PROVIDENT FINANCIAL SERVICES INC
Form 10-K
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2011

OR

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

Commission File No. 1-31566

PROVIDENT FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(732) 590-9200

(Registrant s Telephone Number)

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

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

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

None

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

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

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

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

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

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

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

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

As of February 1, 2012, there were 83,209,285 issued and 60,390,918 shares of the Registrant s Common Stock outstanding, including 421,403 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, 2011, as quoted by the NYSE, was approximately $764.8 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2012 Annual Meeting of Stockholders of the Registrant (Part III).

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Forward Looking Statements

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

The Company 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, 2011, the Company had total assets of $7.10 billion, net loans of $4.58 billion, total deposits of $5.16 billion, and total stockholders equity of $952.5 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 $26.8 million and repurchased 347,753 shares of its common stock at a cost of $4.1 million in 2011. The Company has limited common stock repurchase activity since 2009 to preserve capital in response to the difficult economic environment. The Company and the Bank were well capitalized at December 31, 2011 under current regulatory standards.

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

The Provident Bank

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

The following are highlights of The Provident Bank s operations:

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

Asset Quality. As of December 31, 2011, non-performing assets were $135.4 million or 1.91% of total assets, compared to $100.1 million or 1.47% of total assets at December 31, 2010. 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 $4.03 billion at December 31, 2011, representing 78.1% of total deposits, compared with $3.60 billion, or 73.8% of total deposits at December 31, 2010. The Bank also focuses on increasing the number of households and businesses served and the number of bank products per customer.

Non-Interest Income. The Bank s focus on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. Fees derived from core deposit accounts are a primary source of non-interest income. The Bank also offers investment products and wealth and asset management services through its subsidiaries to generate non-interest income. Total non-interest income was $32.5 million for the year ended December 31, 2011, compared with $31.6 million for the year ended December 31, 2010, and fee income was $25.4 million for the year ended December 31, 2011, compared with $23.7 million for the year ended December 31, 2010.

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, 2011, 45.2% of the Bank s loan portfolio had a term to maturity of one year or less, or had adjustable interest rates. Moreover, at December 31, 2011, the Bank s securities portfolio totaled $1.76 billion and had an expected average life of 3.00 years.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2011, the Bank operated a network of 82 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, 25 in Middlesex, 10 in Monmouth, 10 in Morris, 4 in Ocean, 1 in Passaic, 4 in Somerset and 3 in Union Counties. The Bank also maintains 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, and retail. According to the U.S. Census Bureau s most recent population data for 2011, 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 9.1% at December 31, 2011, unchanged from December 31, 2010.

Within its eleven-county market area, the Bank had an approximate 6.29% share of bank deposits as of June 30, 2011, the latest date for which statistics are available, and an approximate 1.96% deposit share of the New Jersey market statewide.

COMPETITION

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

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

LENDING ACTIVITIES

The Bank originates commercial real estate loans, commercial business loans, fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate and other consumer loans, 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 the 20-year and 30-year fixed-rate residential mortgages that it originates. The Bank retains a majority of the originated adjustable rate mortgages for its portfolio.

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

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The Bank historically provided construction loans for both single family and condominium projects intended for sale and commercial projects that will be retained as investments by the borrower. During 2010 and 2011, 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 loans to businesses of varying size and type within the Bank s market. The Bank lends to established businesses, and the loans are generally secured by business assets such as equipment, receivables, inventory, real estate or marketable securities. On a limited basis, the Bank makes unsecured commercial loans. Most commercial lines of credit are made on a floating interest rate basis and most term loans are made on a fixed interest rate basis, usually with terms of five years or less.

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

	At December 31,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
					(Dollars in thousands)					
Residential mortgage loans	$ 1,308,635	28.58%	$ 1,386,326	31.93%	$ 1,491,358	34.49%	$ 1,793,123	40.03%	$ 1,705,747	40.08%
Commercial mortgage loans	1,253,542	27.37	1,180,147	27.19	1,089,937	25.21	923,044	20.60	847,907	19.93
Multi-family mortgage loans	564,147	12.32	387,189	8.92	227,663	5.27	189,462	4.23	67,546	1.59
Construction loans	114,817	2.51	125,192	2.88	195,889	4.53	233,727	5.22	309,569	7.27
Total mortgage loans	3,241,141	70.78	3,078,854	70.92	3,004,847	69.50	3,139,356	70.08	2,930,769	68.87
Commercial loans	849,009	18.54	755,487	17.40	785,818	18.18	753,173	16.81	712,062	16.73
Consumer loans	560,970	12.25	569,597	13.12	586,459	13.56	624,282	13.94	644,134	15.14
Total gross loans	4,651,120	101.57	4,403,938	101.45	4,377,124	101.24	4,516,811	100.84	4,286,965	100.74
Premiums on purchased loans	5,823	0.13	6,771	0.16	8,012	0.19	10,980	0.24	9,793	0.23
Unearned discounts	(100)	(0.00)	(104)	(0.00)	(266)	(0.01)	(492)	(0.01)	(661)	(0.02)
Net deferred costs (fees)	(3,334)	(0.07)	(792)	(0.02)	(676)	(0.02)	(551)	0.01	194	0.00
Total loans	4,653,509	101.62	4,409,813	101.58	4,384,194	101.40	4,526,748	101.06	4,296,291	100.96
Allowance for loan losses	(74,351)	(1.63)	(68,722)	(1.58)	(60,744)	(1.40)	(47,712)	(1.07)	(40,782)	(0.95)
Total loans, net	$ 4,579,158	100.00%	$ 4,341,091	100.00%	$ 4,323,450	100.00%	$ 4,479,036	100.00%	$ 4,255,509	100.00%

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Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2011, 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	$ 2,941	$ 6,931	$ 14,178	$ 178,256	$ 339,942	$ 766,387	$ 1,308,635
Commercial mortgage loans	91,089	197,122	181,348	648,656	134,700	627	1,253,542
Multi-family mortgage loans	25,146	50,473	98,973	322,994	66,247	314	564,147
Construction loans	45,894	67,173		1,750			114,817
Total mortgage loans	165,070	321,699	294,499	1,151,656	540,889	767,328	3,241,141
Commercial loans	177,842	91,300	123,957	363,416	65,288	27,206	849,009
Consumer loans	72,947	7,472	20,159	91,926	241,386	127,080	560,970
Total loans	$ 415,859	$ 420,471	$ 438,615	$ 1,606,998	$ 847,563	$ 921,614	$ 4,651,120

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2011, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2012.

