency Ratio Calculation:	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Net interest income	$ 217,337	$ 215,990	$ 208,965	$ 181,017	$ 172,069
Non-interest income	43,613	32,542	31,552	31,452	30,211
Total income	$ 260,950	$ 248,532	$ 240,517	$ 212,469	$ 202,280
Non-interest expense[1]	$ 148,828	$ 142,446	$ 138,748	$ 297,036	$ 130,601
Expense/income[1]	57.03%	57.31%	57.69%	139.80%	64.56%

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

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 78 full-service branches throughout northern and central New Jersey.

Strategy

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

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

In recent years, the Bank has focused on commercial real estate, multi-family and commercial loans as part of its strategy to diversify the loan portfolio and reduce interest rate risk. These types of loans generally have adjustable rates that initially are higher than residential mortgage loans and generally have a higher rate of risk. The Bank s credit policy focuses on quality underwriting standards and close monitoring of the loan portfolio. At December 31, 2012, commercial loans accounted for 62.4% of the loan portfolio and retail loans accounted for 37.6%. 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, 2012, core deposits were 82.4% of total deposits.

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

Acquisition

On August 11, 2011, the Company s wholly owned subsidiary, The Provident Bank, completed its acquisition of Beacon Trust Company, a New Jersey limited purpose trust company, and Beacon Global Asset Management, Inc., an SEC-registered investment advisor incorporated in Delaware (collectively Beacon).

Table of Contents

Pursuant to the terms of the Stock Purchase Agreement announced on May 19, 2011, Beacon s former parent company, Beacon Financial Corporation, may be paid cash consideration in an amount up to $10.5 million, based upon the acquired companies financial performance in the three years following the closing of the transaction. Subsequent to the acquisition, Beacon Global Asset Management was merged with and into Beacon Trust Company.

Critical Accounting Policies

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

- Adequacy of the allowance for loan losses

- Goodwill valuation and analysis for impairment

- Valuation of securities available for sale and impairment analysis

- Valuation of deferred tax assets

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

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

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

When assigning a risk rating to a loan, management utilizes a nine point internal risk rating system. Loans deemed to be acceptable quality are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans deemed to be of questionable quality are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial and construction loans are rated individually and each lending officer is responsible for risk rating loans in their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and the Credit Administration Department. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party and periodically, by the Credit Committee in the credit renewal or approval.

Management assigns general valuation allowance (GVA) percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type and other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries, loan volume, as well as, the national and local economic trends and conditions. The appropriateness

of these percentages is evaluated by management at least annually and monitored on a quarterly basis, with changes made when they are required. In the first quarter of 2012, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, GVA percentages applied to the indirect marine loan portfolio were increased to reflect an increase in historical loss experience.

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

Although management believes that the Company has established and maintained the allowance for loan losses at appropriate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Management evaluates its estimates and assumptions on an ongoing basis giving consideration to historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets, volatile securities markets, and declines in the housing and commercial real estate markets and the economy generally have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. In addition, various regulatory agencies periodically review the adequacy of the Company s allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions to the allowance or additional write-downs based on their judgments about information available to them at the time of their examination. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. Goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates.

The Company qualitatively determines whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing Step 1 of the goodwill impairment test. If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required to perform Step 1 of the assessment and then, if needed, Step 2 to determine whether goodwill is impaired. However, if it is more likely than not that the fair value of the reporting unit is more than its carrying amount, the entity does not need to apply the two-step impairment test. For this analysis, the Reporting Unit is defined as the Bank, which includes all core and retail banking operations of the Company but excludes the assets, liabilities, equity, earnings and operations held exclusively at the Company level. The guidance provides certain factors an entity should consider in its qualitative assessment in determining whether it is more likely than not that a reporting unit s fair value is less than its carrying amount. The factors include:

- Macroeconomic conditions, such as deterioration in economic condition and limited access to capital.

- Industry and market considerations, such as increased competition, regulatory developments and decline in market-dependent multiples.

- Cost factors, such as increased labor costs, cost of materials and other operating costs.

- Overall financial performance, such as declining cash flows and decline in revenue or earnings.

Other relevant entity-specific events, such as changes in management, strategy or customers, litigation and contemplation of bankruptcy.

Reporting unit events, such as selling or disposing a portion of a reporting unit and a change in composition of assets.

The Company completed its annual goodwill impairment test as of September 30, 2012. Based upon its qualitative assessment of goodwill, the Company concluded it is more likely than not that the fair value of the reporting unit exceeds its carrying amount, goodwill was not impaired and no further quantitative analysis (Step 1) was warranted.

The Company may, based upon its qualitative assessment, or at its option, perform the two-step process to evaluate the potential impairment of goodwill. If, based upon Step 1, the fair value of the Reporting Unit exceeds its carrying amount, goodwill of the Reporting Unit is considered not impaired. However, if the carrying amount of the Reporting Unit exceeds its fair value, an additional test must be performed. The second step test compares the implied fair value of the Reporting Unit s goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

The Company s available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in Stockholders Equity. Estimated fair values are based on market quotations or matrix pricing as discussed in Note 5 to the audited consolidated financial statements. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. The Company conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. In this evaluation, if such a decline were deemed other-than-temporary, the Company would measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. The fair value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the fair value of fixed-rate securities decreases and as interest rates fall, the fair value of fixed-rate securities increases. Turmoil in the credit markets resulted in a lack of liquidity in certain sectors of the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company determines if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If either exists, the decline in value is considered other-than-temporary. In this evaluation, the Company did not recognize other-than-temporary securities impairment losses in 2012, but did recognize losses totaling $302,000 and $170,000 in 2011 and 2010, respectively.

The determination of whether deferred tax assets will be realizable is predicated on the reversal of existing deferred tax liabilities, utilization against carryback years and estimates of future taxable income. Such estimates are subject to management s judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. A valuation reserve of $1.1 million was established in 2009 pertaining primarily to state tax benefits on net operating losses at the Bank and unused capital loss carryforwards. In 2011, management released the valuation allowance associated with the state net operating losses, approximately $840,000, due to expectation of current and future taxable income. At December 31, 2012, the Company maintained a valuation allowance of $242,000, related to unused capital loss carryforwards.

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.

Table of Contents

Average Balance Sheet. The following table sets forth certain information for the years ended December 31, 2012, 2011 and 2010. 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,								
	2012			2011			2010		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Deposits	$ 32,200	$ 81	0.25%	$ 47,727	$ 119	0.25%	$ 98,940	$ 247	0.25%
Federal funds sold and short-term investments	1,439	1	0.09	1,457		0.01	1,951		0.01
Investment securities(1)	351,981	11,808	3.35	345,528	12,160	3.52	335,080	12,778	3.81
Securities available for sale	1,348,376	27,327	2.03	1,302,233	34,393	2.64	1,311,859	41,322	3.15
Federal Home Loan Bank Stock	39,137	1,814	4.63	38,259	1,764	4.61	34,979	1,821	5.21
Net loans(2)	4,658,422	221,228	4.75	4,423,125	227,283	5.11	4,274,549	230,366	5.39
Total interest-earning assets	6,431,555	262,259	4.08	6,158,329	275,719	4.46	6,057,358	286,534	4.73
Non-interest earning assets	739,386			734,778			726,114		
Total assets	$ 7,170,941			$ 6,893,107			$ 6,783,472		
Interest-bearing liabilities:									
Savings deposits	$ 901,398	1,449	0.16%	$ 899,020	2,971	0.33%	$ 886,963	4,061	0.46%
Demand deposits	2,581,802	10,292	0.40	2,272,780	15,168	0.67	2,096,259	18,369	0.88
Time deposits	1,041,533	13,607	1.31	1,213,292	18,413	1.52	1,377,185	25,275	1.84
Borrowed funds	864,728	19,574	2.26	909,531	23,177	2.55	939,311	29,864	3.18
Total interest-bearing liabilities	5,389,461	44,922	0.83	5,294,623	59,729	1.13	5,299,718	77,569	1.46
Non-interest bearing liabilities	803,722			657,056			573,238		
Total liabilities	6,193,183			5,951,679			5,872,956		
Stockholders equity	977,758			941,428			910,516		
Total liabilities and equity	$ 7,170,941			$ 6,893,107			$ 6,783,472		
Net interest income		$ 217,337			$ 215,990			$ 208,965	
Net interest rate spread			3.25%			3.33%			3.27%
Net interest earning assets	$ 1,042,094			$ 863,706			$ 757,640		
Net interest margin(3)			3.38%			3.49%			3.45%
Ratio of interest-earning assets to total interest-bearing liabilities	1.19x			1.16x			1.14x		

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

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

Table of Contents

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,					
	2012 vs. 2011			2011 vs. 2010		
	Increase/(Decrease) Due to		Total Increase/	Increase/(Decrease) Due to		Total Increase/
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Deposits, Federal funds sold and short-term investments	$ (37)	$	$ (37)	$ (128)	$	$ (128)
Investment securities	224	(576)	(352)	389	(1,007)	(618)
Securities available for sale	1,181	(8,247)	(7,066)	(301)	(6,628)	(6,929)
Federal Home Loan Bank Stock	41	9	50	162	(219)	(57)
Loans	11,070	(17,125)	(6,055)	8,382	(11,465)	(3,083)
Total interest-earning assets	12,479	(25,939)	(13,460)	8,504	(19,319)	(10,815)
Interest-bearing liabilities:						
Savings deposits	8	(1,530)	(1,522)	55	(1,145)	(1,090)
Demand deposits	1,853	(6,729)	(4,876)	1,450	(4,651)	(3,201)
Time deposits	(2,423)	(2,383)	(4,806)	(2,796)	(4,066)	(6,862)
Borrowed funds	(1,103)	(2,500)	(3,603)	(921)	(5,766)	(6,687)
Total interest-bearing liabilities	(1,665)	(13,142)	(14,807)	(2,212)	(15,628)	(17,840)
Net interest income	$ 14,144	$ (12,797)	$ 1,347	$ 10,716	$ (3,691)	$ 7,025

Comparison of Financial Condition at December 31, 2012 and December 31, 2011

Total assets increased $186.3 million, or 2.6%, to $7.28 billion at December 31, 2012, from $7.10 billion at December 31, 2011. The increase was primarily due to increases in net loans and cash and cash equivalents, partially offset by a decline in total securities.

Cash and cash equivalents increased $34.2 million to $103.8 million at December 31, 2012, from $69.6 million at December 31, 2011. The Company expects to deploy these cash balances to fund loan originations, repay maturing borrowings and purchase investment securities.

Total loans increased $251.2 million, or 5.4%, to $4.90 billion at December 31, 2012, from $4.65 billion at December 31, 2011. For the year ended December 31, 2012, loan originations totaling $1.65 billion and loan purchases of $73.7 million were partially offset by repayments of $1.41 billion and loan sales of $36.7 million. Multi-family loans increased $159.8 million to $724.0 million at December 31, 2012, compared to $564.1 million at December 31, 2011. Commercial loans increased $17.4 million to $866.4 million at December 31, 2012, compared to $849.0 million at December 31, 2011, commercial real estate loans increased $96.4 million to $1.35 billion at December 31, 2012, compared to $1.25 billion at December 31, 2011 and construction loans increased $5.3 million to $120.1 million at December 31, 2012, compared to $114.8 million at December 31, 2011. Residential mortgage loans decreased $43.6 million to $1.27 billion at December 31, 2012, compared to $1.31 billion at December 31, 2011, as loan repayments attributable to an active refinance market outpaced originations. One- to four-family residential mortgage loan originations totaled $184.3 million and one-to four-family residential mortgage loans purchased totaled $73.7 million for the year ended December 31, 2012. Principal repayments on residential mortgage loans totaled $270.3 million, and residential mortgage loans sold totaled $36.7 million for the year ended December 31, 2012. Consumer loans increased $18.2 million to $579.2 million at December 31, 2012, compared to $561.0 million at December 31, 2011.

Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $3.06 billion, accounting for 62.4% of the loan portfolio at December 31, 2012, compared to $2.78 billion, or 59.8% of the loan portfolio at December 31, 2011. The Company intends to continue to focus on the origination of commercially-oriented loans. Retail loans, which consist of one- to four-family residential mortgage and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $1.84 billion and accounted for 37.6% of the loan portfolio at December 31, 2012, compared to $1.87 billion, or 40.2%, of the loan portfolio at December 31, 2011. The increase in commercial loans as a percentage of the total loan portfolio was a result of growth in the multi-family and commercial mortgage portfolios, coupled with reductions in retail loans attributable to refinance activity, the market preference for longer-term fixed-rate loans, which the Company chooses to sell rather than retain for portfolio as part of its interest rate risk management process, and lack of qualified retail loan demand.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated Alt-A mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50% on a limited basis. The balance of these Alt-A loans at December 31, 2012 was $9.5 million. Of this total, 8 loans totaling $1.6 million were 90 days or more delinquent. General valuation reserves of 6.5%, or $104,000, were allocated to these loans at December 31, 2012.

The Company participates in loans originated by other banks, including participations designated as Shared National Credits (SNC). The Company s gross commitments and outstanding balances as a participant in SNCs were $52.7 million and $34.5 million, respectively, at December 31, 2012. The Company s participations in SNCs included two relationships classified as substandard (rated 7) under the Company s loan risk rating system with gross commitments and outstanding balances of $15.3 million at December 31, 2012. Of these adversely classified SNCs, two loan relationships, one commercial construction property and one commercial mortgage property, are both located in New York City. One relationship totaling $4.7 million was current as to the payment of principal and interest as of December 31, 2012. The other relationship, consisting of two loans totaling $10.5 million, was past due 60 to 90 days at December 31, 2012, and was paid in full on January 31, 2013.

The Company had outstanding junior lien mortgages totaling $250.1 million at December 31, 2012. Of this total, 41 loans totaling $3.3 million were 90 days or more delinquent. General valuation reserves of 10%, or $331,000, were allocated to these loans at December 31, 2012.

At December 31, 2012, the Company had outstanding indirect marine loans totaling $41.7 million. Of this total, 5 loans totaling $539,000 were 90 days or more delinquent. General valuation reserves of 60%, or $323,000, were allocated to these loans at December 31, 2012. Marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The allowance for loan losses decreased $4.0 million to $70.3 million at December 31, 2012, as a result of net charge-offs of $20.0 million, partially offset by provisions for loan losses of $16.0 million during 2012. The decrease in the allowance for loan losses was attributable to a decrease in non-performing loans, and an improvement in the average risk rating of the loan portfolio. Total non-performing loans at December 31, 2012 were $99.0 million, or 2.02% of total loans, compared with $122.5 million, or 2.63% of total loans at December 31, 2011. At December 31, 2012, impaired loans totaled $109.6 million with related specific reserves of $7.2 million. Within total impaired loans, there were $34.2 million of loans for which the present value of expected future cash flows or current collateral valuations exceeded the carrying amounts of the loans and for which no specific reserves were required in accordance with GAAP. At December 31, 2012, the Company s allowance for loan losses was 1.43% of total loans, compared with 1.60% of total loans at December 31, 2011.

Non-performing commercial mortgage loans decreased $449,000 to $29.1 million at December 31, 2012, from $29.5 million at December 31, 2011. At December 31, 2012, the Company held 14 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a $12.9 million loan secured by a first mortgage on a 200,000 square foot office/industrial building located in Eatontown, New Jersey, which has been negatively impacted by the loss of a major tenant that relied upon contracts with the Federal government. The loan has been restructured and payments are current at December 31, 2012. The borrower continues to make efforts to lease the property. There is no contractual commitment to advance additional funds to this borrower.

Non-performing commercial loans decreased $6.6 million, to $25.5 million at December 31, 2012, from $32.1 million at December 31, 2011. Non-performing commercial loans at December 31, 2012 consisted of 55 loans. The largest non-performing commercial loan relationship consisted of four loans to a power systems manufacturer with total outstanding balances of $8.7 million at December 31, 2012. All contractual payments on these loans, based upon modified terms, were current at December 31, 2012.

Non-performing construction loans decreased $2.1 million, to $8.9 million at December 31, 2012, from $11.0 million at December 31, 2011. At December 31, 2012, non-performing construction loans consisted of one loan secured by a first mortgage on a 77,000 square foot newly constructed Class A office building, and a parcel of land with approvals for an 110,000 square foot office building located in Parsippany, New Jersey. The office building is completed, except for tenant improvements, but not leased due to weakness in the market. The property is being marketed and the principals are supporting the project. All contractual payments on this loan, based upon modified terms, were current at December 31, 2012. The Company has an unfunded commitment of $3.6 million on this loan at December 31, 2012.

Non-performing multi-family loans declined $585,000, to $412,000 at December 31, 2012, from $997,000 at December 31, 2011 as a result of a $997,000 note sale, partially offset by inflows of two smaller loans.

Non-performing residential mortgage loans decreased $11.1 million to $29.3 million at December 31, 2012, from $40.4 million at December 31, 2011. Gross charge-offs of residential loans were $4.6 million for the year ended December 31, 2012.

Non-performing consumer loans decreased $2.6 million, to $5.9 million at December 31, 2012, from $8.5 million at December 31, 2011. Gross consumer loan charge-offs were $3.5 million for the year ended December 31, 2012.

At December 31, 2012, the Company held $12.5 million of foreclosed assets, compared with $12.8 million at December 31, 2011. Foreclosed assets at December 31, 2012 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted primarily of $6.5 million of commercial real estate, $5.0 million of residential properties, and $583,000 of marine vessels at December 31, 2012.

Non-performing assets totaled $111.5 million, or 1.53% of total assets at December 31, 2012, compared to $135.4 million, or 1.91% of total assets at December 31, 2011. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $3.0 million during the year ended December 31, 2012.

Total deposits increased $271.7 million, or 5.3%, during the year ended December 31, 2012 to $5.43 billion from $5.16 billion at December 31, 2011. Core deposits, consisting of savings and demand deposit accounts, increased $442.9 million, or 11.0%, to $4.47 billion at December 31, 2012. Partially offsetting this increase, time deposits decreased $171.3 million, or 15.2%, to $957.5 million at December 31, 2012, with the majority of the decrease occurring in the 24-month and shorter maturity categories. The Company continued to develop core deposit relationships, while strategically permitting the run-off of higher-costing time deposits. Core deposits represented 82.4% of total deposits at December 31, 2012, compared to 78.1% at December 31, 2011.

Table of Contents

Borrowed funds were reduced $116.9 million, or 12.7% during the year ended December 31, 2012, to $803.3 million, as core deposit growth continued to replace wholesale funding. Borrowed funds represented 11.0% of total assets at December 31, 2012, a reduction from 13.0% at December 31, 2011.

Total stockholders equity increased $28.8 million to $981.2 million at December 31, 2012, from $952.5 million at December 31, 2011. This increase was a result of net income of $67.3 million, the allocation of shares to stock-based compensation plans of $7.2 million and the reissuance of shares for the dividend reinvestment program of $6.1 million, partially offset by cash dividends of $40.7 million, other comprehensive loss of $1.9 million and common stock repurchases of $9.4 million.

Comparison of Operating Results for the Years Ended December 31, 2012 and December 31, 2011

General. Net income for the year ended December 31, 2012 was $67.3 million, compared to $57.3 million for the year ended December 31, 2011. Basic and diluted earnings per share were $1.18 for the year ended December 31, 2012, compared to basic and diluted earnings per share of $1.01 for 2011. The increase in earnings for the year ended December 31, 2012, was largely attributable to continued improvements in asset quality and related reductions in the provision for loan losses, inclusive of consideration for possible loan losses related to Superstorm Sandy, while growth in both average loans outstanding and average lower-costing core deposits more than offset the impact of compression in asset yields.

Net Interest Income. Net interest income increased $1.3 million to $217.3 million for 2012, from $216.0 million for 2011. The average interest rate spread declined 8 basis points to 3.25% for 2012, from 3.33% for 2011. The net interest margin decreased 11 basis points to 3.38% for 2012, compared to 3.49% for 2011. For the year ended December 31, 2012, the favorable effects of an increase in average loans outstanding and reductions in funding costs outpaced the impact of the downward repricing of earning assets.

Interest income decreased $13.5 million, or 4.9%, to $262.3 million for 2012, compared to $275.7 million for 2011. The decrease in interest income was attributable to a decrease in the yield on average earning assets, partially offset by an increase in average earning asset balances. The yield on interest-earning assets decreased 38 basis points to 4.08% for 2012, from 4.46% for 2011, with reductions in yields experienced in nearly all earning asset classes. Average interest-earning assets increased $273.2 million, or 4.4%, to $6.43 billion for 2012, compared to $6.16 billion for 2011. The average outstanding loan balances increased $235.3 million, or 5.3%, to $4.66 billion for 2012 from $4.42 billion for 2011, the average balance of securities available for sale increased $46.1 million, or 3.5%, to $1.35 billion for 2012, compared to $1.30 billion for 2011, and the average balance of investment securities increased $6.5 million, or 1.9%, to $352.0 million for 2012, compared to $345.5 million for 2011. These increases were partially offset by a decrease in average interest-earning deposits, Federal funds sold and short-term investment balances of $15.5 million, or 31.6%, to $33.6 million for 2012, from $49.2 million for 2011.

Interest expense decreased $14.8 million, or 24.8%, to $44.9 million for 2012, from $59.7 million for 2011. The decrease in interest expense was attributable to lower short-term interest rates coupled with a shift in the funding composition to lower-costing core deposits from certificates of deposit and a reduction in average borrowings, partially offset by an increase in average interest-bearing deposit balances. The average rate paid on interest-bearing liabilities decreased 30 basis points to 0.83% for 2012, from 1.13% for 2011. The average rate paid on interest-bearing deposits decreased 27 basis points to 0.56% for 2012, from 0.83% for 2011. The average rate paid on borrowings decreased 29 basis points to 2.26% for 2012, from 2.55% for 2011. The average balance of interest-bearing liabilities increased $94.8 million, or 1.8%, to $5.39 billion for 2012, compared to $5.29 billion for 2011. Average interest-bearing deposits increased $139.6 million, or 3.2%, to $4.52 billion for 2012, from $4.39 billion for 2011. Within average interest-bearing deposits, average interest-bearing core deposits increased $311.4 million, or 9.8%, for 2012, compared with 2011, while average time deposits decreased $171.8 million, or 14.2%, for 2012, compared with 2011. Further aiding the increase in net interest income, average non-interest bearing deposits increased $137.3 million, or 22.7%, to $743.1 million for 2012, from $605.8 million for 2011. Average outstanding borrowings decreased $44.8 million, or 4.9%, to $864.7 million for 2012, compared with $909.5 million for 2011, as deposits replaced wholesale funding.

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

The provision for loan losses was $16.0 million in 2012, compared to $28.9 million in 2011. The provision for loan losses for 2012 included $1.5 million for possible loan losses related to Superstorm Sandy. The decrease in the provision for loan losses was primarily attributable to a decline in non-performing loan formation and an improvement in credit risk ratings. Net charge-offs for 2012 were $20.0 million, compared to $23.3 million for 2011. Total charge-offs for the year ended December 31, 2012 were $23.9 million, compared to $25.1 million for the year ended December 31, 2011. Recoveries for the year ended December 31, 2012, were $3.9 million, compared to $1.8 million for the year ended December 31, 2011. The allowance for loan losses at December 31, 2012 was $70.3 million, or 1.43% of total loans, compared to $74.4 million, or 1.60% of total loans at December 31, 2011. At December 31, 2012, non-performing loans as a percentage of total loans were 2.02%, compared to 2.63% at December 31, 2011. Non-performing assets as a percentage of total assets were 1.53% at December 31, 2012, compared to 1.91% at December 31, 2011. At December 31, 2012, non-performing loans were $99.0 million, compared to $122.5 million at December 31, 2011, and non-performing assets were $111.5 million at December 31, 2012, compared to $135.4 million at December 31, 2011.

Non-Interest Income. For the year ended December 31, 2012, non-interest income totaled $43.6 million, an increase of $11.1 million, or 34.0%, compared to the same period in 2011. Fee income totaled $30.3 million for the year ended December 31, 2012, an increase of $4.9 million compared with the same period in 2011, largely due to an increase in wealth management fees attributable to the August 2011 acquisition of Beacon Trust Company (Beacon) and increased prepayment fees on commercial loans, which were partially offset by lower overdraft fee income. Net gains on securities transactions totaled $4.5 million for the year ended December 31, 2012, compared to $708,000 for the same period in 2011. During the year, the Company identified and sold certain mortgage-backed securities which had a high risk of accelerated prepayment. The proceeds from the sales were reinvested in similar securities with more stable projected cash flows. Also contributing to the increase in non-interest income, other income increased $2.0 million for the year ended December 31, 2012, compared with the same period in 2011, primarily due to a $525,000 net gain recognized on the sale of a vacant parcel of land, $568,000 in income associated with the termination of the Company s debit card rewards program, losses previously recorded in 2011 related to the sale of the Company s former administrative facilities, and an increase in gains resulting from a larger number of loan sales. Other-than-temporary impairment charges on investment securities declined $302,000 for the year ended December 31, 2012, compared to last year, as the Company did not experience any other-than-temporary impairment on its securities portfolio in 2012.

Non-Interest Expense. Non-interest expense for the year ended December 31, 2012 was $148.8 million, an increase of $6.4 million, or 4.5%, from the year ended December 31, 2011. Compensation and benefits expense increased $6.0 million, to $80.9 million for the year ended December 31, 2012 compared to the year ended December 31, 2011, due to higher salary expense associated with annual merit increases, personnel added as a result of the Beacon acquisition, an increased incentive compensation accrual and increased employee medical and retirement benefit costs. In addition, other operating expense increased $2.2 million for the year ended December 31, 2012, compared to the same period in 2011, due primarily to increased non-performing asset related expenses, net expenses of $624,000 incurred due to damages sustained in Superstorm Sandy, a $213,000 charge related to the termination of a software contract in connection with the Beacon integration and $222,000 in charges related to the consolidation of underperforming branches. Data processing expense increased $818,000 for the year ended December 31, 2012, compared to the same period in 2011, due to an increase in software maintenance expense, primarily associated with technology enhancements at Beacon, and increased core processing fees. Partially offsetting these increases, impairment of premises and equipment declined $807,000 for the year ended December 31, 2012, compared to last year, due to an impairment charge incurred in the first quarter of 2011 related to the then planned sale and relocation of the Company s former loan center. FDIC insurance expense decreased $788,000 to $5.1 million for the year ended December 31, 2012, compared with the same period in 2011. The decrease was primarily due to a lower assessment rate and a change in assessment methodology from a deposit-based to an asset-based assessment, effective in the second quarter of 2011. Net occupancy expense decreased $644,000 to $20.5 million, compared to the same period last year, due to the consolidation and relocation of the Company s administrative offices in April 2011 and the elimination of prior year carrying costs on previously occupied facilities owned by the Company that were sold in November 2011. Additionally, amortization of intangibles decreased $564,000 for the year ended December 31, 2012, compared with the same period of 2011, as a result of scheduled reductions in core deposit intangible amortization, partially offset by the amortization of the customer relationship intangible arising from the Beacon acquisition.

Income Tax Expense. For the year ended December 31, 2012, the Company s income tax expense was $28.9 million, compared with $19.8 million in 2011. The increase in income tax expense was primarily attributable to an increase in pre-tax income. The Company s effective tax rate was 30.0% for the year ended December 31, 2012, compared with 25.7% for the year ended December 31, 2011. The increase in the effective tax rate and income tax expense was primarily a function of growth in pre-tax income from taxable sources.

Comparison of Operating Results for the Years Ended December 31, 2011 and December 31, 2010

General. Net income for the year ended December 31, 2011 was $57.3 million, compared to $49.7 million for the year ended December 31, 2010. Basic and diluted earnings per share were $1.01 for the year ended December 31, 2011, compared to a basic and diluted loss per share of $0.88 for 2010. Earnings for the year ended December 31, 2011 reflect actions taken to reduce funding costs, with net interest income increasing $7.0 million, compared with the same period in 2010. In addition, the provision for loan losses decreased $6.6 million for the year ended December 31, 2011, compared with the year ended December 31, 2010. These improvements were partially offset by an increase in non-interest expense of $3.7 million for year ended December 31, 2011, compared with the same period in 2010.

Net Interest Income. Net interest income increased $7.0 million, or 3.4%, to $216.0 million for 2011, from $209.0 million for 2010. The average interest rate spread increased 6 basis points to 3.33% for 2011, from 3.27% for 2010. The net interest margin increased 4 basis points to 3.49% for 2011, compared to 3.45% for 2010. For the year ended December 31, 2011, the favorable effects of an increase in average loans outstanding and reductions in funding costs outpaced the impact of the downward repricing of earning assets and accelerated premium amortization on mortgage-backed securities.

Interest income decreased $10.8 million, or 3.8%, to $275.7 million for 2011, compared to $286.5 million for 2010. The decrease in interest income was attributable to a decrease in the yield on average earning assets, partially offset by an increase in average earning asset balances. The yield on interest-earning assets decreased 27 basis points to 4.46% for 2011, from 4.73% for 2010, with reductions in yields experienced in nearly all earning asset classes. Average interest-earning assets increased $101.0 million, or 16.7%, to $6.16 billion for 2011, compared to $6.06 billion for 2010. The average outstanding loan balances increased $148.6 million, or 3.5%, to $4.42 billion for 2011 from $4.27 billion for 2010, and the average balance of investment securities increased

$10.4 million, or 3.1%, to $345.5 million for 2011, compared to $335.1 million for 2010. These increases were partially offset by a decrease in average interest-earning deposits, Federal funds sold and short-term investment balances of $51.7 million, or 51.3%, to $49.2 million for 2011, from $100.9 million for 2010. In addition, the average balance of securities available for sale decreased $9.6 million, or 0.7%, to $1.30 billion for 2011, compared to $1.31 billion for 2010.

Interest expense decreased $17.8 million, or 23.0%, to $59.7 million for 2011, from $77.6 million for 2010. The decrease in interest expense was attributable to lower short-term interest rates coupled with a shift in the funding composition to lower-costing core deposits from certificates of deposit and a reduction in average borrowings, partially offset by an increase in average interest-bearing deposit balances. The average rate paid on interest-bearing liabilities decreased 33 basis points to 1.13% for 2011, from 1.46% for 2010. The average rate paid on interest-bearing deposits decreased 26 basis points to 0.83% for 2011, from 1.09% for 2010. The average rate paid on borrowings decreased 63 basis points to 2.55% for 2011, from 3.18% for 2010. The average balance of interest-bearing liabilities decreased $5.1 million, or 0.1%, to $5.29 billion for 2011, compared to $5.30 billion for 2010. Average interest-bearing deposits increased $24.7 million, or 0.6%, to $4.39 billion for 2011, from $4.36 billion for 2010. Within average interest-bearing deposits, average interest-bearing core deposits increased $188.6 million, or 6.3%, for 2011, compared with 2010, while average time deposits decreased $163.9 million, or 11.9%, for 2011, compared with 2010. Further aiding the increase in net interest income, average non-interest bearing deposits increased $77.7 million, or 14.7%, to $605.8 million for 2011, from $528.1 million for 2010. Average outstanding borrowings decreased $29.8 million, or 3.2%, to $909.5 million for 2011, compared with $939.3 million for 2010, as deposits replaced wholesale funding.

Provision for Loan Losses. The provision for loan losses was $28.9 million in 2011, compared to $35.5 million in 2010. The decrease in the provision for loan losses was primarily attributable to a reduction in loan delinquencies, a decline in non-performing loan formation and an improvement in credit risk ratings. Net charge-offs for 2011 were $23.3 million, compared to $27.5 million for 2010. Total charge-offs for the year ended December 31, 2011 were $25.1 million, compared to $29.5 million for the year ended December 31, 2010. Recoveries for the year ended December 31, 2011, were $1.8 million, compared to $1.9 million for the year ended December 31, 2010. The allowance for loan losses at December 31, 2011 was $74.4 million, or 1.60% of total loans, compared to $68.7 million, or 1.56% of total loans at December 31, 2010. At December 31, 2011, non-performing loans as a percentage of total loans were 2.63%, compared to 2.21% at December 31, 2010. Non-performing assets as a percentage of total assets were 1.91% at December 31, 2011, compared to 1.47% at December 31, 2010. At December 31, 2011, non-performing loans were $122.5 million, compared to $97.3 million at December 31, 2010, and non-performing assets were $135.4 million at December 31, 2011, compared to $100.1 million at December 31, 2010.

Non-Interest Income. For the year ended December 31, 2011, non-interest income totaled $32.5 million, an increase of $990,000, or 3.1%, compared to the same period in 2010. Fee income totaled $25.4 million for the year ended December 31, 2011, an increase of $1.7 million compared with the same period in 2010, largely due to increased wealth management fees related to the Beacon acquisition, an increase in revenue from loan related activity and increased revenue associated with annuity sales. These increases were partially offset by a reduction in overdraft fees. Other income increased $266,000 for the year ended December 31, 2011, compared with the same period in 2010, primarily as a result of net gains recognized on the sale of foreclosed real estate and an increase in gains resulting from a larger number of loan sales, partially offset by the losses incurred on the sales of the Company s previously occupied administrative facilities. Offsetting these increases, income related to Bank-owned life insurance decreased $706,000 for the year ended December 31, 2011, compared to the same period last year, primarily due to the receipt of policy claim proceeds in the second quarter of 2010. Additionally, net gains on securities transactions declined $177,000 for the year ended December 31, 2011, compared with the same period in 2010. These net gains on securities transactions totaled $708,000 for the year ended December 31, 2011, compared with net gains of $885,000 for the same period in 2010. The Company recognized net other-than-temporary impairment charges of $302,000 and $170,000 for the years ended December 31, 2011 and December 31, 2010, respectively, related to an investment in a non-Agency mortgage-backed security.

Table of Contents

Non-Interest Expense. Non-interest expense for the year ended December 31, 2011 was $142.4 million, an increase of $3.7 million, or 2.7%, from $138.7 million for the year ended December 31, 2010. Compensation and benefits expense increased $5.0 million, to $74.9 million for the year ended December 31, 2011 compared to $69.9 million for the year ended December 31, 2010, due to higher salary expense related to annual merit increases and personnel added as a result of the Beacon acquisition, increased employee health and medical costs, and increased stock-based compensation expense resulting from shares granted in connection with the Company s incentive compensation and Employee Stock Ownership plans and the higher average share price of the Company s common stock in 2011 compared with 2010. In addition, net occupancy expense increased $1.4 million, to $21.1 million, compared to $19.8 million for the same period in 2010, due to expenses associated with the relocation of the Company s administrative offices and carrying costs on previously occupied facilities owned by the Company, which were sold in November 2011. In addition, approximately $227,000 in damages attributable to Hurricane Irene were also included in occupancy expense for the year ended December 31, 2011. Data processing expense totaled $9.5 million for the year ended December 31, 2011, compared to $9.0 million for the same period in 2010. The $516,000 increase was primarily due to higher software maintenance and core processing fees. Other operating expenses increased $157,000 for the year ended December 31, 2011, compared with the same period last year, due to increased loan collection expense and costs associated with the Beacon acquisition. Partially offsetting these increases, FDIC insurance expense decreased $1.7 million to $5.9 million for the year ended December 31, 2011, compared with $7.6 million for the same period in 2010. The decrease was primarily due to a lower assessment rate charged on deposits in the first quarter of 2011 and a change in assessment methodology from a deposit-based to an asset-based assessment, effective in the second quarter of 2011. Additionally, amortization of intangibles decreased $801,000 for the year ended December 31, 2011, compared with the same period of 2010, as a result of scheduled reductions in core deposit intangible amortization, partially offset by the amortization of the customer relationship intangible arising from the Beacon acquisition. Impairment of premises and equipment declined $721,000, for the year ended December 31, 2011, compared to the same period last year, as the Company recognized a $1.5 million impairment charge in the fourth quarter of 2010 related to the then anticipated sale and relocation of its administrative office, compared to an $807,000 impairment charge in the first quarter of 2011 related to the then anticipated sale and relocation of its former loan administration center. Advertising and promotions expense decreased $98,000 for the year ended December 31, 2011, compared with the same period last year.