	Due After December 31, 2011		
	Fixed	Adjustable (In thousands)	Total
Residential mortgage loans	$ 832,683	$ 473,011	$ 1,305,694
Commercial mortgage loans	718,953	443,500	1,162,453
Multi-family mortgage loans	337,852	201,149	539,001
Construction loans	24,925	43,998	68,923
Total mortgage loans	1,914,413	1,161,658	3,076,071
Commercial loans	288,802	382,365	671,167
Consumer loans	345,320	142,703	488,023
Total loans	$ 2,548,535	$ 1,686,726	$ 4,235,261

Residential Mortgage Lending. The Bank originates residential mortgage loans secured by first mortgages on one- to four-family residences, generally located in the State of New Jersey. The Bank originates residential mortgages primarily through commissioned mortgage representatives, the Internet and its branch offices. The Bank originates both fixed-rate and adjustable-rate mortgages. As of December 31, 2011, $1.31 billion or 28.6% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 63.9% were fixed-rate and 36.1% 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, 2011 was $11.3 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 2011, $12.9 million, or 8.8% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2011 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 $105.7 million. The Bank also offers a special rate program for first-time homebuyers under which originations have totaled over $13.7 million for the past five years.

Commercial Real Estate Loans. The Bank originates loans secured by mortgages on various commercial income producing properties, including office buildings, multi-family apartment buildings and retail and industrial properties. Commercial real estate loans were 27.4% of the loan portfolio at December 31, 2011. A substantial majority of the Bank s commercial real estate loans are secured by properties located in the State of New Jersey.

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

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

The Bank performs more extensive diligence in underwriting commercial real estate loans than loans secured by owner-occupied one- to four-family residential properties due to the larger loan amounts and the riskier nature of such loans. The Bank attempts to understand and mitigate 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, 2011 was a $27.6 million loan secured by a first mortgage lien on a mixed-use project located in Jersey City, New Jersey, which consists of retail and residential space, along with a 950 space parking garage. The loan has a risk rating of 4 , (loans rated 1-4 are deemed to be acceptable quality see discussion of the Bank s 9-point risk rating system for loans under Allowance for Loan Losses in the Asset Quality section) and was performing in accordance with its terms and conditions as of December 31, 2011.

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

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

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

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

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, 2011 was a $24.9 million loan secured by a first lien on a new to be built 90,000 square foot student center for a well established college located in Jersey City, New Jersey. The loan had an outstanding balance of $24.9 million at December 31, 2011, as the loan proceeds were fully advanced at closing and placed into an escrow account for disbursement as work is completed. The project is approximately 5% complete. The loan has a risk rating of 4 , (loans rated 1-4 are deemed to be acceptable quality see discussion of the Bank s 9-point risk rating system for loans under Allowance for Loan Losses in the Asset Quality section) and was performing in accordance with its terms and conditions as of December 31, 2011. Outstanding construction loans decreased $10.4 million at December 31, 2011, from $125.2 million at December 31, 2010, as the Bank de-emphasized construction lending due to economic conditions.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 18.5% of the loan portfolio at December 31, 2011. The majority of the Bank s commercial loan customers are local businesses with revenues of less than $50.0 million. The Bank offers commercial loans for equipment purchases, lines of credit for working capital purposes, letters of credit and real estate loans where the borrower is the primary occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial term loans are fully amortized over a five-year period. Owner-occupied commercial real estate loans are generally underwritten to terms consistent with those utilized for commercial real estate, however, the maximum loan-to-value ratio for owner-occupied commercial real estate loans is 80%.

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

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

Commercial loans generally bear higher interest rates than residential mortgage loans, but they also involve a higher risk of default since their repayment is generally dependent on the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself and the general economic environment. The Bank s largest commercial loan was a $38.0 million line of credit to a general contracting company specializing in bridge and highway construction with a risk rating of 3. The line is used primarily for bid bonding and working capital purposes. The Bank sold a participation interest of $10.0 million in the line of credit to another financial institution, which reduced the Bank s exposure to $28.0 million. As of December 31, 2011, the line of credit had an outstanding balance of $4.0 million.

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Consumer Loans. The Bank offers a variety of consumer loans to individuals. Consumer loans represented 12.3% of the loan portfolio at December 31, 2011. Home equity loans and home equity lines of credit constituted 89.6% of the consumer loan portfolio as of December 31, 2011. Indirect marine loans comprised 9.2% of the consumer loan portfolio. The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, direct auto loans and recreational vehicle loans, which represented 1.2% of the consumer loan portfolio. The Bank no longer purchases indirect auto or indirect marine loans and limits its marine lending to direct loans on a limited accommodation basis to existing customers.

Interest rates on home equity loans are fixed for a term not to exceed 20 years and the maximum loan amount is $500,000. A portion of the home equity loan portfolio includes first lien product loans, under which the Bank has offered special rates to borrowers who refinance first mortgage loans on the home equity (first lien) basis. The Bank s home equity lines are made at floating interest rates and the Bank provides lines of credit of up to $500,000. The approved home equity lines and utilization amounts as of December 31, 2011 were $463.8 million and $198.2 million, respectively, representing utilization of 42.7%.

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.