Income Tax Expense. For the year ended December 31, 2011, the Company s income tax expense was $19.8 million, compared with $16.6 million in 2010. The increase in income tax expense was primarily attributable to an increase in pre-tax income. The Company s effective tax rate was 25.7% for the year ended December 31, 2011, compared with 25.07% for the year ended December 31, 2010. The effective tax rate for 2011 was affected by an increase in taxable income, partially offset by the reduction of a valuation allowance against subsidiary company New Jersey state net operating losses.

Liquidity and Capital Resources

Liquidity refers to the Company s ability to generate adequate amounts of cash to meet financial obligations to its depositors, to fund loans and securities purchases, deposit outflows and operating expenses. Sources of funds include scheduled amortization of loans, loan prepayments, scheduled maturities of investments, cash flows from mortgage-backed securities and the ability to borrow funds from the FHLB of New York and approved broker dealers.

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, 2012 and 2011, loan repayments totaled $1.41 billion and $1.30 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

Table of Contents

facilitate the Company s lending activities and ensure adequate liquidity. Loan originations and purchases totaled $1.73 billion for the year ended December 31, 2012, compared to $1.59 billion for the year ended December 31, 2011. Purchases for the investment portfolio totaled $585.0 million for the year ended December 31, 2012, compared to $531.0 million for the year ended December 31, 2011.

At December 31, 2012, the Bank had outstanding loan commitments to borrowers of $869.0 million, including undisbursed home equity lines and personal credit lines of $267.1 million. Total deposits increased $271.7 million for the year ended December 31, 2012. 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 $624.5 million at December 31, 2012. Based on its current pricing strategy and customer retention experience, the Bank expects to retain a significant share of these accounts. The Bank manages liquidity on a daily basis and expects to have sufficient cash to meet all of its funding requirements.

As of December 31, 2012, the Bank exceeded all minimum regulatory capital requirements. At December 31, 2012, the Bank s leverage (Tier 1) capital ratio was 7.80%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2012, the Bank s total risk-based capital ratio was 12.33%. Under current regulations, the minimum required ratio of total capital to risk-weighted assets is 8.00%. A bank is considered to be well-capitalized if it has a leverage (Tier 1) capital ratio of at least 5.00% and a total risk-based capital ratio of at least 10.00%.

Off-Balance Sheet and Contractual Obligations

Off-balance sheet and contractual obligations as of December 31, 2012, are summarized below:

	Payments Due by Period (In thousands)				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Off-Balance Sheet:					
Long-term commitments	$ 845,684	$ 335,212	$ 243,056	$ 690	$ 266,726
Letters of credit	23,308	16,036	7,272		
Total Off-Balance Sheet	868,992	351,248	250,328	690	266,726
Contractual Obligations:					
Operating leases	48,136	6,236	11,422	10,211	20,267
Certificate of deposits	957,473	624,461	250,325	81,510	1,177
Total Contractual Obligations	1,005,609	630,697	261,747	91,721	21,444
Total	$ 1,874,601	$ 981,945	$ 512,075	$ 92,411	$ 288,170

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 $869.0 million at December 31, 2012, an increase of $98.6 million, or 11.3%, from $770.4 million at December 31, 2011.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There were no securities purchases that were entered into in December 2012 or 2011 that would have settled in January 2013 or 2012, respectively. Total contractual obligations at December 31, 2012 were $1.01 billion, a decrease of $165.2 million, or 16.4%, compared to $1.17 billion at December 31, 2011. Contractual obligations under operating leases increased $6.0 million, or 12.6%, to $48.1 million at December 31, 2012, from $42.1 million at December 31, 2011, and certificate of deposit accounts decreased $171.2 million, or 17.9%, to $957.5 million at December 31, 2012, from $1.13 billion at December 31, 2011.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

The Company s strategy for liabilities has been to maintain a stable core-funding base by focusing on core deposit account acquisition and increasing products and services per household. Certificate of deposit accounts as a percentage of total deposits were 17.6% at December 31, 2012, compared to 21.9% at December 31, 2011. Certificate of deposit accounts are generally short-term. As of December 31, 2012, 65.2% of all time deposits had maturities of one year or less compared to 66.9% at December 31, 2011. The Company s ability to retain maturing certificate of deposit accounts is the result of a strategy to remain competitively priced within the marketplace. 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 of New York during periods of pricing dislocation.

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

- Parallel yield curve shifts for market rates;
- Current asset and liability spreads to market interest rates are fixed;
- Traditional savings and interest bearing demand accounts move at 10% of the rate ramp in either direction;
- Retail Money Market and Business Money Market accounts move at 25% and 75% of the rate ramp in either direction, respectively; and
- Higher-balance demand deposit tiers and promotional demand accounts move at 50% to 75% of the rate ramp in either direction.

Table of Contents

The following table sets forth the results of the twelve month projected net interest income model as of December 31, 2012.

Change in Interest Rates in Basis Points (Rate Ramp)	Amount ($)	Net Interest Income Change ($)	Change (%)
		(Dollars in thousands)	
-100	213,799	(2,611)	(1.2)
Static	216,410		
+100	213,408	(3,002)	(1.4)
+200	208,829	(7,581)	(3.5)
+300	204,362	(12,048)	(5.6)

The above table indicates that as of December 31, 2012, in the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, the Company would experience a 5.6%, or $12.0 million decrease in net interest income. In the event of a 100 basis point decrease in interest rates, whereby rates ramp down evenly over a twelve-month period, the Company would experience a 1.2%, or $2.6 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, 2012.

Change in	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
Interest Rates (Basis Points)	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
	(Dollars in thousands)				
-100	1,219,864	(19,099)	(1.5)	16.1	(1.4)
Flat	1,238,963			16.3	
+100	1,184,031	(54,932)	(4.4)	15.8	(3.3)
+200	1,109,581	(129,382)	(10.4)	15.0	(8.2)
+300	1,020,390	(218,573)	(17.6)	14.0	(14.2)

The preceding table indicates that as of December 31, 2012, in the event of an immediate and sustained 300 basis point increase in interest rates, the Company would experience a 17.6%, or $218.6 million reduction in the present value of equity. If rates were to decrease 100 basis points, the Company would experience a 1.5%, or $19.1 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.

Table of Contents

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, 2012 and 2011

(2) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010

(3) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010

(4) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2012, 2011 and 2010

(5) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

(6) Notes to Consolidated Financial Statements

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

(1) Condensed Statement of Financial Condition as of December 31, 2012 and 2011

(2) Condensed Statement of Income for the years ended December 31, 2012, 2011 and 2010

(3) Condensed Statement of Cash Flows for the years ended December 31, 2012, 2011 and 2010

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

Table of Contents

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, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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. s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2013 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey

March 1, 2013

Table of Contents

Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders

Provident Financial Services, Inc.:

We have audited Provident Financial Services, Inc. s and subsidiary (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Provident Financial Services, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 1, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Short Hills, New Jersey

March 1, 2013

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2012 and 2011

(Dollars in Thousands, except share data)

	December 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 101,850	$ 68,553
Short-term investments	1,973	1,079
Total cash and cash equivalents	103,823	69,632
Securities available for sale, at fair value	1,264,002	1,376,119
Investment securities held to maturity (fair value of $374,916 and $366,296 at December 31, 2012 and December 31, 2011, respectively)	359,464	348,318
Federal Home Loan Bank Stock	37,543	38,927
Loans	4,904,699	4,653,509
Less allowance for loan losses	70,348	74,351
Net loans	4,834,351	4,579,158
Foreclosed assets, net	12,473	12,802
Banking premises and equipment, net	66,120	66,260
Accrued interest receivable	24,002	24,653
Intangible assets	357,907	360,714
Bank-owned life insurance	147,286	142,010
Other assets	76,724	78,810
Total assets	$ 7,283,695	$ 7,097,403
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 3,556,011	$ 3,136,129
Savings deposits	914,787	891,742
Certificates of deposit of $100,000 or more	324,901	383,174
Other time deposits	632,572	745,552
Total deposits	5,428,271	5,156,597
Mortgage escrow deposits	21,238	20,955
Borrowed funds	803,264	920,180
Other liabilities	49,676	47,194
Total liabilities	6,302,449	6,144,926
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 59,937,955 shares outstanding at December 31, 2012, and 83,209,285 shares issued and 59,968,195 shares outstanding at December 31, 2011, respectively	832	832
Additional paid-in capital	1,021,507	1,019,253

Retained earnings		389,549		363,011
Accumulated other comprehensive income		7,716		9,571
Treasury stock		(386,270)		(384,725)
Unallocated common stock held by the Employee Stock Ownership Plan		(52,088)		(55,465)
Common stock acquired by the Directors Deferred Fee Plan		(7,298)		(7,390)
Deferred compensation Directors Deferred Fee Plan		7,298		7,390
Total stockholders equity		981,246		952,477
Total liabilities and stockholders equity	$	7,283,695	$	7,097,403

See accompanying notes to consolidated financial statements.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years ended December 31, 2012, 2011 and 2010

(Dollars in Thousands, except share data)

	Years ended December 31,		
	2012	2011	2010
Interest income:			
Real estate secured loans	$ 155,078	$ 158,731	$ 160,460
Commercial loans	40,942	42,759	41,427
Consumer loans	25,208	25,793	28,479
Securities available for sale and Federal Home Loan Bank stock	29,141	36,157	43,143
Investment securities held to maturity	11,808	12,160	12,778
Deposits, Federal funds sold and other short-term investments	82	119	247
Total interest income	262,259	275,719	286,534
Interest expense:			
Deposits	25,348	36,552	47,705
Borrowed funds	19,574	23,177	29,864
Total interest expense	44,922	59,729	77,569
Net interest income	217,337	215,990	208,965
Provision for loan losses	16,000	28,900	35,500
Net interest income after provision for loan losses	201,337	187,090	173,465
Non-interest income:			
Fees	30,336	25,418	23,679
Bank-owned life insurance	5,276	5,242	5,948
Other-than-temporary impairment losses on securities		(1,661)	(3,116)
Portion of loss recognized in other comprehensive income (before taxes)		1,359	2,946
Net impairment losses on securities recognized in earnings		(302)	(170)
Net gain on securities transactions	4,497	708	885
Other income	3,504	1,476	1,210
Total non-interest income	43,613	32,542	31,552
Non-interest expense:			
Compensation and employee benefits	80,874	74,904	69,865
Net occupancy expense	20,487	21,131	19,777
Data processing expense	10,318	9,500	8,984
FDIC Insurance	5,095	5,883	7,631
Impairment of premises and equipment		807	1,528
Advertising and promotion expense	4,139	3,951	4,049
Amortization of intangibles	2,466	3,030	3,831
Other operating expenses	25,449	23,240	23,083

Total non-interest expenses	148,828	142,446	138,748
Income before income tax expense	96,122	77,186	66,269
Income tax expense	28,855	19,842	16,564
Net income	$ 67,267	$ 57,344	$ 49,705
Basic earnings per share	$ 1.18	$ 1.01	$ 0.88
Average basic shares outstanding	57,145,868	56,856,083	56,572,040
Diluted earnings per share	$ 1.18	$ 1.01	$ 0.88
Average diluted shares outstanding	57,199,804	56,868,524	56,572,040

See accompanying notes to consolidated financial statements

68

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years ended December 31, 2012, 2011 and 2010

(Dollars in thousands)

	Years ended December 31,		
	2012	**2011**	**2010**
Net income	$ 67,267	$ 57,344	$ 49,705
Other comprehensive income (loss), net of tax:			
Unrealized gains and losses on securities available for sale:			
Net unrealized gains arising during the period	1,810	4,244	10,492
Reclassification adjustment for gains included in net income	(2,660)	(419)	(423)
Total	(850)	3,825	10,069
Other-than-temporary impairment on debt securities available for sale:			
Other-than-temporary impairment losses on securities		(983)	(1,844)
Reclassification adjustment for impairment losses included in net income		179	101
Total		(804)	(1,743)
Amortization related to post-retirement obligations	(1,005)	(8,204)	(1,303)
Total other comprehensive income	(1,855)	(5,183)	7,023
Total comprehensive income	$ 65,412	$ 52,161	$ 56,728

See accompanying notes to consolidated financial statements.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2012, 2011 and 2010

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2009	$ 832	$ 1,014,856	$ 307,751	$ 7,731	$ (384,973)	$ (61,642)	$ (7,575)	$ 7,575	$ 884,555
Net income			49,705						49,705
Other comprehensive income, net of tax				7,023					$ 7,023
Cash dividends paid			(24,984)						(24,984)
Distributions from DDFP		(6)					93	(93)	(6)
Purchases of treasury stock					(193)				(193)
Option exercises		(21)			72				51
Allocation of ESOP shares		(762)				3,050			2,288
Allocation of SAP shares		2,422							2,422
Allocation of stock options		826							826
Balance at December 31, 2010	$ 832	$ 1,017,315	$ 332,472	$ 14,754	$ (385,094)	$ (58,592)	$ (7,482)	$ 7,482	$ 921,687

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2012, 2011 and 2010 (Continued)

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2010	$ 832	$ 1,017,315	$ 332,472	$ 14,754	$ (385,094)	$ (58,592)	$ (7,482)	$ 7,482	$ 921,687
Net income			57,344						57,344
Other comprehensive income, net of tax				(5,183)					(5,183)
Cash dividends paid			(26,805)						(26,805)
Distributions from DDFP							92	(92)	
Purchases of treasury stock					(4,139)				(4,139)
Shares issued dividend reinvestment plan		(1,319)			4,499				3,180
Option exercises					9				9
Allocation of ESOP shares		(660)				3,127			2,467
Allocation of SAP shares		3,198							3,198
Allocation of stock options		719							719
Balance at December 31, 2011	$ 832	$ 1,019,253	$ 363,011	$ 9,571	$ (384,725)	$ (55,465)	$ (7,390)	$ 7,390	$ 952,477

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity for the Years Ended December 31, 2012, 2011 and 2010 (Continued)

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2011	$ 832	$ 1,019,253	$ 363,011	$ 9,571	$ (384,725)	$ (55,465)	$ (7,390)	$ 7,390	$ 952,477
Net income			67,267						67,267
Other comprehensive loss, net of tax				(1,855)					(1,855)
Cash dividends paid			(40,729)						(40,729)
Distributions from DDFP							92	(92)	
Purchases of treasury stock					(9,424)				(9,424)
Shares issued dividend reinvestment plan		(1,755)			7,845				6,090
Option exercises		(6)			34				28
Allocation of ESOP shares		(452)				3,377			2,925
Allocation of SAP shares		4,015							4,015
Allocation of stock options		452							452
Balance at December 31, 2012	$ 832	$ 1,021,507	$ 389,549	$ 7,716	$ (386,270)	$ (52,088)	$ (7,298)	$ 7,298	$ 981,246

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2012, 2011 and 2010

(Dollars in Thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 67,267	$ 57,344	$ 49,705
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangibles	9,327	9,660	10,748
Impairment charge premises & equipment		807	1,528
Provision for loan losses	16,000	28,900	35,500
Deferred tax benefit	(1,134)	(3,762)	(3,739)
Increase in cash surrender value of Bank-owned Life Insurance	(5,276)	(5,242)	(5,948)
Net amortization of premiums and discounts on securities	16,545	12,680	9,983
Accretion of net deferred loan fees	(3,493)	(2,165)	(1,006)
Amortization of premiums on purchased loans	1,694	1,902	2,038
Net increase in loans originated for sale	(36,723)	(21,394)	(18,139)
Proceeds from sales of loans originated for sale	38,684	22,675	19,316
Proceeds from sales of foreclosed assets	16,484	15,746	8,410
ESOP expense	2,030	1,926	1,840
Allocation of stock award shares	3,658	3,198	2,422
Allocation of stock options	452	719	826
Net gain on sale of loans	(1,961)	(1,281)	(1,177)
Net gain on securities available for sale	(4,497)	(708)	(885)
Impairment charge on securities		302	170
Net loss (gain) on sale of premises and equipment	(633)	271	(17)
Net loss (gain) on sale of foreclosed assets	75	(127)	5
Contribution to pension plan	(4,113)	(4,854)	(5,085)
Decrease in accrued interest receivable	651	604	540
Increase in other assets	(9,228)	(13,900)	(16,146)
Increase (decrease) increase in other liabilities	2,482	(9,468)	1,372
Net cash provided by operating activities	108,291	93,833	92,261
Cash flows from investing activities:			
Proceeds from maturities, calls and paydowns of investment securities held to maturity	77,207	78,697	48,816
Purchases of investment securities held to maturity	(89,281)	(81,566)	(60,227)
Proceeds from sales of securities available for sale	106,768	24,149	18,926
Proceeds from maturities and paydowns of securities available for sale	488,590	421,368	506,595
Purchases of securities available for sale	(495,726)	(449,419)	(566,082)
Cash consideration paid to acquire Beacon Trust, net of cash and cash equivalents		(7,254)	
BOLI benefits paid			1,523
Purchases of loans	(73,740)	(79,521)	(90,430)
Net (increase) decrease in loans	(191,904)	(189,317)	58,783
Proceeds from sales of premises and equipment	638	11,977	2,101
Purchases of premises and equipment, net	(7,658)	(8,546)	(8,506)
Net cash used in investing activities	(185,106)	(279,432)	(88,501)
Cash flows from financing activities:			
Net increase (decrease) in deposits	271,674	278,863	(21,443)
Increase in mortgage escrow deposits	283	1,397	845
Purchase of treasury stock	(9,424)	(4,139)	(193)
Cash dividends paid to stockholders	(40,729)	(26,805)	(24,984)

Shares issued to dividend reinvestment plan	6,090	3,180	
Stock options exercised	28	9	51
Proceeds from long-term borrowings		236,300	245,800
Payments on long-term borrowings	(55,700)	(280,088)	(322,043)
Net (decrease) increase in short-term borrowings	(61,216)	(5,715)	46,693
Net cash provided by (used in) financing activities	111,006	203,002	(75,274)
Net increase (decrease) in cash and cash equivalents	34,191	17,403	(71,514)
Cash and cash equivalents at beginning of period	69,632	52,229	123,743
Cash and cash equivalents at end of period	$ 103,823	$ 69,632	$ 52,229
Cash paid during the period for:			
Interest on deposits and borrowings	$ 45,362	$ 60,739	$ 79,009
Income taxes	$ 25,858	25,909	$ 17,622
Non cash investing activities:			
Transfer of loans receivable to foreclosed assets	$ 16,253	$ 25,406	$ 4,995
Fair value of assets acquired	$ 672	$ 1,879	$
Goodwill and customer relationship intangible	$ (672)	$ 9,547	$
Liabilities assumed	$	$ 926	$

See accompanying notes to consolidated financial statement

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

(1) Summary of Significant Accounting Policies

Principles of Consolidation

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

Business

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

Basis of Financial Statement Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). In preparing the consolidated financial statements, management is required to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities and disclosures about contingent assets and liabilities as of the dates of the consolidated statements of financial condition, and revenues and expenses for the periods then ended. Such estimates are used in connection with the determination of the allowance for loan losses, evaluation of goodwill for impairment, evaluation of other-than-temporary impairment on securities, evaluation of the need for valuation allowances on deferred tax assets, and determination of liabilities related to retirement and other post-retirement benefits, among others. These estimates and assumptions are based on management s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets, volatile securities markets, and declines in the housing market and the economy generally have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Cash and Cash Equivalents

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

Securities

Securities include investment securities held to maturity and securities available for sale. Securities that the Company has the positive intent and ability to hold to maturity are classified as investment securities held to maturity and reported at amortized cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as securities available for sale and are reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders equity, net of deferred taxes.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The estimated fair values of the Company s securities are affected by changes in interest rates, credit spreads, and market illiquidity. The Company conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 320 Investments-Debt and Equity Securities on April 1, 2009, to determine if a decline in value is other-than- temporary, the Company evaluates if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If such a decline were deemed other-than-temporary, the Company would measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. In general, as interest rates rise, the market value of fixed-rate securities decreases and as interest rates fall, the market value of fixed-rate securities increases. The market for non-investment grade, privately issued mortgage-backed securities remains illiquid and prices have not appreciated despite favorable movements in interest rates. To determine if a decline in value is other-than-temporary, the Company evaluates if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery.

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

Fair Value of Financial Instruments

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Federal Home Loan Bank of New York Stock

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

Loans

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

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

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

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

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

Allowance for Loan Losses

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

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

Foreclosed Assets

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

Banking Premises and Equipment

Land is carried at cost. Banking premises, furniture, fixtures and equipment are carried at cost, less accumulated depreciation, computed using the straight-line method based on their estimated useful lives (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.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The determination of whether deferred tax assets will be realizable is predicated on estimates of future taxable income. Such estimates are subject to management s judgment. A valuation reserve is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Trust Assets

Trust assets consisting of securities and other property (other than cash on deposit held by the Bank in fiduciary or agency capacities for customers of the Bank s wholly owned subsidiary, Beacon Trust Company) 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, customer relationship premium 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 30th. As permitted by GAAP, the Company prepares a qualitative assessment in determining whether goodwill may be impaired. The factors considered in the assessment include macroeconomic conditions, industry and market conditions and overall financial performance of the Company, among others. The Company completed its annual goodwill impairment test as of September 30, 2012. Based upon its qualitative assessment of goodwill, the Company concluded that goodwill was not impaired and no further quantitative analysis was warranted.

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. Customer relationship premiums represent the intangible value of customer relationships assumed in the purchase acquisition of Beacon and are amortized on an accelerated basis over 12.0 years. Mortgage servicing rights are recorded when purchased or when originated mortgage loans are sold, with servicing rights retained. Mortgage servicing rights are amortized on an accelerated method based upon the estimated lives of the related loans, adjusted for prepayments. Mortgage servicing rights are carried at the lower of amortized cost or fair value.

Bank-owned Life Insurance

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

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Employee Benefit Plans

The Bank maintains a pension plan which covers full-time employees hired prior to April 1, 2003, the date on which the pension plan was frozen. The Bank s policy is to fund at least the minimum contribution required by the Employee Retirement Income Security Act of 1974. GAAP requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan s assets and its obligations that determine its funded status at the end of the employer s fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

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

The Bank has an Employee Stock Ownership Plan (ESOP). The funds borrowed by the ESOP from the Company to purchase the Company s common stock are being repaid from the Bank s contributions and dividends paid on unallocated ESOP shares over a period of up to 30 years. The Company s common stock not allocated to participants is recorded as a reduction of stockholders equity at cost. Compensation expense for the ESOP is based on the average price of the Company s stock during each quarter and the amount of shares allocated during the quarter.

Expense related to stock options is based on the fair value of the options at the date of the grant and is recognized ratably over the vesting period of the options. Expense related to stock awards is based on the fair value of the common stock at the date of the grant and is recognized ratably over the vesting period of the awards.

In connection with the First Sentinel acquisition in July 2004, the Company assumed the First Savings Bank Directors Deferred Fee Plan (the DDFP). The DDFP was frozen prior to the acquisition. The Company recorded a deferred compensation equity instrument and corresponding contra-equity account for the value of the shares held by the DDFP at the July 14, 2004 acquisition date. These accounts will be liquidated as shares are distributed from the DDFP in accordance with the plan document. At December 31, 2012, there were 417,443 shares held by the DDFP.

The Bank maintains a non-qualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the 401(k) Plan s and the ESOP s benefit formulas under tax law limits for tax-qualified plans.

Postretirement Benefits Other Than Pensions

The Bank provides postretirement health care and life insurance plans to certain of its employees. The life insurance coverage is noncontributory to the participant. Participants contribute to the cost of medical coverage based on the employee s length of service with the Bank. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee is fully eligible to receive the benefits. On December 31, 2002, the Bank eliminated postretirement healthcare benefits for employees with less than 10 years of service. GAAP requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan s assets and its obligations that determine

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

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.

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 a separate Consolidated Statement of Comprehensive Income.

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 February 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income , which requires disclosure of the effects of reclassifications out of accumulated other comprehensive income (AOCI) on net income line items only for those items that are reported in their entirety in net income in the period of reclassification. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required U.S. GAAP disclosures. This guidance is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012, and is not expected to have a significant impact on the Company s consolidated financial statements.

Effective March 31, 2012, the Company adopted guidance regarding the presentation of comprehensive income. In June 2011, the FASB issued guidance providing an entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. As originally issued, ASU

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

2011-5 requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). This requirement was deferred by ASU 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards. ASU No. 2011-05 is effective for all interim and annual periods beginning on or after December 15, 2011 with early adoption permitted, and must be applied retrospectively. The Company presented comprehensive income in a separate consolidated statement of comprehensive income for the years ended December 31, 2012, 2011 and 2010.

In May 2011, the FASB issued guidance which results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards. This guidance is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. The Company adopted this guidance effective March 31, 2012, and it did not have a material effect on the Company s consolidated statement of condition or results of operations.

In April 2011, the FASB issued guidance to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments to this guidance remove from the assessment of effective control: (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by this new guidance. Those criteria indicate that the transferor is deemed to have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: (1) the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (2) the agreement is to repurchase or redeem them before maturity, at a fixed or determinable price; and (3) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. This guidance became effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of this guidance did not have a material effect on the Company s consolidated statement of condition or results of operations.

(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.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

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, 2012, the liquidation account, which is an off-balance sheet memorandum account, amounted to $19.9 million.

On August 11, 2011, the Company s wholly owned subsidiary, The Provident Bank, completed its acquisition of Beacon Trust Company, a New Jersey limited purpose trust company, and Beacon Global Asset Management, Inc., an SEC-registered investment advisor incorporated in Delaware (collectively Beacon). Pursuant to the terms of the Stock Purchase Agreement announced on May 19, 2011, Beacon s former parent company, Beacon Financial Corporation may be paid cash consideration in an amount up to $10.5 million, based upon the acquired companies financial performance in the three years following the closing of the transaction. Subsequent to the acquisition, Beacon Global Asset Management was merged with and into Beacon Trust Company.

The purpose of the Beacon acquisition was to significantly expand the Company s wealth management business throughout the state of New Jersey. Beacon s expertise in trust and wealth management services strategically positions the Company to increase market share and enhance the Company s non-interest earnings growth.

The acquisition was accounted for under the acquisition method of accounting. Under this method of accounting, the purchase price was allocated to the acquired assets and liabilities of Beacon based upon their fair value as of August 11, 2011. The fair value estimates were considered preliminary and were subject to change for up to one year after the closing of the transaction as additional information became available. During the quarter ended September 30, 2012, the recorded fair values were finalized. The final allocation of the purchase price is presented in the following table.

Assets:	
Cash and cash equivalents	$ 96
Securities	164
Premises and equipment	241
Goodwill	6,452
Customer relationship intangible	2,423
Other assets	2,050
Total assets	$ 11,426
Liabilities:	
Other liabilities	4,076
Total liabilities	$ 4,076

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

As operating results for Beacon were not significant to the consolidated operating results of the Company, pro forma operating results are not presented herein. The Company s Consolidated Statement of Income for the year ended December 31, 2011 includes 143 days of combined operations with Beacon.

In connection with the Beacon acquisition, the Company recorded goodwill of $6.5 million, none of which is estimated to be deductible for income tax purposes. In addition, a customer relationship intangible (CRI) of $2.4 million was recognized and is being amortized on an accelerated basis over an estimated useful life of twelve years.

(3) Restrictions on Cash and Due from Banks

Included in cash on hand and due from banks at December 31, 2012 and 2011 was $17,726,000 and $6,225,000, respectively, representing reserves required by banking regulations.

(4) Investment Securities Held to Maturity

Investment securities held to maturity at December 31, 2012 and 2011 are summarized as follows (in thousands):

	2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 4,705	34		4,739
Mortgage-backed securities	11,123	460		11,583
State and municipal obligations	336,078	15,332	(585)	350,825
Corporate obligations	7,558	211		7,769
	$ 359,464	16,037	(585)	374,916

	2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 3,647	36		3,683
Mortgage-backed securities	22,321	859		23,180
State and municipal obligations	314,108	16,863	(69)	330,902
Corporate obligations	8,242	296	(7)	8,531
	$ 348,318	18,054	(76)	366,296

The Company generally purchases securities for long-term investment purposes, and differences between carrying and fair values may fluctuate during the investment period. Investment securities held to maturity having a carrying value of $256,399,000 and $276,543,000 at December 31, 2012 and 2011, respectively, were pledged to secure other borrowings, securities sold under repurchase agreements and government deposits.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The amortized cost and fair value of investment securities at December 31, 2012 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	2012	
	Amortized cost	Fair value
Due in one year or less	$ 43,132	43,417
Due after one year through five years	79,979	82,262
Due after five years through ten years	84,155	90,091
Due after ten years	141,075	147,563
Mortgage-backed securities	11,123	11,583
	$ 359,464	374,916

During 2012, the Company recognized gains of $73,000 and no losses related to calls on certain securities in the held to maturity portfolio, with total proceeds from the calls totaling $9,792,000. In the prior year period, the Company recognized gains of $68,000 and losses of $10,000 related to calls on certain securities in the held to maturity portfolio, with proceeds from the calls totaling $29,210,000.

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

	December 31, 2012 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
State and municipal obligations	$ 30,992	(585)			30,992	(585)
Corporate obligations						
	$ 30,992	(585)			30,992	(585)

	December 31, 2011 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
State and municipal obligations	$ 3,868	(63)	316	(6)	4,184	(69)
Corporate obligations	394	(7)			394	(7)
	$ 4,262	(70)	316	(6)	4,578	(76)

Based on its detailed review of the securities portfolio, the Company believes that as of December 31, 2012, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The review of the portfolio for other-than-temporary impairment considers the percentage and length of time the fair value of an investment is below book value as well as general market conditions, changes in interest rates, credit risk, whether the Company has the intent to sell the securities and whether it is not more likely than not that the Company would be required to sell the securities before the anticipated recovery.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The number of securities in an unrealized loss position as of December 31, 2012 totaled 56, compared with 7 at December 31, 2011. All temporarily impaired investment securities were investment grade at December 31, 2012.

(5) Securities Available for Sale

Securities available for sale at December 31, 2012 and 2011 are summarized as follows (in thousands):

	2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 90,443	574		91,017
Mortgage-backed securities	1,134,647	27,934	(256)	1,162,325
State and municipal obligations	9,933	384	(1)	10,316
Equity securities	307	37		344
	$ 1,235,330	28,929	(257)	1,264,002

	2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 105,130	442	(14)	105,558
Mortgage-backed securities	1,221,988	31,206	(2,191)	1,251,003
State and municipal obligations	11,066	553	(5)	11,614
Corporate obligations	7,517	119		7,636
Equity securities	307	1		308
	$ 1,346,008	32,321	(2,210)	1,376,119

Securities available for sale having a carrying value of $597,494,000 and $606,057,000 at December 31, 2012 and 2011, respectively, are pledged to secure other borrowings and securities sold under repurchase agreements.

The amortized cost and fair value of securities available for sale at December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	2012	
	Amortized cost	Fair value
Due in one year or less	$ 37,851	37,956
Due after one year through five years	62,110	62,931

Due after five years through ten years	415	446
Mortgage-backed securities	1,134,647	1,162,325
Equity securities	307	344
	$ 1,235,330	1,264,002

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Proceeds from the sale of securities available for sale during 2012 were $106,768,000, resulting in gross gains of $4,424,000 and no losses. During 2011, the sale of securities available for sale were $24,149,000, resulting in gross gains of $645,000. For the 2011 period, the Company recognized gains of $13,000 and losses of $8,000 related to calls on certain available for sale securities, with proceeds from the calls totaling $584,000.

The following table presents a roll-forward of the credit loss component of other-than-temporary impairment (OTTI) on debt securities for which a non-credit component of OTTI was recognized in other comprehensive income. OTTI recognized in earnings after that date for credit-impaired debt securities is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit impaired (subsequent credit impairment). Changes in the credit loss component of credit-impaired debt securities were as follows (in thousands):

	December 31, 2012	December 31, 2011
Beginning credit loss amount	$ 1,240	938
Add: Initial OTTI credit losses		
Subsequent OTTI credit losses		302
Less: Realized losses for securities sold		
Securities intended or required to be sold		
Increases in expected cash flows on debt securities		
Ending credit loss amount	$ 1,240	1,240

The Company did not incur a net other-than-temporary impairment charge for the year ended December 31, 2012. For the prior year period, the Company recognized in earnings net other-than-temporary impairment charges totaling $302,000, which consisted of a credit-related impairment on an investment in a non-Agency mortgage-backed security. During 2010, the Company recognized in earnings net other-than-temporary impairment charges totaling $170,000, which consisted of a credit-related impairment on an investment in a non-Agency mortgage-backed security. Prior to the charges, any impairment was considered temporary and was recorded as an unrealized loss on securities available for sale and reflected as a reduction of equity, net of tax, through accumulated other comprehensive income.

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

	December 31, 2012 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$ 59,521	(205)	11,012	(51)	70,533	(256)
State and municipal obligations			503	(1)	503	(1)
	$ 59,521	(205)	11,515	(52)	71,036	(257)

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

	December 31, 2011 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$ 64,838	(278)	12,453	(1,913)	77,291	(2,191)
State and municipal obligations	777	(5)			777	(5)
Agency obligations	5,032	(14)			5,032	(14)
	$ 70,647	(297)	12,453	(1,913)	83,100	(2,210)

The temporary loss position associated with debt securities is the result of changes in interest rates relative to the coupon of the individual security and changes in credit spreads. In addition, there remains a lack of liquidity in certain sectors of the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company does not have the intent to sell securities in a temporary loss position at December 31, 2012, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of securities in an unrealized loss position as of December 31, 2012 totaled 9, compared with 17 at December 31, 2011. There were 2 private label mortgage-backed securities in an unrealized loss position at December 31, 2012, with an amortized cost of $898,000 and unrealized losses totaling $8,000. One of these private label mortgage-backed securities was below investment grade at December 31, 2012. The Company held $344,000 and $308,000 in equity securities at December 31, 2012 and 2011, respectively.

The Company estimates the loss projections for each security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the year ended December 31, 2012.

(6) Loans Receivable and Allowance for Loan Losses

Loans receivable at December 31, 2012 and 2011 are summarized as follows (in thousands):

	2012	2011
Mortgage loans:		
Residential	$ 1,265,015	1,308,635
Commercial	1,349,950	1,253,542
Multi-family	723,958	564,147
Construction	120,133	114,817
Total mortgage loans	3,459,056	3,241,141
Commercial loans	866,395	849,009
Consumer loans	579,166	560,970
Total gross loans	4,904,617	4,651,120
Premiums on purchased loans	4,964	5,823

Unearned discounts	(78)	(100)
Net deferred fees	(4,804)	(3,334)
	$ 4,904,699	4,653,509

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Premiums and discounts on purchased loans are amortized over the lives of the loans as an adjustment to yield. Required reductions due to loan prepayments are charged against interest income. For the years ended December 31, 2012, 2011 and 2010, $1,694,000, $1,902,000 and $2,038,000, respectively, was charged to interest income as a result of prepayments and normal amortization.