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

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

	Year Ended December 31,		
	2011	**2010**	**2009**
		(In thousands)	
Originations:			
Residential mortgage	$ 146,742	$ 152,002	$ 207,578
Commercial mortgage	240,930	197,718	142,178
Multi-family mortgage	150,625	134,052	50,555
Construction	119,245	51,066	93,000
Commercial	664,199	490,004	512,634
Consumer	184,955	111,407	134,361
Subtotal of loans originated	1,506,696	1,136,249	1,140,306
Loans purchased	79,521	90,430	55,145
Total loans originated	1,586,217	1,226,679	1,195,451
Loans sold or securitized	21,394	18,139	183,509

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	Year Ended December 31, 2011	2010 (In thousands)	2009
Repayments:			
Residential mortgage	285,848	327,379	378,461
Commercial mortgage	159,742	110,117	65,175
Multi-family mortgage	21,065	11,556	5,361
Construction	86,447	71,158	96,507
Commercial	555,534	508,269	422,644
Consumer	187,040	123,782	164,364
Total repayments	1,295,676	1,152,261	1,132,512
Total reductions	1,317,070	1,170,400	1,316,021
Other items, net[1]	(25,451)	(30,660)	(21,984)
Net increase (decrease)	$ 243,696	$ 25,619	$ (142,554)

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

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

The largest individual lending authority is $5.0 million, which is only available to the Chief Executive Officer and the Chief Lending Officer. Loans in excess of $5.0 million, or which when combined with existing credits of the borrower or related borrowers exceed $5.0 million, are presented to the management Credit Committee for approval. The Credit Committee currently consists of six senior officers including the Chief Executive Officer, the Chief Lending Officer, the Chief Financial Officer and the Chief Credit Officer, and requires a majority vote for credit approval.

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

Loans to One Borrower. The regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of the Bank s unimpaired capital and surplus. As of December 31, 2011, the regulatory lending limit was $80.1 million. The Bank s current internal policy limit on total loans to a borrower or related borrowers that constitute a group exposure is up to $55.0 million for loans with a risk rating of 2 or better, $50.0 million for loans with a risk rating of 3 and $45.0 million for loans with a risk rating of 4. The Bank reviews these group exposures on a quarterly basis. The Bank also sets additional limits on size of loans by loan type.

At December 31, 2011, the Bank s largest group exposure with an individual borrower and its related entities was $71.0 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. All of these loans have 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, 2011, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2011, the Bank had $1.3 billion in loans outstanding to its 50 largest borrowers and their related entities.

ASSET QUALITY

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

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

Real estate and other assets acquired through foreclosure or in connection with a loan workout are held as foreclosed assets. The Bank carries other real estate owned and other foreclosed assets at the lower of their cost or their fair 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, 2011, there were 65 impaired loans totaling $103.2 million. Included in this total were 38 TDRs 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.

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, 2011, 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, 2011, $232.3 million of loans were classified as substandard, which consisted of $91.0 million in commercial and multi-family mortgage loans, $73.8 million in commercial loans, $40.4 million in residential loans, $18.6 million

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in construction loans and $8.5 million in consumer loans. At that same date, loans classified as doubtful totaled $0.1 million, consisting solely of commercial loans. There were no loans classified as loss at December 31, 2011. As of December 31, 2011, $75.1 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, 2011				At December 31, 2010				At December 31, 2009			
	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	35	$ 7,936	184	$ 40,386	29	$ 8,370	167	$ 41,247	22	$ 6,093	112	$ 28,622
Commercial mortgage loans	2	1,155	9	11,928	1	4,286	9	14,478	1	778	8	14,877
Multi-family mortgage loans			1	997			1	200	1	1,051		
Construction loans												
Total mortgage loans	37	9,091	194	53,311	30	12,656	177	55,925	24	7,922	120	43,499
Commercial loans	11	526	40	15,059	8	562	63	12,437	12	3,934	61	6,675
Consumer loans	29	1,908	78	8,533	33	3,487	83	6,215	37	2,766	86	6,765
Total loans	77	$ 11,525	312	$ 76,903	71	$ 16,705	323	$ 74,577	73	$ 14,622	267	$ 56,939

Non-Accrual Loans and Non-Performing Assets. The following table sets forth information regarding non-accrual loans and other non-performing assets. There were ten troubled debt restructured loans which totaled $24.3 million and classified as non-accrual at December 31, 2011; no troubled debt restructurings were non-accrual at any of the prior year 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,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$ 40,386	$ 41,247	$ 28,622	$ 14,503	$ 4,228
Commercial mortgage loans	29,522	16,091	23,356	24,830	21,918
Multi-family mortgage loans	997	201			742
Construction loans	11,018	9,412	13,186	9,403	375
Commercial loans	32,093	23,505	12,548	4,456	5,083
Consumer loans	8,533	6,808	6,765	5,926	2,298
Total non-accruing loans	122,549	97,264	84,477	59,118	34,644
Accruing loans delinquent 90 days or more					
Total non-performing loans	122,549	97,264	84,477	59,118	34,644
Foreclosed assets	12,802	2,858	6,384	3,439	1,041
Total non-performing assets	$ 135,351	$ 100,122	$ 90,861	$ 62,557	$ 35,685
Total non-performing assets as a percentage of total assets	1.91%	1.47%	1.33%	0.96%	0.56%
Total non-performing loans to total loans	2.63%	2.21%	1.93%	1.31%	0.81%

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Non-performing commercial mortgage loans increased $13.4 million, to $29.5 million at December 31, 2011, from $16.1 million at December 31, 2010. At December 31, 2011, the Company held 13 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a $13.4 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, 2011. 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 increased $8.6 million, to $32.1 million at December 31, 2011, from $23.5 million at December 31, 2010. Non-performing commercial loans at December 31, 2011 consisted of 19 loans. The largest non-performing commercial loan relationship consisted of four loans to a power systems manufacturer with total outstanding balances of $9.1 million at December 31, 2011. All contractual payments on these loans, based upon modified terms, were current at December 31, 2011.

Non-performing construction loans increased $1.6 million, to $11.0 million at December 31, 2011, from $9.4 million at December 31, 2010. At December 31, 2011, non-performing construction loans consisted of two loans to the same borrower secured by a first mortgage on a 77,000 square foot newly constructed Class A office building, a 7,000 square foot fully leased retail 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. The loan was current as to the payment of principal and interest at December 31, 2011. The Company has an unfunded commitment of $3.6 million on this loan at December 31, 2011.

Non-performing multi-family loans at December 31, 2011, consisted of one loan for $997,000, compared to a $201,000 non-performing multi-family loan at December 31, 2010.

In addition, non-performing consumer loans increased $1.7 million, to $8.5 million at December 31, 2011. The Company attributes the increase in non-performing consumer loans to continued elevated levels of unemployment, decreased property values and increased personal debt levels.

At December 31, 2011, the Company held $12.8 million of foreclosed assets, compared with $2.9 million at December 31, 2010. Foreclosed assets at December 31, 2011 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $6.6 million of commercial real estate, $5.5 million of residential properties, and $0.7 million of marine vessels at December 31, 2011.

Non-performing assets totaled $135.4 million, or 1.91% of total assets at December 31, 2011, compared to $100.1 million, or 1.47% of total assets at December 31, 2010. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $3.5 million during the year ended December 31, 2011.

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.

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

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

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

- levels of and trends in delinquencies and impaired loans;

levels of and trends in charge-offs and recoveries;

trends in volume and terms of loans;

effects of any changes in risk selection and underwriting standards, changes in lending policies, procedures and practices;

changes in the quality of the Bank s loan review system;

experience, ability, and depth of lending management and other relevant staff;

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- 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 second quarter of 2011, 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. During the fourth quarter of 2011, a change in methodology was made to the GVA allocation process whereby residential mortgage loans greater than or equal to 120 days past due were segregated from the rest of the residential mortgage loan population and assigned a GVA percentage based upon a review of actual losses recorded at foreclosure. This change was undertaken in recognition of the fact that residential mortgages are charged down to estimated fair value when they are four payments past due. Valuations are subsequently obtained on an annual basis and ultimately at foreclosure, with additional charge-offs recorded if required.

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

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

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

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

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Balance at beginning of period	$ 68,722	$ 60,744	$ 47,712	$ 40,782	$ 32,434
Charge offs:					
Residential mortgage loans	5,229	1,996	2,712	20	24
Commercial mortgage loans	3,408	10,452	619	3,529	
Multi-family mortgage loans					
Construction loans	123	1,384	1,089	88	
Commercial loans	8,634	11,196	7,576	1,967	1,044
Consumer loans	7,659	4,439	7,624	4,821	2,127
Total	25,053	29,467	19,620	10,425	3,195
Recoveries:					
Residential mortgage loans	197	359	19	2	138
Commercial mortgage loans	15	30	6	480	13
Multi-family mortgage loans					
Construction loans	4	47		88	
Commercial loans	1,018	727	1,367	372	622
Consumer loans	548	782	1,010	1,313	1,415
Total	1,782	1,945	2,402	2,255	2,188
Net charge-offs	23,271	27,522	17,218	8,170	1,007
Provision for loan losses	28,900	35,500	30,250	15,100	6,530
Allowance of acquired institution					2,825
Balance at end of period	$ 74,351	$ 68,722	$ 60,744	$ 47,712	$ 40,782
Ratio of net charge-offs to average loans outstanding during the period	0.52%	0.64%	0.39%	0.19%	0.02%
Allowance for loan losses to total loans	1.60%	1.56%	1.39%	1.05%	0.95%
Allowance for loan losses to non-performing loans	60.67%	70.66%	71.91%	80.71%	117.72%

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

	At December 31,									
	2011		2010		2009		2008		2007	
	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	$ 5,873	28.14%	$ 6,628	31.48%	$ 5,324	34.07%	$ 4,142	39.70%	$ 2,882	39.79%
Commercial mortgage loans	22,308	26.95	20,441	26.80	23,578	24.90	14,938	20.44	8,977	19.78
Multi-family mortgage loans	6,933	12.13	4,065	8.79	2,309	5.20	973	4.19	735	1.58
Construction loans	4,329	2.47	7,282	2.84	4,134	4.48	5,264	5.17	7,947	7.22
Commercial loans	25,381	18.25	22,210	17.15	16,572	17.95	12,697	16.68	10,841	16.61
Consumer loans	5,515	12.06	5,616	12.94	5,964	13.40	6,854	13.82	6,764	15.02
Unallocated	4,012		2,480		2,863		2,844		2,636	
Total	$ 74,351	100.00%	$ 68,722	100.00%	$ 60,744	100.00%	$ 47,712	100.00%	$ 40,782	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, 2011, the Bank held $64.2 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.

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

	At December 31,					
	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	$ 22,321	$ 23,180	$ 39,493	$ 41,170	$ 64,197	$ 65,553
FHLB obligations	500	504	250	250		
FHLMC obligations	499	503	750	744		
FNMA obligations	2,648	2,676	1,749	1,729	500	496
FFCB obligations					500	496
State and municipal obligations	314,108	330,902	294,527	298,239	260,455	268,286
Corporate obligations	8,242	8,531	9,253	9,548	9,422	9,554
Total held-to-maturity	$ 348,318	$ 366,296	$ 346,022	$ 351,680	$ 335,074	$ 344,385
Available for Sale:						
State and municipal obligations	11,066	11,614	11,188	11,629	12,199	12,701
Mortgage-backed securities	1,221,988	1,251,003	1,223,869	1,247,526	1,076,467	1,084,680
FHLMC obligations	24,077	24,155	20,080	20,077	10,045	10,286
FHLB obligations	43,546	43,669	85,188	85,770	213,906	215,565
FNMA obligations	33,506	33,725				
FFCB obligations	4,001	4,009	4,003	3,996		
Corporate obligations	7,517	7,636	9,543	9,929	9,567	9,931
Equity securities	307	308				
Total available for sale	$ 1,346,008	$ 1,376,119	$ 1,353,871	$ 1,378,927	$ 1,322,184	$ 1,333,163
Average expected life of securities[1]	3.00 years		3.42 years		3.14 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, 2011:		
FNMA	$ 531,243	$ 544,892
FHLMC	617,252	632,177