The following table summarizes the aging of loans receivable by portfolio segment and class as follows (in thousands):

	At December 31, 2012						
	30-59 Days	60-89 Days	Non-accrual	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 days accruing
Mortgage loans							
Residential	$ 15,752	11,986	29,293	57,031	1,207,984	1,265,015	
Commercial	535	12,194	29,072	41,801	1,308,149	1,349,950	
Multi-family			412	412	723,546	723,958	
Construction			8,896	8,896	111,237	120,133	
Total mortgage loans	16,287	24,180	67,673	108,140	3,350,916	3,459,056	
Commercial loans	1,840	70	25,467	27,377	839,018	866,395	
Consumer loans	4,144	1,808	5,850	11,802	567,364	579,166	
Total gross loans	$ 22,271	26,058	98,990	147,319	4,757,298	4,904,617	

	At December 31, 2011						
	30-59 Days	60-89 Days	Non-accrual	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 days accruing
Mortgage loans							
Residential	$ 16,034	7,936	40,386	64,356	1,244,279	1,308,635	
Commercial	939	1,155	29,522	31,616	1,221,926	1,253,542	
Multi-family			997	997	563,150	564,147	
Construction			11,018	11,018	103,799	114,817	
Total mortgage loans	16,973	9,091	81,923	107,987	3,133,154	3,241,141	
Commercial loans	2,472	526	32,093	35,091	813,918	849,009	
Consumer loans	5,276	1,908	8,533	15,717	545,253	560,970	
Total gross loans	$ 24,721	11,525	122,549	158,795	4,492,325	4,651,120	

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The principal amount of these nonaccrual loans was $98,990,000 and $122,549,000 at December 31, 2012 and 2011, respectively. There were no loans ninety days or greater past due and still accruing interest at December 31, 2012, or 2011.

If the nonaccrual loans had performed in accordance with their original terms, interest income would have increased by $3,022,000, $3,496,000 and $4,114,000, for the years ended December 31, 2012, 2011 and 2010, respectively. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2012, 2011 and 2010 was not material for the periods presented.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The Company defines an impaired loan as a non-homogenous loan greater than $1.0 million for which it is probable, based on current information, that the Bank will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings (TDRs). A loan is deemed to be a TDR when a loan modification resulting in a concession is made by the Bank in an effort to mitigate potential loss arising from a borrower s financial difficulty. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans, unless modified as TDRs. The Company separately calculates the reserve for loan loss on impaired loans. The Company may recognize impairment of a loan based upon (1) the present value of expected cash flows discounted at the effective interest rate; or (2) if a loan is collateral dependent, the fair value of collateral; or (3) the market price of the loan. Additionally, if impaired loans have risk characteristics in common, those loans may be aggregated and historical statistics may be used as a means of measuring those impaired loans.

The Company uses third-party appraisals to determine the fair value of the underlying collateral in its analyses of collateral dependent impaired loans. A third party appraisal is generally ordered as soon as a loan is designated as a collateral dependent impaired loan and updated annually, or more frequently if required.

A specific allocation of the allowance for loan losses is established for each impaired loan with a carrying balance greater than the collateral s fair value, less estimated costs to sell. Charge-offs are generally taken for the amount of the specific allocation when operations associated with the respective property cease and it is determined that collection of amounts due will be derived primarily from the disposition of the collateral. At each fiscal quarter end, if a loan is designated as a collateral dependent impaired loan and the third party appraisal has not yet been received, an evaluation of all available collateral is made using the best information available at the time, including rent rolls, borrower financial statements and tax returns, prior appraisals, management s knowledge of the market and collateral, and internally prepared collateral valuations based upon market assumptions regarding vacancy and capitalization rates, each as and where applicable. Once the appraisal is received and reviewed, the specific reserves are adjusted to reflect the appraised value. The Company believes there have been no significant time lapses as a result of this process.

At December 31, 2012, there were 108 impaired loans totaling $109.6 million. Included in this total were 80 TDRs related to 70 borrowers totaling $58.4 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2012. At December 31, 2011, there were 65 impaired loans totaling $103.2 million, of which 48 loans totaling $63.1 million were TDRs. Included in this total were 38 TDRs related to 36 borrowers totaling $38.9 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2011.

Loans receivable summarized by portfolio segment and impairment method are as follows (in thousands):

	At December 31, 2012			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$ 78,525	29,807	1,298	109,630
Collectively evaluated for impairment	3,380,531	836,588	577,868	4,794,987
Total gross loans	$ 3,459,056	866,395	579,166	4,904,617

88

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

	At December 31, 2011			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$ 76,275	26,974		103,249
Collectively evaluated for impairment	3,164,866	822,035	560,970	4,547,871
Total gross loans	$ 3,241,141	849,009	560,970	4,651,120

The allowance for loan losses is summarized by portfolio segment and impairment classification as follows (in thousands)

	At December 31, 2012					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	$ 5,172	1,949	90	7,211		7,211
Collectively evaluated for impairment	32,790	18,366	5,134	56,290	6,847	63,137
Total	$ 37,962	20,315	5,224	63,501	6,847	70,348

	At December 31, 2011					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	$ 5,360	3,966		9,326		9,326
Collectively evaluated for impairment	34,083	21,415	5,515	61,013	4,012	65,025
Total	$ 39,443	25,381	5,515	70,339	4,012	74,351

Loan modifications to customers experiencing financial difficulties that are considered TDRs primarily involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications generally do not result in the forgiveness of principal or accrued interest. In addition, the Company attempts to obtain additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

In the third quarter of 2011, the Company adopted new accounting guidance issued by the FASB, and reassessed all restructurings that occurred between January 1, 2011 and September 30, 2011 for identification as TDRs. As a result of this reassessment, the Company identified an additional five loan relationships totaling $10.8 million as TDRs, $9.2 million of which had been previously identified as non-accrual impaired loans.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The following tables present the number of loans modified as TDRs during the years ended December 31, 2012 and 2011 and their balances immediately prior to the modification date and post-modification as of December 31, 2012 and 2011.

	Year Ended December 31, 2012		
Troubled Debt Restructurings	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
		($ in thousands)	
Mortgage loans:			
Residential	35	$ 11,469	10,110
Commercial	1	276	276
Total mortgage loans	36	11,745	10,386
Commercial loans	10	14,474	13,542
Consumer loans	5	879	793
Total restructured loans	51	$ 27,098	24,721

	Year Ended December 31, 2011		
Troubled Debt Restructurings	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
		($ in thousands)	
Mortgage loans:			
Residential	28	$ 10,652	10,351
Commercial	4	41,379	41,464
Total mortgage loans	32	52,031	51,815
Commercial loans	7	9,677	9,570
Consumer loans	4	571	575
Total restructured loans	43	$ 62,279	61,960

All TDRs are impaired loans, which are individually evaluated for impairment, as previously discussed. Estimated collateral values of collateral dependent impaired loans modified during the years ended December 31, 2012 and 2011 exceeded the carrying amounts of such loans. As a result, there were no charge-offs recorded on collateral dependent impaired loans presented in the preceding tables for the year ended December 31, 2012. There was one subsequent charge-off of $748,000 recorded in 2012 on a collateral dependent impaired loan presented in the preceding tables for the year ended December 31, 2011. The allowance for loan losses associated with the TDRs presented in the preceding tables totaled $2.0 million and $5.5 million at December 31, 2012 and 2011, respectively and were included in the allowance for loan losses for loans individually evaluated for impairment.

The TDRs presented in the preceding tables had a weighted average modified interest rate of approximately 4.81% and 4.58%, compared to a yield of 5.89% and 5.65% prior to modification for the years ended December 31, 2012 and 2011, respectively.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The following table presents loans modified as TDRs within the previous 12 months from December 31, 2012 and 2011, and for which there was a payment default (90 days or more past due) during the years ended December 31, 2012 and 2011:

Troubled Debt Restructurings Subsequently Defaulted	**Year Ended December 31, 2012**		**Year Ended December 31, 2011**	
	Number of Loans	**Outstanding Recorded Investment ($ in thousands)**	**Number of Loans**	**Outstanding Recorded Investment ($ in thousands)**
Mortgage loans:				
Residential	1	$ 121	4	$ 795
Commercial				
Multi-family				
Construction				
Total mortgage loans	1	121	4	795
Commercial loans				
Consumer loans	1	52		
Total restructured loans	2	173	4	795

TDRs that subsequently default are considered collateral dependent impaired loans and are evaluated for impairment based on the estimated fair value of the underlying collateral less expected selling costs.

The activity in the allowance for loan losses for the years ended December 31, 2012, 2011 and 2010 is as follows (in thousands):

	Years Ended December 31,		
	2012	**2011**	**2010**
Balance at beginning of period	$ 74,351	68,722	60,744
Provision charged to operations	16,000	28,900	35,500
Recoveries of loans previously charged off	3,904	1,782	1,945
Loans charged off	(23,907)	(25,053)	(29,467)
Balance at end of period	$ 70,348	74,351	68,722

The activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	For the Year Ended December 31, 2012					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Balance at beginning of period	$ 39,443	25,381	5,515	70,339	4,012	74,351
Provision charged to operations	6,489	4,422	2,254	13,165	2,835	16,000
Recoveries of loans previously charged off	162	2,771	971	3,904		3,904
Loans charged off	(8,132)	(12,259)	(3,516)	(23,907)		(23,907)
Balance at end of period	$ 37,962	20,315	5,224	63,501	6,847	70,348

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

	Year ended December 31, 2011					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Balance at beginning of period	$ 38,416	22,210	5,616	66,242	2,480	68,722
Provision charged to operations	9,571	10,786	7,011	27,368	1,532	28,900
Recoveries of loans previously charged off	216	1,019	547	1,782		1,782
Loans charged off	(8,760)	(8,634)	(7,659)	(25,053)		(25,053)
Balance at end of period	$ 39,443	25,381	5,515	70,339	4,012	74,351

Impaired loans receivable by class are summarized as follows (in thousands):

	At December 31, 2012					At December 31, 2011				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance										
Mortgage loans:										
Residential	$ 7,241	5,309		5,395	155	$ 3,341	2,793		3,285	51
Commercial	17,656	14,104		16,579	82	8,432	7,521		7,915	146
Multi-family										
Construction	9,810	8,896		9,738		11,410	11,018		11,254	258
Total	34,707	28,309		31,712	237	23,183	21,332		22,454	455
Commercial loans	7,252	6,117		7,064	53	4,982	4,651		6,222	259
Consumer loans	84	58		71	2					
Total loans	$ 42,043	34,484		38,847	292	$ 28,165	25,983		28,676	714
Loans with an allowance recorded										
Mortgage loans:										
Residential	$ 14,139	13,133	1,805	13,206	378	$ 7,681	7,442	1,056	7,644	187
Commercial	37,739	37,083	3,367	37,490	990	47,531	47,501	4,304	48,102	1,067
Multi-family										
Construction										
Total	51,878	50,216	5,172	50,696	1,368	55,212	54,943	5,360	55,746	1,254
Commercial loans	24,545	23,690	1,949	24,777	689	26,504	22,323	3,966	23,637	37
Consumer loans	1,277	1,240	90	1,291	46					
Total loans	$ 77,700	75,146	7,211	76,764	2,103	$ 81,716	77,266	9,326	79,383	1,291
Total										

Mortgage loans:										
Residential	$ 21,380	18,442	1,805	18,601	533	$ 11,022	10,235	1,056	10,929	238
Commercial	55,395	51,187	3,367	54,069	1,072	55,963	55,022	4,304	56,017	1,213
Multi-family										
Construction	9,810	8,896		9,738		11,410	11,018		11,254	258
Total	86,585	78,525	5,172	82,408	1,605	78,395	76,275	5,360	78,200	1,709
Commercial loans	31,797	29,807	1,949	31,841	742	31,486	26,974	3,966	29,859	296
Consumer loans	1,361	1,298	90	1,362	48					
Total loans	$ 119,743	109,630	7,211	115,611	2,395	$ 109,881	103,249	9,326	108,059	2,005

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

At December 31, 2012, impaired loans consisted of 108 residential, commercial and commercial mortgage loans totaling $109,630,000, of which 14 loans totaling $25,674,000, were included in nonaccrual loans. At December 31, 2011, impaired loans consisted of 65 residential, commercial and commercial mortgage loans totaling $103,249,000, of which 10 loans totaling $24,262,000, were included in nonaccrual loans. Specific allocations of the allowance for loan losses attributable to impaired loans totaled $7,211,000 and $9,326,000 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, impaired loans for which there was no related allowance for loan losses totaled $34,484,000 and $25,983,000, respectively. The average balances of impaired loans during the years ended December 31, 2012, 2011 and 2010 were $115,611,000, $108,059,000 and $42,654,000, respectively.

In the normal course of conducting its business, the Bank extends credit to meet the financing needs of its customers through commitments. Commitments and contingent liabilities, such as commitments to extend credit (including loan commitments of $601,914,000 and $497,219,000, at December 31, 2012 and 2011, respectively, and undisbursed home equity and personal credit lines of $267,078,000 and $273,170,000, at December 31, 2012 and 2011, respectively), exist, which are not reflected in the accompanying consolidated financial statements. These instruments involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. The Bank uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance sheet loans. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management s credit evaluation of the borrower.

The Bank grants residential real estate loans on single- and multi-family dwellings to borrowers primarily in New Jersey. Its borrowers abilities to repay their obligations are dependent upon various factors, including the borrowers income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral, and priority of the Bank s lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Bank s control; the Bank is therefore subject to risk of loss. The Bank believes that its lending policies and procedures adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks. Collateral and/or guarantees are required for virtually all loans.

The Company utilizes an internal nine-point risk rating system to summarize its loan portfolio into categories with similar risk characteristics. 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 also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports by the independent third party are presented directly to the Audit Committee of the Board of Directors.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Loans receivable by credit quality risk rating indicator are as follows (in thousands):

	At December 31, 2012							
	Residential	Commercial mortgages	Multi-family	Construction	Total mortgages	Commercial loans	Consumer loans	Total loans
Special mention	$ 11,986	14,816			26,802	17,076	1,808	45,686
Substandard	29,293	79,235	412	13,642	122,582	54,200	5,666	182,448
Doubtful						464		464
Loss								
Total classified and criticized	41,279	94,051	412	13,642	149,384	71,740	7,474	228,598
Acceptable/watch	1,223,736	1,255,899	723,546	106,491	3,309,672	794,655	571,692	4,676,019
Total outstanding loans	$ 1,265,015	1,349,950	723,958	120,133	3,459,056	866,395	579,166	4,904,617

	At December 31, 2011							
	Residential	Commercial mortgages	Multi-family	Construction	Total mortgages	Commercial loans	Consumer loans	Total loans
Special mention	$ 7,980	27,773	12,193	10,699	58,645	14,498	1,908	75,051
Substandard	40,386	82,428	8,534	18,643	149,991	73,793	8,533	232,317
Doubtful								
Loss								
Total classified and criticized	48,366	110,201	20,727	29,342	208,636	88,291	10,441	307,368
Acceptable/watch	1,260,269	1,143,341	543,420	85,475	3,032,505	760,718	550,529	4,343,752
Total outstanding loans	$ 1,308,635	1,253,542	564,147	114,817	3,241,141	849,009	560,970	4,651,120

(7) Banking Premises and Equipment

A summary of banking premises and equipment at December 31, 2012 and 2011 is as follows (in thousands):

	2012	2011
Land	$ 13,961	14,073
Banking premises	61,092	58,699
Furniture, fixtures and equipment	43,314	45,431
Leasehold improvements	26,791	26,759
Construction in progress	3,427	2,973
	148,585	147,935

Less accumulated depreciation and amortization	82,465	81,675
	$ 66,120	66,260

Depreciation expense for the years ended December 31, 2012, 2011 and 2010 amounted to $6,929,000, $6,698,000, and $6,917,000, respectively.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

(8) Intangible Assets

Intangible assets at December 31, 2012 and 2011 are summarized as follows (in thousands):

	2012	2011
Goodwill	$ 352,609	353,277
Core deposit premiums	2,061	3,759
Customer relationship intangible	1,898	2,265
Mortgage servicing rights	1,339	1,413
	$ 357,907	360,714

Amortization expense of intangible assets for the years ended December 31, 2012, 2011 and 2010 is as follows (in thousands):

	2012	2011	2010
Core deposit premiums	$ 1,698	2,550	3,552
Customer relationship intangible	367	158	
Mortgage servicing rights	401	322	279
	$ 2,466	3,030	3,831

Scheduled amortization of core deposit and customer relationship intangibles for each of the next five years is as follows (in thousands):

Year ended December 31,	
2013	$ 1,224
2014	929
2015	662
2016	318
2017	205

(9) Deposits

Deposits at December 31, 2012 and 2011 are summarized as follows (in thousands):

	2012	Weighted average interest rate	2011	Weighted average interest rate
Savings deposits	$ 914,787	0.15%	$ 891,742	0.22%
Money market accounts	1,357,046	0.27	1,319,392	0.35

NOW accounts	1,334,813	0.35	1,120,985	0.64
Non-interest bearing deposits	864,152		695,752	
Certificates of deposit	957,473	1.23	1,128,726	1.43
	$ 5,428,271		$ 5,156,597	

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Scheduled maturities of certificates of deposit accounts at December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Within one year	$ 624,461	755,141
One to three years	250,325	253,158
Three to five years	81,510	119,506
Five years and thereafter	1,177	921
	$ 957,473	1,128,726

Interest expense on deposits for the years ended December 31, 2012, 2011 and 2010 is summarized as follows (in thousands):

	Years ended December 31,		
	2012	2011	2010
Savings deposits	$ 1,449	2,971	4,061
NOW and money market accounts	10,292	15,168	18,369
Certificates of deposits	13,607	18,413	25,275
	$ 25,348	36,552	47,705

(10) Borrowed Funds

Borrowed funds at December 31, 2012 and 2011 are summarized as follows (in thousands):

	2012	2011
Securities sold under repurchase agreements	$ 295,616	361,833
FHLB line of credit		30,000
FHLB advances	507,648	518,347
Federal funds purchased		10,000
	$ 803,264	920,180

FHLB advances are at fixed rates and mature between February 2013 and November 2018. These advances are secured by loans receivable and investment securities under a blanket collateral agreement.