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The following table sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Company s debt securities portfolio as of December 31, 2011. 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, 2011									
	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	$	%	$	%	$ 12,807	4.33%	$ 9,514	4.92%	$ 22,321	4.58%
Agency obligations			2,247	1.66	1,400	2.29	0,000		3,647	1.90
Corporate obligations	1,471	4.69	6,771	4.15			0,000		8,242	4.25
State and municipal obligations	51,213	2.11	76,622	3.52	84,824	3.82	101,449	3.50	314,108	3.36
Total held to maturity	$ 52,684	2.18%	$ 85,640	3.52%	$ 99,031	3.86%	$ 110,963	3.62%	$ 348,318	3.45%
Available for sale:										
State and municipal obligations	$ 1,037	3.84%	$ 7,473	3.57%	$ 3,104	3.94%	$	%	$ 11,614	3.69%
Mortgage-backed securities			8,392	4.22	190,574	3.49	1,052,037	2.93	1,251,003	3.02
Agency obligations	44,174	0.75	61,384	0.75					105,558	0.75
Corporate obligations	7,636	4.37							7,636	4.37
Total available for sale[2]	$ 52,847	1.33%	$ 77,249	1.40%	$ 193,678	3.50%	$ 1,052,037	2.93%	$ 1,375,811	2.86%

(1) Yields are not tax equivalent.
(2) Totals excludes $308,000 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.

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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, defined as savings accounts, interest and non-interest bearing checking accounts and money market deposit accounts represented 78.1% of total deposits at December 31, 2011 and 73.8% of total deposits at December 31, 2010. As of December 31, 2011 and December 31, 2010, time deposits maturing in less than one year amounted to $755 million and $820 million, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2011.

	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	$ 95,672	$ 72,138	$ 65,141	$ 150,223	$ 383,174
Certificates of deposit less than $100,000	187,262	182,835	152,093	223,362	745,552
Total certificates of deposit	$ 282,934	$ 254,973	$ 217,234	$ 373,585	$ 1,128,726

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

	Period to Maturity from December 31, 2011						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	2011	2010	2009
					(In thousands)				
Rate:									
0.00 to 0.99%	$ 572,817	$ 32,550	$ 3,630	$ 2	$ 22	$	$ 609,021	$ 569,143	$ 349,356
1.00 to 2.00%	120,407	43,005	13,740	2,250	25,146	773	205,321	342,161	452,361
2.01 to 3.00%	31,850	12,657	32,485	76,158	15,204		168,354	173,921	246,822
3.01 to 4.00%	2,074	22,414	46,930	20		3	71,441	88,028	292,729
4.01 to 5.00%	18,577	42,173	3,238	276	421	121	64,806	78,959	137,892
5.01 to 6.00%	9,176	275	24		7	24	9,506	24,997	25,374
6.01 to 7.00%	188						188	946	2,971
Over 7.01%	52		37				89	107	105
Total	$ 755,141	$ 153,074	$ 100,084	$ 78,706	$ 40,800	$ 921	$ 1,128,726	$ 1,278,262	$ 1,507,610

Borrowed Funds. At December 31, 2011, the Bank had $920.2 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.

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

	Year Ended December 31,		
	2011	2010	2009
		(Dollars in thousands)	
Maximum Balance:			
FHLB advances	$ 585,234	$ 578,168	$ 532,066
FHLB line of credit	64,000	53,000	75,000
Securities sold under agreements to repurchase	366,460	454,451	618,034
Average Balance:			
FHLB advances	560,420	546,910	529,303
FHLB line of credit	9,918	512	11,444
Securities sold under agreements to repurchase	338,839	391,889	515,976
Weighted Average Interest Rate:			
FHLB advances	2.81%	3.66%	3.98%
FHLB line of credit	0.47	0.42	0.55
Securities sold under agreements to repurchase	2.18	2.52	3.08

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

	At December 31,		
	2011	2010	2009
		(Dollars in thousands)	
Federal Funds Purchased	$ 10,000	$	$
FHLB advances	518,347	570,072	519,947
FHLB line of credit	30,000	53,000	
Securities sold under repurchase agreements	361,833	346,611	479,286
Total borrowed funds	$ 920,180	$ 969,683	$ 999,233
Weighted average interest rate of Federal Funds Purchased	0.50%	%	%
Weighted average interest rate of FHLB advances	2.51%	3.17%	3.93%
Weighted average interest rate of FHLB line of credit	0.35%	0.44%	%
Weighted average interest rate of securities sold under agreements to repurchase	1.99%	2.35%	2.87%

WEALTH MANAGEMENT SERVICES

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

As part of the Company s plan 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). 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.

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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, 2011, 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, 2011, Bergen Avenue Realty, LLC had total assets of $508,000.

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

Beacon Global Asset Management, Inc., an SEC-registered investment advisor incorporated in Delaware, is a wholly owned subsidiary of the Bank acquired on August 11, 2011.

PERSONNEL

As of December 31, 2011, the Company had 848 full-time and 115 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 Reserve Board and the Commissioner. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company s compliance with various regulatory requirements. The Company files certain reports with, and otherwise complies with, the rules and regulations of the SEC under the federal securities laws and the listing requirements of the New York Stock Exchange.

The Bank is a New Jersey chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to extensive regulation, examination and supervision by the Commissioner as the issuer of its charter, and by the FDIC as the deposit insurer. The Bank 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 and stockholders.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) has made extensive changes in the regulation of depository institutions and their holding companies. Certain provisions of the Dodd-Frank Act will impact the Company and the Bank. For example, the Dodd-Frank Act created a new 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.

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

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exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers is limited by federal law and the related regulations. See Federal Banking Regulation Activity Restrictions on State-Chartered Bank below.

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

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

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

Examination and Enforcement. The New Jersey Department of Banking and Insurance may examine the Company and the Bank whenever it deems an examination advisable. The Department examines the Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or 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, 2011:

	As of December 31, 2011		
	Capital	Percent of Assets(1)	Capital Requirements(1)
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 496,139	7.42%	4.00%
Tier 1 risk-based capital	496,139	10.88	4.00
Total risk-based capital	553,378	12.13	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, 2011, the Bank was considered well capitalized under FDIC guidelines.

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

Before making a new investment or engaging in a new activity that is not permissible for a national bank or otherwise permissible under federal law or FDIC regulations, an insured bank must seek approval from the FDIC to make such investment or engage in such activity. The FDIC will not approve the activity unless the bank

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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, 2011, dividends paid by the FHLB to the Bank totaled $1.8 million.

Deposit Insurance. As a member institution of the FDIC, deposit accounts at the Bank were insured generally up to a maximum of $100,000 for each separately insured depositor, and up to a maximum of $250,000 for self-directed retirement accounts. In October 2008, however, the FDIC temporarily increased the standard maximum amount of deposit insurance available on all deposit accounts to $250,000. That limit was made permanent by the Dodd-Frank Act. Additionally, certain non-interest-bearing transaction accounts maintained with financial institutions participating in the FDIC s Temporary Liquidity Guarantee Program (TLG Program) were fully insured regardless of the dollar amount until June 30, 2010. The Dodd-Frank Act extended unlimited coverage for certain non-interest bearing transaction accounts until December 31, 2012.

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

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

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

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

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

On February 7, 2011, the FDIC issued a final rule that establishes a target size for the Deposit Insurance Fund (DIF) at 2 percent of insured deposits as mandated by the Dodd-Frank Act. The rule also implements a lower assessment rate schedule when the DIF reaches 1.15 percent of total insured deposits. The rule also changes the assessment base from a bank s adjusted domestic deposits to its average consolidated total assets minus average tangible equity, as addressed below.

As of April 1, 2011, as required by the Dodd-Frank Act, the FDIC revised its assessment system to base it on an institution s average total assets less tangible equity instead of deposits. The FDIC also revised the assessment range so that it is now 2.5 basis points to 45 basis points of total assets less tangible capital (inclusive of potential risk adjustments).

The FDIC may terminate the insurance of an institution s deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Management is not aware of any practice, condition or violation that might lead to termination of the Bank s deposit insurance.

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

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

Section 23A:

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

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

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

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

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

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

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

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

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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 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 is significantly changing the current bank regulatory structure and 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.

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

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 Securities and Exchange Commission has been authorized to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials. The legislation also 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.

Loans to a Bank s Insiders

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

Generally, loans to insiders must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons, and not involve more than the normal risk of payment or present other unfavorable features. An exception may be made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

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

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

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

Federal Reserve System

Under Federal Reserve Board regulations, the Bank is required to maintain non-interest earning reserves against its transaction accounts. The Federal Reserve Board regulations generally require that reserves of 3% must be maintained against aggregate transaction accounts over $11.5 million and up to $71.0 million, and 10% against that portion of total transaction accounts in excess of up to $71.0 million. The first $11.5 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 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 similarily to those of the FDIC for the Bank. As of December 31, 2011, 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, 2011:

	As of December 31, 2011		
	Capital	Percent of Assets[(1)]	Capital Requirements[(1)]
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 583,770	8.74%	4.00%
Tier 1 risk-based capital	583,770	12.80	4.00
Total risk-based capital	641,008	14.05	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, 2011, 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.

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

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

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

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

- 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.

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, 2011 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, 2011, 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.

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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, 2011, the Company had no net operating loss carryforwards for federal income tax purposes.

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

State Taxation

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

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

Item 1A. Risk Factors.

In the course of conducting our business, we are exposed to a variety of risks that are inherent to the financial services industry. The following discusses 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 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.

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

During 2011, 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. Declines in home prices, increases in foreclosures, the protracted foreclosure process in New Jersey and unemployment have adversely impacted the credit performance of real estate related loans, resulting in the reductions in collateral and net asset values. The continuing housing slump has resulted in reduced demand for the construction of new 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.

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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, 2011, the average loan size for a construction loan was $3.8 million, for a commercial mortgage loan was $2.0 million, and for a commercial loan was $479,000, compared to an average loan size of $204,000 for a single-family residential mortgage loan. Also, many of our borrowers of these types of loans have more than one loan outstanding with us. Consequently, any adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to one single-family residential mortgage loan.

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

Our success depends primarily on the general economic conditions in northern and central New Jersey. Unlike some larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in northern and central New Jersey. The local economic conditions in northern and central New Jersey, including an unemployment rate of 9.1% at December 31, 2011, have a significant impact on our construction loans, commercial mortgage loans, commercial loans, and residential mortgage loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. A continuing significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact these local economic conditions and could negatively affect the financial results of our banking operations. Additionally, because we have a significant amount of real estate loans, further declines in real estate values and the continued slump in real estate sales may also have a negative effect on the ability of many of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings and overall financial condition.

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

Our Allowance for Loan Losses May Not be Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease

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

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

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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, a Prolonged Low Interest Rate Environment, or a Flattening Yield Curve Could Adversely Affect Our Results of Operations and Financial Condition

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations are substantially dependent on our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Changes in interest rates, a prolonged low interest rate environment, or a flattening yield curve could have an adverse affect on net interest income to the extent our interest-earning assets and interest-bearing liabilities reprice or mature at different times or at different relative interest rates. A prolonged low interest rate environment could result in asset yields contracting at a rate in excess of reductions in funding costs as a result of implied funding rate floors. A flattening yield curve could result in a reduction in the spread between earning asset yields and funding costs, adversely impacting net interest income. An increase in interest rates generally could result in a decrease in our average interest rate spread and net interest income, which would have a negative effect on our profitability. In the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no actions to mitigate the effect of such change, we are projecting that our net interest income would decrease 4.2% or $9.1 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, 2011, our available for sale securities portfolio totaled $1.38 billion. Unrealized gains and losses on securities available for sale are reported as a separate component of stockholders equity. Decreases in the fair value of securities available for sale resulting from increases in interest rates therefore could have an adverse effect on stockholders equity.

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

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, 2011, goodwill totaling $353.3 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 new 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.