Scheduled maturities of FHLB advances at December 31, 2012 are as follows (in thousands):

	2012
Due in one year or less	$ 32,515
Due after one year through two years	132,770
Due after two years through three years	179,299
Due after three years through four years	102,850
Due after four years through five years	60,000
Thereafter	214
	$ 507,648

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Scheduled maturities of securities sold under repurchase agreements at December 31, 2012 are as follows (in thousands):

	2012
Due in one year or less	$ 125,616
Due after one year through two years	
Due after two years through three years	15,000
Due after three years through four years	75,000
Due after four years through five years	25,000
Thereafter	55,000
	$ 295,616

The following tables set forth certain information as to Borrowed Funds for the years ended December 31, 2012 and 2011 (in thousands):

	Maximum balance	Average balance	Weighted average interest rate
2012:			
Securities sold under repurchase agreements	$ 357,164	319,031	2.04%
FHLB line of credit	178,000	29,004	0.39
FHLB advances	518,215	516,440	2.51
Federal funds purchased		253	1.00
2011:			
Securities sold under repurchase agreements	$ 366,460	338,839	2.18%
FHLB line of credit	64,000	9,918	0.47
FHLB advances	585,234	560,420	2.81
Federal funds purchased	10,000	353	0.50

Securities sold under repurchase agreements include wholesale borrowing arrangements, as well as arrangements with deposit customers of the Bank to sweep funds into short-term borrowings. The Bank uses securities available for sale to pledge as collateral for the repurchase agreements.

(11) Benefit Plans

Pension and Post-retirement Benefits

The Bank has a noncontributory defined benefit pension plan covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The pension plan was frozen on April 1, 2003. All participants in the pension plan are 100% vested. The pension plan s assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial. Based on the measurement date of December 31, 2012, management believes that no contributions will be made to the pension plan in 2013.

In addition to pension benefits, certain healthcare and life insurance benefits are currently made available to certain of the Bank s retired employees. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee is fully eligible to receive the benefits. Effective January 1, 2003,

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

eligibility for retiree health care benefits was frozen as to new entrants and benefits were eliminated for employees with less than ten years of service as of December 31, 2002. Effective January 1, 2007, eligibility for retiree life insurance benefits was frozen to new entrants and retiree life insurance benefits were eliminated for employees with less than ten years of service as of December 31, 2006.

The following table sets forth information regarding the pension plan and post-retirement healthcare and life insurance plans (in thousands):

	Pension			Post-retirement		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 28,277	21,210	18,942	23,327	17,556	16,503
Service cost				252	177	133
Interest cost	1,287	1,252	1,137	1,043	1,020	924
Actuarial loss (gain)	779	1,924	337	231	1,348	(771)
Benefits paid	(891)	(822)	(686)	(634)	(662)	(458)
Change in actuarial assumptions	2,737	4,713	1,480	897	3,888	1,225
Benefit obligation at end of year	$ 32,189	28,277	21,210	25,116	23,327	17,556
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 32,666	28,416	21,935			
Actual return on plan assets	4,184	218	2,083			
Employer contributions	4,113	4,854	5,084	634	662	458
Benefits paid	(891)	(822)	(686)	(634)	(662)	(458)
Fair value of plan assets at end of year	$ 40,072	32,666	28,416			
Funded status at end of year	$ 7,883	4,389	7,206	(25,116)	(23,327)	(17,556)

The prepaid pension benefits of $7.9 million and the unfunded post-retirement healthcare and life insurance benefits of $25.1 million at December 31, 2012 are included in other assets and other liabilities, respectively, in the consolidated statement of financial condition.

The components of accumulated other comprehensive loss (gain) related to the pension plan and other post-retirement benefits, on a pre-tax basis, at December 31, 2012 and 2011 are summarized in the following table (in thousands):

	Pension		Post-retirement	
	2012	**2011**	**2012**	**2011**
Unrecognized prior service cost	$		(9)	(13)
Unrecognized net actuarial gain	15,871	15,371	(434)	(1,550)
Total accumulated other comprehensive loss (gain)	$ 15,871	15,371	(443)	(1,563)

98

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Net periodic benefit cost (increase) for the years ending December 31, 2012, 2011 and 2010, included the following components (in thousands):

	Pension			Post-retirement		
	2012	2011	2010	2012	2011	2010
Service cost	$			252	177	133
Interest cost	1,287	1,252	1,137	1,043	1,020	924
Return on plan assets	(2,578)	(2,244)	(2,083)			
Amortization of:						
Net gain (loss)	1,428	721	830	12	(454)	(801)
Unrecognized prior service cost				(4)	(4)	(4)
Unrecognized remaining assets						
Net periodic benefit cost (increase)	$ 137	(271)	(116)	1,303	739	252

The weighted average actuarial assumptions used in the plan determinations at December 31, 2012, 2011 and 2010 were as follows:

	Pension			Post-retirement		
	2012	2011	2010	2012	2011	2010
Discount rate	4.00%	4.50%	5.50%	4.00%	4.50%	5.50%
Rate of compensation increase						
Expected return on plan assets	8.00	8.00	8.00			
Medical and life insurance benefits cost rate of increase				6.50	7.00	7.50

The Company provides its actuary with certain rate assumptions used in measuring the benefit obligation. The most significant of these is the discount rate used to calculate the period-end present value of the benefit obligations, and the expense to be included in the following year s financial statements. A lower discount rate will result in a higher benefit obligation and expense, while a higher discount rate will result in a lower benefit obligation and expense. The discount rate assumption was determined based on a cash flow-yield curve model specific to the Company s pension and post-retirement plans. The Company compares this rate to certain market indices, such as long-term treasury bonds, or the Citigroup pension liability indices, for reasonableness. A discount rate of 4.00% was selected for the December 31, 2012 measurement date and the 2012 expense calculation.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A 1% change in the assumed health care cost trend rate would have had the following effects on post-retirement benefits at December 31, 2012 (in thousands):

	1% increase	1% decrease
Effect on total service cost and interest cost	$ 260	(200)
Effect on post-retirement benefits obligation	4,120	(3,280)

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Estimated future benefit payments, which reflect expected future service, as appropriate for the next five years, are as follows (in thousands):

	Pension	Post-retirement
2013	$ 932,000	$ 787,000
2014	977,000	809,000
2015	1,003,000	831,000
2016	1,065,000	863,000
2017	1,112,000	905,000

The weighted-average asset allocation of pension plan assets at December 31, 2012 and 2011 were as follows:

Asset Category	2012	2011
Domestic equities	44%	46%
Foreign equities	14%	14%
Fixed income	40%	40%
Real estate	2%	0%
Cash	0%	0%
Total	100%	100%

The Company s expected return on pension plan assets assumption is based on historical investment return experience and evaluation of input from the Investment Consultant and Committee managing the pension plan s assets. The expected return on pension plan assets is also impacted by the target allocation of assets, which is based on the Company s goal of earning the highest rate of return while maintaining risk at acceptable levels.

Management strives to have pension plan assets sufficiently diversified so that adverse or unexpected results from one security class will not have a significant detrimental impact on the entire portfolio. The target allocation of assets and acceptable ranges around the targets are as follows:

Asset Category	Target	Allowable Range
Domestic equities	44%	35-55%
Foreign equities	14%	5-25%
Fixed income	40%	30-50%
Real estate	2%	0-10%
Cash	0%	0-35%
Total	100%	

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The following tables present the assets that are measured at fair value on a recurring basis by level within the U.S. GAAP fair value hierarchy as reported on the statements of net assets available for Plan benefits at December 31, 2012 and 2011, respectively. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair value measurements at December 31, 2012			
(in thousands)	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Group annuity contracts	$ 182		182	
Mutual funds:				
Fixed income	8,307	8,307		
International equity	5,599	5,599		
Large U.S. equity	1,569	1,569		
Small/Mid U.S. equity	1,609	1,609		
Total mutual funds	17,084	17,084		
Pooled separate accounts:				
Fixed income	7,756		7,756	
Large U.S. equity	12,652		12,652	
Small/Mid U.S. equity	2,398		2,398	
Total pooled separate accounts	22,806		22,806	
Total investments	$ 40,072	17,084	22,988	

	Fair value measurements at December 31, 2011			
(in thousands)	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Group annuity contracts	$ 195		195	
Mutual funds:				
Fixed income	6,793	6,793		
International equity	4,543	4,543		
Large U.S. equity	1,288	1,288		
Small/Mid U.S. equity	1,296	1,296		
Total mutual funds	13,920	13,920		
Pooled separate accounts:				
Fixed income	6,302		6,302	
Large U.S. equity	10,313		10,313	
Small/Mid U.S. equity	1,936		1,936	
Total pooled separate accounts	18,551		18,551	
Total investments	$ 32,666	13,920	18,746	

The Company anticipates that the long-term asset allocation on average will approximate the targeted allocation. Actual asset allocations are the result of investment decisions by a third party investment manager.

401(k) Plan

The Bank has a 401(k) plan covering substantially all employees of the Bank. For 2012, 2011 and 2010, the Bank matched 25% of the first 6% contributed by the participants. The contribution percentage is determined by the Board of Directors in its sole discretion. The Bank s aggregate contributions to the 401(k) Plan for 2012, 2011 and 2010 were $601,000, $511,000 and $493,000, respectively.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Supplemental Executive Retirement Plan

The Bank maintains a non-qualified supplemental retirement plan for certain senior officers of the Bank. This plan was frozen as of April 1, 2003. The Supplemental Executive Retirement Plan, which is unfunded, provides benefits in excess of the benefits permitted to be paid by the pension plan under provisions of the tax law. Amounts expensed under this supplemental retirement plan amounted to $169,000, $173,000 and $173,000 for the years 2012, 2011 and 2010, respectively. At December 31, 2012 and 2011, $2,190,000 and $2,165,000, respectively, were recorded in other liabilities on the consolidated statements of condition for this supplemental retirement plan. A decrease of $49,000, an increase of $117,000, and a decrease of $9,000, net of tax, were recorded in other comprehensive income for 2012, 2011 and 2010, respectively, in connection with this supplemental retirement plan.

Retirement Plan for the Board of Directors of The Provident Bank

The Bank maintains a Retirement Plan for the Board of Directors of the Bank, a non-qualified plan that provides cash payments for up to ten years to eligible retired board members based on age and length of service requirements. The maximum payment under this plan to a board member, who terminates service on or after the age of 72 with at least ten years of service on the board, is forty quarterly payments of $1,250. The Bank may suspend payments under this plan if it does not meet Federal Deposit Insurance Corporation or New Jersey Department of Banking and Insurance minimum capital requirements. The Bank may terminate this plan at any time although such termination may not reduce or eliminate any benefit previously accrued to a board member without his or her consent.

The plan further provides that, in the event of a change in control (as defined in the plan), the undistributed balance of a director s accrued benefit will be distributed to him or her within 60 days of the change in control. The Bank paid $15,000 to former board members under this plan for each of the years ended December 31, 2012, 2011 and 2010. At December 31, 2012 and 2011, $195,000 and $211,000, respectively, were recorded in other liabilities on the consolidated statements of financial condition for this retirement plan. An increase of $3,000, an increase of $13,000, and a decrease of $14,000, net of tax, were recorded in other comprehensive income for 2012, 2011 and 2010, respectively, in connection with this plan.

The plan was amended in December 2005 to terminate benefits under this plan for any directors who had less than ten years of service on the board of directors of the Bank as of December 31, 2006.

Employee Stock Ownership Plan

The ESOP is a tax-qualified plan designed to invest primarily in the Company s common stock that provides employees with the opportunity to receive a funded retirement benefit from the Bank, based primarily on the value of the Company s common stock. The ESOP purchased 4,769,464 shares of the Company s common stock at an average price of $17.09 per share with the proceeds of a loan from the Company to the ESOP. The outstanding loan principal at December 31, 2012, was $59.8 million. Shares of the Company s common stock pledged as collateral for the loan are released from the pledge for allocation to participants as loan payments are made.

For the ESOP years ending December 31, 2012 and 2011, 197,653 shares and 183,024 shares were released, respectively. Unallocated ESOP shares held in suspense totaled 3,048,623 at December 31, 2012, and had a fair value of $45.5 million. ESOP compensation expense for the years ended December 31, 2012, 2011 and 2010 was $2,030,000, $1,926,000 and $1,840,000, respectively.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The Supplemental Executive Savings Plan

The Supplemental Executive Savings Plan is a non-qualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the 401(k) Plan s and the ESOP s benefit formulas under tax law limits for tax-qualified plans. The Supplemental Executive Savings Plan was frozen effective December 31, 2003, and all benefit distributions have been made.

Non-Qualified Supplemental Defined Contribution Plan (the Supplemental Employee Stock Ownership Plan)

Effective January 1, 2004, the Bank established a deferred compensation plan for executive management and key employees of the Bank, known as The Provident Bank Non-Qualified Supplemental Employee Stock Ownership Plan (the Supplemental ESOP). The Supplemental ESOP was amended and restated as the Non-Qualified Supplemental Defined Contribution Plan (the Supplemental DC Plan), effective January 1, 2010. The Supplemental DC Plan is a non-qualified plan that provides additional benefits to certain executives whose benefits under the 401(k) Plan and ESOP are limited by tax law limitations applicable to tax-qualified plans. The Supplemental DC Plan requires a contribution by the Bank for each participant who also participates in the 401(k) Plan and ESOP equal to the amount that would have been contributed under the terms of the of the 401(k) Plan and ESOP but for the tax law limitations, less the amount actually contributed under the 401(k) Plan and ESOP.

The Supplemental DC Plan provides for a phantom stock allocation for qualified contributions that may not be accrued in the qualified ESOP and for matching contributions that may not be accrued in the qualified 401(k) Plan due to tax law limitations. Under the Supplemental 401(k) provision, the estimated expense for the year ending December 31, 2012, 2011 and 2010 was $7,500, $6,000 and $5,000, respectively, and included the matching contributions plus interest credited at an annual rate equal to the ten-year bond-equivalent yield on US Treasury securities. Under the Supplemental ESOP provision, the estimated expense for the year ending December 31, 2012, 2011and 2010 was $28,000, $24,000 and $17,000, respectively. The phantom equity is treated as equity awards (expensed at the time of allocation) and not liability awards which would require periodic adjustment to market, as participants do not have an option to take their distribution in cash.

2008 Long-Term Equity Incentive Plan

Upon stockholders approval of the 2008 Long-Term Equity Incentive Plan on April 23, 2008, shares available for stock awards and stock options under the 2003 Stock Award Plan and the 2003 Stock Option Plan were reserved for issuance under the new 2008 Long-Term Equity Incentive Plan. No additional grants of stock awards and stock options will be made under the 2003 Stock Award Plan and the 2003 Stock Option Plan. The new plan authorized the issuance of up to 2,481,382 shares of Company common stock with no more than 1,850,000 shares permitted to be issued as stock awards. Shares previously awarded under the 2003 plans that are subsequently forfeited or expire may also be issued under the new plan.

Stock Awards

As a general rule, restricted stock grants are held in escrow for the benefit of the award recipient until vested. Awards outstanding generally vest in three or five annual installments, commencing one year from the date of the award. Additionally, certain awards are three-year performance vesting awards, which may or may not vest depending upon the attainment of certain corporate financial targets. Expense attributable to stock awards amounted to $3,658,000, $3,169,000 and $2,422,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

A summary status of the granted but unvested stock awards as of December 31, and changes during the year, is presented below:

	Restricted Stock Awards		
	2012	**2011**	**2010**
Outstanding at beginning of year	904,411	728,015	549,693
Granted	407,309	340,206	321,668
Forfeited	(220,590)	(11,866)	(16,909)
Vested	(210,448)	(151,944)	(126,437)
Outstanding at the end of year	880,682	904,411	728,015

As of December 31, 2012, unrecognized compensation cost relating to unvested restricted stock totaled $3.2 million. This amount will be recognized over a remaining weighted average period of 1.6 years.

Stock Options

Each stock option granted entitles the holder to purchase one share of the Company s common stock at an exercise price not less than the fair value of a share of the Company s common stock at the date of grant. Options generally vest over a five-year period from the date of grant and expire no later than 10 years following the grant date. Additionally, certain options are three-year performance vesting options, which may or may not vest depending upon the attainment of certain corporate financial targets.

A summary of the status of the granted but unexercised stock options as of December 31, and changes during the year is presented below:

	2012		**2011**		**2010**	
	Number of stock options	**Weighted average exercise price**	**Number of stock options**	**Weighted average exercise price**	**Number of stock options**	**Weighted average exercise price**
Outstanding at beginning of year	4,248,898	$ 17.37	4,178,764	$ 17.42	4,101,499	$ 17.81
Granted	93,802	14.86	83,422	14.50	213,782	10.34
Exercised	(2,000)	12.54	(500)	12.54	(4,174)	12.45
Forfeited	(109,655)	10.41	(2,847)	12.65	(3,047)	13.26
Expired	(65,308)	18.32	(9,941)	15.85	(129,296)	18.51
Outstanding at the end of year	4,165,737	$ 17.49	4,248,898	$ 17.37	4,178,764	$ 17.42

The total fair value of options vesting during 2012, 2011 and 2010 was $551,000, $590,000 and $636,000, respectively.

Compensation expense of approximately $223,000, $110,000 and $66,000 is projected for 2013, 2014 and 2015, respectively, on stock options outstanding at December 31, 2012.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The following table summarizes information about stock options outstanding at December 31, 2012:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of options outstanding	Average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$10.27-15.14	662,117	6.9 years	$ 12.08	220,676	$ 11.95
$17.43-19.22	3,503,620	1.0 years	$ 18.49	3,503,620	$ 18.49

The stock options outstanding and stock options exercisable at December 31, 2012 have an aggregate intrinsic value of $1,881,000 and $659,000, respectively.

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.

Compensation expense related to the Company s stock option plan totaled $452,000, $751,000 and $826,000 for 2012, 2011 and 2010, respectively.

The estimated fair values were determined on the dates of grant using the Black-Scholes Option pricing model. The fair value of the Company stock option awards are expensed on a straight-line basis over the vesting period of the stock option. The risk-free rate is based on the implied yield on a U.S. Treasury bond with a term approximating the expected term of the option. The expected volatility computation is based on historical volatility over a period approximating the expected term of the option. The dividend yield is based on the annual dividend payment per share, divided by the grant date stock price. The expected option term is a function of the option life and the vesting period.

The fair value of the option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the year ended December 31,		
	2012	2011	2010
Expected dividend yield	3.26%	3.03%	4.26%
Expected volatility	32.51%	32.20%	40.78%
Risk-free interest rate	0.86%	2.16%	2.40%
Expected option life	8 years	8 years	8 years

The weighted average fair value of options granted during 2012, 2011 and 2010 was $3.37, $3.74 and $2.91 per option, respectively.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

(12) Income Taxes

The current and deferred amounts of income tax expense (benefit) for the years ended December 31, 2012, 2011 and 2010 are as follows (in thousands):

	Years ended December 31, 2012	2011	2010
Current:			
Federal	$ 29,813	23,423	20,124
State	176	181	179
Total current	29,989	23,604	20,303
Deferred:			
Federal	(3,208)	(2,203)	(3,299)
State	2,074	(1,559)	(440)
Total deferred	(1,134)	(3,762)	(3,739)
	$ 28,855	19,842	16,564

The Bank recorded, in accumulated other comprehensive income, deferred tax (benefit) expense of ($587,000), $2,065,000 and $5,751,000 during 2012, 2011 and 2010, respectively, to reflect the tax effect of the unrealized gain on securities available for sale. The Bank recorded, in accumulated other comprehensive income, a deferred tax benefit of $694,000, $5,666,000 and $900,000 in 2012, 2011 and 2010, respectively, related to the amortization of post-retirement obligations.

A reconciliation between the amount of reported total income tax expense and the amount computed by multiplying the applicable statutory income tax rate is as follows (in thousands):

	Years ended December 31, 2012	2011	2010
Tax expense at statutory rate of 35%	$ 33,643	27,015	23,195
Increase (decrease) in taxes resulting from:			
State tax, net of federal income tax benefit	1,462	(896)	(170)
Tax-exempt interest income	(3,937)	(3,821)	(3,811)
Change in valuation reserve			
Bank-owned life insurance	(1,847)	(1,835)	(2,082)
Other, net	(466)	(621)	(568)
	$ 28,855	19,842	16,564

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

The net deferred tax asset is included in other assets in the consolidated statements of financial condition. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 28,165	30,100
Post-retirement benefit	10,442	10,168
Deferred compensation	3,024	3,010
Intangibles	645	769
Depreciation	881	388
SERP	930	885
ESOP	3,130	2,990
Stock-based compensation	8,275	7,449
Non-accrual interest	8,818	6,679
State AMA	88	849
State NOL	237	715
Pension liability adjustments	6,406	5,711
Other	3,894	2,604
Total gross deferred tax assets	74,935	72,317
Valuation Reserve	(242)	(246)
Deferred tax liabilities:		
Pension expense	9,704	8,080
Deferred loan costs	3,354	3,344
Investment securities, principally due to accretion of discounts	225	264
Purchase accounting adjustments	45	802
Originated mortgage servicing rights	506	553
Unrealized gain on securities	11,712	12,300
Total gross deferred tax liabilities	25,546	25,343
Net deferred tax asset	$ 49,147	46,728

Retained earnings at December 31, 2012 includes approximately $51,800,000 for which no provision for income tax has 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 the failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to stockholders. At December 31, 2012, the Company had an unrecognized tax liability of $21,160,000 with respect to this reserve.

At December 31, 2012, the Company had a valuation allowance of $242,000 related to approximately $648,000 of capital loss carryforwards. The valuation allowance was reduced in the current year due to the expiration of capital loss carryforwards of approximately $68,000. Also, the Company has state operating loss carryforwards in the amount of $14,346,000 which are scheduled to expire in 2029. In 2011, the Company recorded deferred tax assets of $2,209,658 from the acquisition of Beacon Trust. Management has determined that it is more likely than not that it will realize the net deferred tax asset based upon the nature and timing of the items listed above. In order to fully realize the net deferred tax asset, the Company will need to generate future

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

taxable income. Management has projected that the Company will generate sufficient taxable income to utilize the net deferred tax asset; however, there can be no assurance that such levels of taxable income will be generated.

The Company s policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company did not have any liabilities for uncertain tax positions or any known unrecognized tax benefits at December 31, 2012 and 2011.

The Company and its subsidiaries file a consolidated U.S. Federal income tax return and each entity files a separate state income tax return. The Company and its subsidiaries are no longer subject to income tax examinations by taxing authorities for years prior to 2009.

(13) Lease Commitments

The approximate future minimum rental commitments, exclusive of taxes and other related charges, for all significant non-cancellable operating leases at December 31, 2012, are summarized as follows (in thousands):

Year ending December 31,:	
2013	$ 6,236
2014	5,966
2015	5,456
2016	5,499
2017	4,711
Thereafter	20,267
	$ 48,136

Rental expense was $7,115,000, $6,315,000 and $4,516,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

(14) Commitments, Contingencies and Concentrations of Credit Risk

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated financial statements. In the opinion of management, the consolidated financial position of the Company will not be materially affected by the outcome of such commitments or contingent liabilities.

A substantial portion of the Bank s loans are one- to four-family residential first mortgage loans secured by real estate located in New Jersey. Accordingly, the collectability of a substantial portion of the Bank s loan portfolio and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes in local real estate market conditions.

(15) Regulatory Capital Requirements

FDIC regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2012 and 2011, the Bank is required to maintain (i) a minimum leverage ratio of Tier 1 capital to total adjusted assets of 4.00%, and (ii) minimum ratios of Tier 1 and total capital to risk-weighted assets of 4.00% and 8.00%, respectively. Under its prompt corrective action regulations, the FDIC is required to

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution s financial statements. The regulations establish a framework for the classification of savings institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally, an institution is considered well capitalized if it has a leverage (Tier 1) capital ratio of at least 5.00%; a Tier 1 risk-based capital ratio of at least 6.00%; and a total risk-based capital ratio of at least 10.00%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the FDIC about capital components, risk weightings and other factors.

As of December 31, 2012 and 2011, the Bank exceeded all minimum capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized the Bank as a well capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank s capital classification.

The Company is regulated as a bank holding company, and as such, is subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board (FRB). The FRB 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, 2012 and 2011, the Company was well capitalized under FRB guidelines. Regulations of the FRB 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 FRB 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 FRB.

The following is a summary of the Company s actual capital amounts and ratios as of December 31, 2012 and 2011, compared to the FRB minimum capital adequacy requirements and the FRB requirements for classification as a well-capitalized institution (dollars in thousands).

	Actual		FRB minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2012:						
Leverage (Tier 1)	$ 617,145	8.93%	$ 276,517	4.00%	$ 345,646	5.00%
Risk-based capital:						
Tier 1	617,145	12.68	194,722	4.00	292,083	6.00
Total	678,113	13.93	389,444	8.00	486,806	10.00

109

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

	Actual		FRB minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011:						
Leverage (Tier 1)	$ 583,770	8.74%	$ 267,308	4.00%	$ 334,135	5.00%
Risk-based capital:						
Tier 1	583,770	12.80	182,477	4.00	273,175	6.00
Total	641,008	14.05	364,953	8.00	456,191	10.00

The following is a summary of the Bank s actual capital amounts and ratios as of December 31, 2012 and 2011, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution (dollars in thousands).

	Actual		FDIC minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						
Leverage (Tier 1)	$ 539,478	7.80%	$ 276,517	4.00%	$ 345,646	5.00%
Risk-based capital:						
Tier 1	539,478	11.08	194,730	4.00	292,095	6.00
Total	600,448	12.33	389,459	8.00	486,824	10.00

	Actual		FDIC minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011:						
Leverage (Tier 1)	$ 496,139	7.42%	$ 267,319	4.00%	$ 334,149	5.00%
Risk-based capital:						
Tier 1	496,139	10.88	182,481	4.00	273,722	6.00
Total	553,378	12.13	364,962	8.00	456,203	10.00

(16) Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. Where quoted market values in an active market are not readily available, the Company utilizes various valuation techniques to estimate fair value.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, in many instances fair value estimates may not be substantiated by comparison to independent markets and may not be realized in an immediate sale of the financial instrument.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

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

Level 1:	Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2:	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3:	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

Assets Measured at Fair Value on a Recurring Basis

The valuation techniques described below were used to measure fair value of financial instruments in the table below on a recurring basis as of December 31, 2012 and December 31, 2011.

Securities Available for Sale

For securities available for sale, fair value was estimated using a market approach. The majority of the Company s securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or to comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company s internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also may hold equity securities and debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Assets Measured at Fair Value on a Non-Recurring Basis

The valuation techniques described below were used to estimate fair value of financial instruments measured on a non-recurring basis as of December 31, 2012 and 2011.

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraisers market knowledge and experience, as well as adjustments for estimated costs to sell of up to 6%. The Company classifies these loans as Level 3 within the fair value hierarchy.

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell of up to 6%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case basis, to comparable assets based on the appraisers market knowledge and experience, and are classified as Level 3. 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.

There were no changes to the valuation techniques for fair value measurements during the years ended December 31, 2012 and 2011.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair value as of December 31, 2012 and 2011, by level within the fair value hierarchy (in thousands).

		Fair Value Measurements at Reporting Date Using:		
	December 31, 2012	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Measured on a recurring basis:				
Agency obligations	$ 91,017	91,017		
Mortgage-backed securities	1,162,325		1,162,325	
State and municipal obligations	10,316		10,316	
Equities	344	344		
	$ 1,264,002	$ 91,361	1,172,641	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$ 43,251			43,251
Foreclosed assets	12,473			12,473
	$ 55,724			55,724

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

		Fair Value Measurements at Reporting Date Using:		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Agency obligations	$ 105,558	105,558		
Mortgage-backed securities	1,251,003		1,251,003	
State and municipal obligations	11,614		11,614	
Corporate obligations	7,636		7,636	
Equities	308	308		
	$ 1,376,119	$ 105,866	1,270,253	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$ 56,620			56,620
Foreclosed assets	12,802			12,802
	$ 69,422			69,422

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2012 and 2011.

Other Fair Value Disclosures

The Company is required to disclose estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. The following is a description of valuation methodologies used for those assets and liabilities.

Cash and Cash Equivalents

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

Investment Securities Held to Maturity

For investment securities held to maturity, fair value was estimated using a market approach. The majority of the Company s securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company s internal price verification procedures and review of fair value methodology documentation provided

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also holds debt instruments issued by the U.S. government and U.S. government agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 within the fair value hierarchy.

FHLB-NY Stock

The carrying value of FHLB-NY stock was its cost. The fair value of FHLB-NY stock is based on redemption at par value. The Company classifies the estimated fair value as Level 1 within the fair value hierarchy.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, residential mortgage, commercial, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories. The fair value of performing loans was estimated using a combination of techniques, including a discounted cash flow model that utilizes a discount rate that reflects the Company s current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Company classifies the estimated fair value of its loan portfolio as Level 3.

The fair value for significant non-performing loans was based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. The Company classifies the estimated fair value of its non-performing loan portfolio as Level 3.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits and savings deposits, was equal to the amount payable on demand and classified as Level 1. The estimated fair value of certificates of deposit was based on the discounted value of contractual cash flows. The discount rate was estimated using the Company s current rates offered for deposits with similar remaining maturities. The Company classifies the estimated fair value of its certificates of deposit portfolio as Level 2.

Borrowed Funds

The fair value of borrowed funds was estimated by discounting future cash flows using rates available for debt with similar terms and maturities and is classified by the Company as Level 2 within the fair value hierarchy.

Commitments to Extend Credit and Letters of Credit

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

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Limitations

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

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

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

The following tables present the Company s financial instruments at their carrying and fair values as of December 31, 2012 and December 31, 2011. Fair values are presented by level within the fair value hierarchy.

			Fair Value Measurements at December 31, 2012 Using:		
(Dollars in thousands)	**Carrying value**	**Fair value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets:					
Cash and cash equivalents	$ 103,823	103,823	103,823		
Securities available for sale:					
Agency obligations	91,017	91,017	91,017		
Mortgage-backed securities	1,162,325	1,162,325		1,162,325	
State and municipal obligations	10,316	10,316		10,316	
Equity securities	344	344	344		
Total securities available for sale	$ 1,264,002	1,264,002	91,361	1,172,641	
Investment securities held to maturity:					
Agency obligations	$ 4,705	4,739	4,739		
Mortgage-backed securities	11,123	11,583		11,583	
State and municipal obligations	336,078	350,825		350,825	
Corporate obligations	7,558	7,769		7,769	
Total securities held to maturity	$ 359,464	374,916	4,739	370,177	
FHLB-NY stock	37,543	37,543	37,543		
Loans, net of allowance for loan losses	4,834,351	5,025,700			5,025,700
Financial liabilities:					
Deposits other than certificates of deposits	$ 4,470,798	4,470,483	4,470,483		
Certificates of deposit	957,473	968,668		968,668	

	5,428,271	5,439,151	4,470,483	968,668
Borrowings	$ 803,264	834,244		834,244

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

			Fair Value Measurements at December 31, 2011 Using:		
(Dollars in thousands)	Carrying value	Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 69,632	69,632	69,632		
Securities available for sale:					
Agency obligations	105,558	105,558	105,558		
Mortgage-backed securities	1,251,003	1,251,003		1,251,003	
State and municipal obligations	11,614	11,614		11,614	
Corporate obligations	7,636	7,636		7,636	
Equity securities	308	308	308		
Total securities available for sale	$ 1,376,119	1,376,119	105,866	1,270,253	
Investment securities held to maturity:					
Agency obligations	$ 3,647	3,683	3,683		
Mortgage-backed securities	22,321	23,180		23,180	
State and municipal obligations	314,108	330,902		330,902	
Corporate obligations	8,242	8,531		8,531	
Total securities held to maturity	$ 348,318	366,296	3,683	326,613	
FHLB-NY stock	38,927	38,927	38,927		
Loans, net of allowance for loan losses	4,579,158	4,804,036			4,804,036
Financial liabilities:					
Deposits other than certificates of deposits	$ 4,027,871	4,027,871	4,027,871		
Certificates of deposit	1,128,726	1,143,213		1,143,213	
Total deposits	$ 5,156,597	5,171,084	4,027,871	1,143,213	
Borrowings	$ 920,180	955,037		955,037	

(17) Selected Quarterly Financial Data (Unaudited)

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2012 and 2011.

	2012 Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	$ 66,880	$ 66,019	$ 64,757	$ 64,603
Interest expense	12,043	11,441	11,042	10,396
Net interest income	54,837	54,578	53,715	54,207
Provision for loan losses	5,000	3,500	3,500	4,000
Net interest income after provision for loan losses	49,837	51,078	50,215	50,207
Non-interest income	12,728	9,343	9,790	11,752
Non-interest expense	36,791	37,756	36,896	37,385

Income before income tax expense	25,774	22,665	23,109	24,574
Income tax expense	7,346	6,662	6,955	7,892
Net income	$ 18,428	$ 16,003	$ 16,154	$ 16,682
Basic earnings per share	$ 0.32	$ 0.28	$ 0.28	$ 0.29
Diluted earnings per share	$ 0.32	$ 0.28	$ 0.28	$ 0.29

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

	2011 Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	$ 69,487	$ 69,811	$ 69,157	$ 67,264
Interest expense	16,040	15,635	14,701	13,353
Net interest income	53,447	54,176	54,456	53,911
Provision for loan losses	7,900	7,500	7,500	6,000
Net interest income after provision for loan losses	45,547	46,676	46,956	47,911
Non-interest income	7,172	8,043	8,650	8,677
Non-interest expense	35,351	35,933	34,953	36,209
Income before income tax expense	17,368	18,786	20,653	20,379
Income tax expense	4,437	4,809	5,087	5,509
Net income	$ 12,931	$ 13,977	$ 15,566	$ 14,870
Basic earnings per share	$ 0.23	$ 0.25	$ 0.27	$ 0.26
Diluted earnings per share	$ 0.23	$ 0.25	$ 0.27	$ 0.26

(18) Earnings Per Share

The following is a reconciliation of the outstanding shares used in the basic and diluted earnings (loss) per share calculations.