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

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

The potential exists for additional Federal or state laws and regulations regarding capital requirements, lending and funding practices and liquidity standards, and bank regulatory agencies are expected to 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 Federal Deposit Insurance Corporation insurance premiums and may also increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability.

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

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

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

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

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

The Dodd-Frank Act also broadened the base for Federal Deposit Insurance Corporation deposit insurance assessments. Assessments are now based on the average consolidated assets less tangible capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks and savings institutions to $250,000 per depositor and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

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

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

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Our Information Systems May Experience an Interruption or Security Breach

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

Property

At December 31, 2011, the Bank conducted business through 82 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 $66.3 million at December 31, 2011.

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.

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PART II

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

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

As of December 31, 2011, there were 83,209,285 shares of the Company s common stock issued and 59,968,195 shares outstanding and 5,715 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.

	2011			2010		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 15.47	$ 13.90	$ 0.11	$ 11.98	$ 10.17	$ 0.11
Second Quarter	14.85	13.02	0.12	13.85	11.48	0.11
Third Quarter	15.12	10.75	0.12	13.18	11.27	0.11
Fourth Quarter	14.21	10.12	0.12	15.57	12.08	0.11

On January 26, 2012, the Board of Directors declared a quarterly cash dividend of $0.12 per common share, which was paid on February 29, 2012, to common stockholders of record as of the close of business on February 15, 2012. The Company s Board of Directors intends to review the payment of dividends quarterly and plans to continue to maintain a regular quarterly cash dividend in the future, subject to financial condition, results of operations, tax considerations, industry standards, economic conditions, regulatory restrictions that affect the payment of dividends by the Bank to the Company and other relevant factors.

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

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Stock Performance Graph

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company s common stock for the period December 31, 2006 through December 31, 2011, (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, 2006.

PROVIDENT FINANCIAL SERVICES, INC.

	Period Ending					
Index	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**
Provident Financial Services, Inc.	100.00	81.59	89.24	64.80	95.48	87.52
Russell 2000	100.00	98.43	65.18	82.89	105.14	100.75
SNL Thrift	100.00	59.99	38.18	35.60	37.20	31.30

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The following table reports information regarding purchases of the Company s common stock during the fourth quarter of 2011 and the stock repurchase plan approved by the Company s Board of Directors:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
October 1, 2011 Through October 31, 2011				1,879,275
November 1, 2011 Through November 30, 2011	105,945	$ 11.93	105,945	1,773,330
December 1, 2011 Through December 31, 2011				1,773,330
Total	105,945	$ 11.93	105,945	

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

Item 6. Selected Financial Data

The summary information presented below at or for each of the periods presented is derived in part from and should be read in conjunction with the consolidated financial statements of the Company presented in Item 8.

	At December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 7,097,403	$ 6,824,528	$ 6,836,172	$ 6,548,748	$ 6,359,391
Loans, net(1)	4,579,158	4,341,091	4,323,450	4,479,036	4,255,509
Investment securities held to maturity	348,318	346,022	335,074	347,484	358,491
Securities available for sale	1,376,119	1,378,927	1,333,163	820,329	769,615
Deposits	5,156,597	4,877,734	4,899,177	4,226,336	4,224,820
Borrowed funds	920,180	969,683	999,233	1,247,681	1,075,104
Stockholders equity	952,477	921,687	884,555	1,018,590	1,000,794

	For the Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
Selected Operations Data:					
Interest income	$ 275,719	$ 286,534	$ 292,559	$ 304,320	$ 302,577
Interest expense	59,729	77,569	111,542	132,251	147,699
Net interest income	215,990	208,965	181,017	172,069	154,878
Provision for loan losses	28,900	35,500	30,250	15,100	6,530

Net interest income after provision for loan losses	187,090	173,465	150,767	156,969	148,348
Non-interest income	32,542	31,552	31,452	30,211	35,537
Non-interest expense(2)	142,446	138,748	297,036	130,601	133,013
Income (loss) before income tax expense(2)	77,186	66,269	(114,817)	56,579	50,872
Income tax expense	19,842	16,564	7,007	14,937	13,492
Net income (loss)(2)	$ 57,344	$ 49,705	$ (121,824)	$ 41,642	$ 37,380
Earnings (loss) per share:					
Basic earnings (loss) per share(2)	$ 1.01	$ 0.88	$ (2.16)	$ 0.74	$ 0.63
Diluted earnings (loss) per share(2)	$ 1.01	$ 0.88	$ (2.16)	$ 0.74	$ 0.63

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(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,				
	2011	2010	2009	2008	2007
Selected Financial and Other Data[1]					
Performance Ratios:					
Return on average assets[5]	0.83%	0.73%	(1.83%)	0.65%	0.62%
Return on average equity[5]	6.09%	5.46%	(13.33%)	4.12	3.63
Average net interest rate spread	3.33	3.27	2.82	2.78	2.52
Net interest margin[2]	3.49	3.45	3.06	3.11	2.96
Average interest-earning assets to average interest-bearing liabilities	1.16	1.14	1.13	1.13	1.16
Non-interest income to average total assets	0.47	0.47	0.47	0.47	0.59
Non-interest expenses to average total assets[5]	2.07	2.05	4.45	2.04	2.19
Efficiency ratio[3][5]	57.31	57.69	139.80	64.56	69.85
Asset Quality Ratios:					
Non-performing loans to total loans	2.63%	2.21%	1.93%	1.31%	0.81%
Non-performing assets to total assets	1.91	1.47	1.33	0.96	0.56
Allowance for loan losses to non-performing loans	60.67	70.66	71.91	80.71	117.72
Allowance for loan losses to total loans	1.60	1.56	1.39	1.05	0.95
Capital Ratios:					
Leverage capital[4]	8.74%	8.57%	7.99%	8.48%	8.29%
Total risk based capital[4]	12.80	13.00	12.17	13.28	12.92
Average equity to average assets	14.05	14.26	13.42	15.82	16.95
Other Data:					
Number of full-service offices	82	81	82	83	85
Full time equivalent employees	906	899	931	954	942

(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:	**12/31/2011**	**12/31/2010**	**12/31/2009**	**12/31/2008**	**12/31/2007**
Net interest income	$ 215,990	$ 208,965	$ 181,017	$ 172,069	$ 154,878
Non-interest income	32,542	31,552	31,452	30,211	35,537
Total income	$ 248,532	$ 240,517	$ 212,469	$ 202,280	$ 190,415
Non-interest expense[1]	$ 142,446	$ 138,748	$ 297,036	$ 130,601	$ 133,013
Expense/income[1]	57.31%	57.69%	139.80%	64.56%	69.85%

(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 82 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, 2011, commercial loans accounted for 59.8% of the loan portfolio and retail loans accounted for 40.2%. The Company intends to continue to diversify the loan portfolio and to focus on commercial real estate and commercial and industrial lending relationships.