(Dollars in thousands, except per share data)	For the Year Ended December 31,		
	2012	2011	2010
Net income	$ 67,267	$ 57,344	$ 49,705
Basic weighted average common shares outstanding	57,145,868	56,856,083	56,572,040
Plus:			
Dilutive shares	53,936	12,441	
Diluted weighted average common shares outstanding	57,199,804	56,868,524	56,572,040
Earnings (loss) per share:			
Basic	$ 1.18	$ 1.01	$ 0.88
Diluted	$ 1.18	$ 1.01	$ 0.88

Anti-dilutive stock options and awards totaling 3,891,443 and 3,739,767 shares at December 31, 2012 and 2011, respectively, were excluded from the earnings per share calculations.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

(19) Parent-only Financial Information

The condensed financial statements of Provident Financial Services, Inc. (parent company only) are presented below:

PROVIDENT FINANCIAL SERVICES, INC.

Condensed Statements of Financial Condition

(Dollars in Thousands)

	December 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$ 6,663	$ 9,374
Securities available for sale, at fair value	344	308
Investment in subsidiary	903,579	864,846
Due from subsidiary SAP	12,083	16,260
ESOP loan	59,750	62,785
Other assets	49	58
Total assets	$ 982,468	$ 953,631
Liabilities and Stockholders Equity		
Other liabilities	1,222	1,154
Total stockholders equity	981,246	952,477
Total liabilities and stockholders equity	$ 982,468	$ 953,631

PROVIDENT FINANCIAL SERVICES, INC.

Condensed Statements of Operations

(Dollars in Thousands)

	For the Year Ended December 31, 2012	2011	2010
Dividends from subsidiary	$ 40,729	$ 26,900	$ 13,600
Interest income	2,696	2,615	2,710
Investment gain	9	3	100
Total income	43,434	29,518	16,410

Non-interest expense	882	1,010	760
Total expense	882	1,010	760
Income before income tax expense	42,552	28,508	15,650
Income tax expense	688	579	1,553
Income before undistributed net income of subsidiary	41,864	27,929	14,097
Equity in undistributed net income of subsidiary (dividends in excess of earnings)	25,403	29,415	35,608
Net income	$ 67,267	$ 57,344	$ 49,705

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

PROVIDENT FINANCIAL SERVICES, INC.

Condensed Statements of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31, 2012	2011	2010
Cash flows from operating activities:			
Net income	$ 67,267	$ 57,344	$ 49,705
Adjustments to reconcile net income to net cash provided by operating activities			
Dividends in excess of earnings (equity in undistributed net income) of subsidiary	(25,403)	(29,415)	(35,608)
ESOP allocation	2,030	2,467	1,840
SAP allocation	3,658	3,198	2,422
Stock option allocation	452	719	826
Decrease in due from subsidiary SAP	4,177	3,016	2,509
Increase in other assets	(13,960)	(8,039)	(1,373)
Increase in other liabilities	68	77	1,077
Net cash provided by operating activities	38,289	29,367	21,398
Cash flows from investing activities:			
Purchases of available for sale securities		(308)	
Net decrease in ESOP loan	3,035	2,578	2,388
Net cash provided by investing activities	3,035	2,270	2,388
Cash flows from financing activities:			
Purchases of treasury stock	(9,424)	(4,139)	(193)
Cash dividends paid	(40,729)	(26,805)	(24,984)
Shares issued dividend reinvestment plan	6,090	3,180	
Stock options exercised	28	9	51
Net cash used in financing activities	(44,035)	(27,755)	(25,126)
Net (decrease) increase in cash and cash equivalents	(2,711)	3,882	(1,340)
Cash and cash equivalents at beginning of period	9,374	5,492	6,832
Cash and cash equivalents at end of period	$ 6,663	$ 9,374	$ 5,492

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

(20) Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive (loss) income both gross and net of tax, for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	For the Years Ended December 31,								
	2012			2011			2010		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Components of Other Comprehensive Income (Loss):									
Unrealized gains and losses on securities available for sale:									
Net gains (losses) arising during the period	$ 3,060	(1,250)	1,810	$ 7,175	(2,931)	4,244	$ 17,738	(7,246)	10,492
Reclassification adjustment for gains included in net income	(4,497)	1,837	(2,660)	(708)	289	(419)	(715)	292	(423)
Total	(1,437)	587	(850)	6,467	(2,642)	3,825	17,023	(6,954)	10,069
Other-than-temporary impairment on debt securities available for sale:									
Other-than-temporary impairment losses on securities				(1,661)	678	(983)	(3,116)	1,272	(1,844)
Reclassification adjustment for impairment losses included in net income				302	(123)	179	170	(69)	101
Total				(1,359)	555	(804)	(2,946)	1,203	(1,743)
Amortization related to post retirement obligations	(1,699)	694	(1,005)	(13,870)	5,666	(8,204)	(2,203)	900	(1,303)
Total other comprehensive (loss) income	$ (3,136)	1,281	(1,855)	$ (8,762)	3,579	(5,183)	$ 11,874	(4,851)	7,023

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Christopher Martin, the Company s President and Chief Executive Officer, and Thomas M. Lyons, the Company s Executive Vice President and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2012. Based upon their evaluation, they each found that the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is accumulated and communicated to the Company s management as appropriate to allow timely decisions regarding required disclosures. There has been no change in the Company s internal control over financial reporting during the Company s fourth fiscal quarter that has materially affected, or is reasonably likely to affect, the Company s internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

The management of Provident Financial Services, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system is a process designed to provide reasonable assurance to the Company s management and board of directors regarding the preparation and fair presentation of published financial statements.

The Company s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and 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 its financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on the assessment management believes that, as of December 31, 2012, the Company s internal control over financial reporting is effective based on those criteria.

The Company s independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2012. This report appears on page 66.

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding director nominees, incumbent directors, executive officers, the Audit Committee of the board of directors, Audit Committee financial experts and procedures by which stockholders may recommend director nominees required by this item is set forth under Proposal I Election of Provident Directors under the captions The Board of Directors , Executive Officers , Audit Committee Matters Audit Committee , and Corporate Governance Matters Procedures for the Nomination of Directors by Stockholders in the Proxy Statement filed for the Annual Meeting of Stockholders to be held on April 25, 2013 and is incorporated herein by reference.

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth under General Information under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement filed for the Annual Meeting of Stockholders to be held on April 25, 2013 and is incorporated herein by reference.

Provident has adopted a Code of Business Conduct and Ethics that is applicable to all directors, officers and employees of Provident and The Provident Bank, including the principal executive officer, principal financial officer, principal accounting officer, and all persons performing similar functions. The Code of Business Conduct and Ethics is posted on the Governance Documents section of the Investor Relations page on The Provident Bank s website at www.providentnj.com. Amendments to and waivers from the Code of Business Conduct and Ethics will also be disclosed on The Provident Bank s website.

Item 11. Executive Compensation

The information required by this item is set forth under Proposal 1 Election of Provident Directors under the captions Compensation Committee Matters , Executive Compensation and Director Compensation in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2013 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item regarding security ownership of certain beneficial owners and management is set forth under General Information under the caption Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement filed for the Annual Meeting of Stockholders to be held on April 25, 2013 and is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2012 regarding equity compensation plans categorized by those plans that have been approved by stockholders and those plans that have not been approved by stockholders.

Plan

	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights[1]	Weighted Average Exercise Price[2]	Number of Securities Remaining Available For Issuance Under Plan
Equity compensation plans approved by stockholders	4,165,737	$ 17.49	1,635,716[3]
Equity compensation plans not approved by stockholders			
Total	4,165,737	$ 17.49	1,635,716

Table of Contents

(1) Consists of outstanding stock options to purchase 4,165,737 shares of common stock granted under the Company s stock-based compensation plans.
(2) The weighted average exercise price reflects the exercise price of $18.57 per share for 2,970,500 stock options granted in 2003; an exercise price of $17.43 for 60,000 stock options and $19.22 for 40,000 stock options granted in 2004; an exercise price of $18.03 for 41,000 stock options granted in 2005; an exercise price of $18.55 for 90,000 stock options, $18.48 for 60,000 stock options, $17.86 for 10,000 stock options and $18.87 for 20,000 stock options granted in 2006; an exercise price of $17.94 for 230,575 stock options, $17.45 for 45,000 stock options and $15.14 for 10,000 stock options granted in 2007; an exercise price of $12.54 for 153,880 stock options granted in 2008; an exercise price of $10.27 for 15,000 stock options and an exercise price of $10.40 for 205,739 stock options granted in 2009; an exercise price of $10.34 for 213,782 stock options granted in 2010; an exercise price of $14.50 for 83,422 stock options granted in 2011; and an exercise price of $14.86 for 93,802 stock options granted in 2012 under the Company s stock-based compensation plans.
(3) Represents the number of available shares that may be granted as stock options and other stock awards under the Company s stock-based compensation plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is set forth under Proposal 1 Election of Provident Directors under the caption Corporate Governance Matters Director Independence and Transactions With Certain Related Persons in the Proxy Statement filed for the Annual Meeting of Stockholders to be held on April 25, 2013 and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is set forth under Proposal 3 Ratification of the Appointment of the Independent Registered Public Accounting Firm in the Proxy Statement filed for the Annual Meeting of Stockholders to be held on April 25, 2013 and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The exhibits and financial statement schedules filed as a part of this Form 10-K are as follows:

(a)(1) Financial Statements

123

Table of Contents

(a)(2) Financial Statement Schedules

No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

(a)(3) Exhibits

3.1	Certificate of Incorporation of Provident Financial Services, Inc. (Filed as an exhibit to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
3.2	Amended and Restated Bylaws of Provident Financial Services, Inc. (Filed as an exhibit to the Company s December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
4.1	Form of Common Stock Certificate of Provident Financial Services, Inc. (Filed as an exhibit to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
10.1	Employment Agreement by and between Provident Financial Services, Inc and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company s September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/ File No. 001-31566.)
10.2	Form of Amended and Restated Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain executive officers. (Filed as an exhibit to the Company s December 31, 2009 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010 /File No. 001-31566.)
10.3	Amended and Restated Employee Savings Incentive Plan, as amended. (Filed as an exhibit to the Company s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
10.4	Employee Stock Ownership Plan (Filed as an exhibit to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241) and Amendment No. 1 to the Employee Stock Ownership Plan (Filed as an exhibit to the Company s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566).
10.5	Supplemental Executive Retirement Plan of The Provident Bank. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.6	Amended and Restated Supplemental Executive Savings Plan. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.7	Retirement Plan for the Board of Managers of The Provident Bank. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009 /File No. 001-31566.)
10.8	The Provident Bank Amended and Restated Voluntary Bonus Deferral Plan. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.9	Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)

10.10	First Savings Bank Directors Deferred Fee Plan, as amended. (Filed as an exhibit to the Company s September 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
10.11	The Provident Bank Non-Qualified Supplemental Defined Contribution Plan. (Filed as an exhibit to the Company s May 27, 2010 Current Report on Form 8-K filed with the Securities and Exchange Commission on June 3, 2010/File No. 001-31566.)
10.12	Provident Financial Services, Inc. 2003 Stock Option Plan. (Filed as an exhibit to the Company s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/File No. 001-31566.)
10.13	Provident Financial Services, Inc. 2003 Stock Award Plan. (Filed as an exhibit to the Company s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/File No. 001-31566.)
10.14	Provident Financial Services, Inc. 2008 Long-Term Equity Incentive Plan. (Filed as an exhibit to the Company s Proxy Statement for the 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 14, 2008/File No. 001-31566).
10.15	Consulting Services Agreement by and between The Provident Bank and Paul M. Pantozzi made as of September 23, 2009. (Filed as an exhibit to the Company s September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/File No. 001-31566.)
10.16	Change in Control Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company s September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/File No. 001-31566.)
10.17	Written Description of Provident Financial Services, Inc. s 2011 Cash Incentive Plan. (Filed as an exhibit to the Company s Form 10-K/A filed with the Securities and Exchange Commission on December 27, 2011/File No. 001-31566.)
10.18	Written Description of Provident Financial Services, Inc. s 2012 Cash Incentive Plan. (Filed as an exhibit to the Company s December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
10.19	Omnibus Incentive Compensation Plan. (Filed as an exhibit to the Company s December 31,2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
10.20	Written Description of Provident Financial Services, Inc. s 2013 Cash Incentive Plan.
10.21	Form of Three-Year Change in Control Agreement between Provident Financial Services, Inc. and each of Messrs. Blum, Kuntz, Lyons and Rainmonde dated as of February 21, 2013.
21	Subsidiaries of the Registrant.
23	Consent of KPMG LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company s Annual Report to Stockholders on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Changes in Stockholder s Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

101.INS (I)	XBRL Instance Document
101.SCH (I)	XBRL Taxonomy Extension Schema Document
101.CAL (I)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (I)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (I)	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE (I)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

(b) The exhibits listed under (a) (3) above are filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROVIDENT FINANCIAL SERVICES, INC.

Date: March 1, 2013

By: /s/ CHRISTOPHER MARTIN
Christopher Martin
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ CHRISTOPHER MARTIN
Christopher Martin,

President, Chairman of the Board and

Chief Executive Officer

(Principal Executive Officer)

Date: March 1, 2013

By: /s/ THOMAS M. LYONS
Thomas M. Lyons,

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer)

Date: March 1, 2013

By: /s/ FRANK S. MUZIO
Frank S. Muzio,

Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

Date: March 1, 2013

By: /s/ THOMAS BERRY
Thomas Berry,

Director

Date: March 1, 2013

By: /s/ LAURA L. BROOKS
Laura L. Brooks,

Director

Date: March 1, 2013

By: /s/ GEOFFREY M. CONNOR
Geoffrey M. Connor,

Director

Date: March 1, 2013

By: /s/ FRANK L. FEKETE
Frank L. Fekete,

Director

Date: March 1, 2013

By: /s/ TERENCE GALLAGHER
Terence Gallagher,

Director

Date: March 1, 2013

By: /s/ CARLOS HERNANDEZ
Carlos Hernandez,

Director

Date: March 1, 2013

By: /s/ THOMAS B. HOGAN JR.
Thomas B. Hogan Jr.,

By: /s/ KATHARINE LAUD
Katharine Laud,

	Director		**Director**
Date:	March 1, 2013	Date:	March 1, 2013
By:	/s/ EDWARD O DONNELL **Edward O Donnell,**	By:	/s/ JEFFRIES SHEIN **Jeffries Shein,**
	Director		**Director**
Date:	March 1, 2013	Date:	March 1, 2013

EXHIBIT INDEX

3.1	Certificate of Incorporation of Provident Financial Services, Inc. (Filed as an exhibit to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
3.2	Amended and Restated Bylaws of Provident Financial Services, Inc. (Filed as an exhibit to the Company s December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
4.1	Form of Common Stock Certificate of Provident Financial Services, Inc. (Filed as an exhibit to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
10.1	Employment Agreement by and between Provident Financial Services, Inc and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company s September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/ File No. 001-31566.)
10.2	Form of Amended and Restated Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain executive officers. (Filed as an exhibit to the Company s December 31, 2009 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010 /File No. 001-31566.)
10.3	Amended and Restated Employee Savings Incentive Plan, as amended. (Filed as an exhibit to the Company s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
10.4	Employee Stock Ownership Plan (Filed as an exhibit to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241) and Amendment No. 1 to the Employee Stock Ownership Plan (Filed as an exhibit to the Company s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566).
10.5	Supplemental Executive Retirement Plan of The Provident Bank. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.6	Amended and Restated Supplemental Executive Savings Plan. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.7	Retirement Plan for the Board of Managers of The Provident Bank. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009 /File No. 001-31566.)
10.8	The Provident Bank Amended and Restated Voluntary Bonus Deferral Plan. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.9	Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan. (Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.10	First Savings Bank Directors Deferred Fee Plan, as amended. (Filed as an exhibit to the Company s September 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)

Table of Contents

10.11	The Provident Bank Non-Qualified Supplemental Defined Contribution Plan. (Filed as an exhibit to the Company s May 27, 2010 Current Report on Form 8-K filed with the Securities and Exchange Commission on June 3, 2010/File No. 001-31566.)
10.12	Provident Financial Services, Inc. 2003 Stock Option Plan. (Filed as an exhibit to the Company s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/File No. 001-31566.)
10.13	Provident Financial Services, Inc. 2003 Stock Award Plan. (Filed as an exhibit to the Company s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/File No. 001-31566.)
10.14	Provident Financial Services, Inc. 2008 Long-Term Equity Incentive Plan. (Filed as an exhibit to the Company s Proxy Statement for the 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 14, 2008/File No. 001-31566).
10.15	Consulting Services Agreement by and between The Provident Bank and Paul M. Pantozzi made as of September 23, 2009. (Filed as an exhibit to the Company s September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/File No. 001-31566.)
10.16	Change in Control Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company s September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/File No. 001-31566.)
10.17	Written Description of Provident Financial Services, Inc. s 2011 Cash Incentive Plan. (Filed as an exhibit to the Company s Form 10-K/A filed with the Securities and Exchange Commission on December 27, 2011/File No. 001-31566.)
10.18	Written Description of Provident Financial Services, Inc. s 2012 Cash Incentive Plan. (Filed as an exhibit to the Company s December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
10.19	Omnibus Incentive Compensation Plan. (Filed as an exhibit to the Company s December 31,2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
10.20	Written Description of Provident Financial Services, Inc. s 2013 Cash Incentive Plan.
10.21	Form of Three-Year Change in Control Agreement between Provident Financial Services, Inc. and each of Messrs. Blum, Kuntz, Lyons and Rainmonde dated as of February 21, 2013.
21	Subsidiaries of the Registrant.
23	Consent of KPMG LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company s Annual Report to Stockholders on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder s Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

Table of Contents

101.INS (1)	XBRL Instance Document
101.SCH (1)	XBRL Taxonomy Extension Schema Document
101.CAL (1)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (1)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (1)	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE (1)	XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished, not filed

(1) These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.