The Company s 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, 2011, core deposits were 78.1% 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).

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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.

Critical Accounting Policies

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

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

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

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

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

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

Management assigns general valuation allowance (GVA) percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type and other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries, loan volume, as well as, the national and local economic trends and conditions. The appropriateness of these percentages is evaluated by management at least annually and monitored on a quarterly basis, with changes made when they are required. In the second quarter of 2011, 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. During the fourth quarter of 2011, a

change in methodology was made to the GVA allocation process whereby residential mortgage loans greater than or equal to 120 days past due were segregated from the rest of the residential mortgage loan population and assigned a GVA percentage based upon a review of actual losses recorded at foreclosure. This change was undertaken in recognition of the fact that residential mortgages are charged down to estimated fair value when they are four payments past due. Valuations are subsequently obtained on an annual basis and ultimately at foreclosure, with additional charge-offs recorded if require.

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.

Effective September 30, 2011, the Company early adopted amended guidance related to the annual goodwill impairment assessment. The new 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 performing Step 1 of the goodwill impairment test. 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 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 a company 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, 2011. 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 is not impaired and no further quantitative analysis (Step 1) is 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 recognized other-than-temporary securities impairment losses in earnings totaling $302,000, $170,000 and $2.0 million in 2011, 2010 and 2009, 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.

Analysis of Net Interest Income

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

Average Balance Sheet. The following table sets forth certain information for the years ended December 31, 2011, 2010 and 2009. 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,								
	2011			2010			2009		
	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	$ 47,727	$ 119	0.25%	$ 98,940	$ 247	0.25%	$ 121,557	$ 304	0.25%
Federal funds sold and short-term investments	1,457		0.01	1,951		0.01	25,790	37	0.14
Investment securities(1)	345,528	12,160	3.52	335,080	12,778	3.81	339,154	13,419	3.96
Securities available for sale	1,302,233	34,393	2.64	1,311,859	41,322	3.15	1,089,032	43,338	3.98
Federal Home Loan Bank Stock	38,259	1,764	4.61	34,979	1,821	5.21	35,918	1,848	5.15
Net loans(2)	4,423,125	227,283	5.11	4,274,549	230,366	5.39	4,303,808	233,613	5.43
Total interest-earning assets	6,158,329	275,719	4.46	6,057,358	286,534	4.73	5,915,259	292,559	4.95
Non-interest earning assets	734,778			726,114			757,161		
Total assets	$ 6,893,107			$ 6,783,472			$ 6,672,420		
Interest-bearing liabilities:									
Savings deposits	$ 899,020	2,971	0.33%	$ 886,963	4,061	0.46%	$ 874,281	6,284	0.72%
Demand deposits	2,272,780	15,168	0.67	2,096,259	18,369	0.88	1,672,379	22,710	1.36
Time deposits	1,213,292	18,413	1.52	1,377,185	25,275	1.84	1,629,467	45,561	2.80
Borrowed funds	909,531	23,177	2.55	939,311	29,864	3.18	1,056,723	36,987	3.50
Total interest-bearing liabilities	5,294,623	59,729	1.13	5,299,718	77,569	1.46	5,232,850	111,542	2.13
Non-interest bearing liabilities	657,056			573,238			525,352		
Total liabilities	5,951,679			5,872,956			5,758,202		
Stockholders equity	941,428			910,516			914,218		
Total liabilities and equity	$ 6,893,107			$ 6,783,472			$ 6,672,420		
Net interest income		$ 215,990			$ 208,965			$ 181,017	
Net interest rate spread			3.33%			3.27%			2.82%
Net interest earning assets	$ 863,706			$ 757,640			$ 682,409		
Net interest margin(3)			3.49%			3.45%			3.06%

Ratio of interest-earning assets to total interest-bearing liabilities	1.16x	1.14x	1.13x

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

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

	Year Ended December 31,					
	2011 vs. 2010			2010 vs. 2009		
	Increase/(Decrease) Due to		Total Increase/ (Decrease)	Increase/(Decrease) Due to		Total Increase/ (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Deposits, Federal funds sold and short-term investments	$ (128)	$	$ (128)	$ (94)	$	$ (94)
Investment securities	389	(1,007)	(618)	(157)	(484)	(641)
Securities available for sale	(301)	(6,628)	(6,929)	7,955	(9,972)	(2,017)
Federal Home Loan Bank Stock	162	(219)	(57)	(47)	21	(26)
Loans	8,382	(11,465)	(3,083)	(1,543)	(1,704)	(3,247)
Total interest-earning assets	8,504	(19,319)	(10,815)	6,114	(12,139)	(6,025)
Interest-bearing liabilities:						
Savings deposits	55	(1,144)	(1,090)	90	(2,313)	(2,223)
Demand deposits	1,450	(4,651)	(3,201)	4,926	(9,267)	(4,341)
Time deposits	(2,796)	(4,066)	(6,862)	(6,289)	(13,997)	(20,286)
Borrowed funds	(921)	(5,766)	(6,687)	(3,904)	(3,219)	(7,123)
Total interest-bearing liabilities	(2,212)	(15,628)	(17,840)	(5,177)	(28,796)	(33,973)
Net interest income	$ 10,716	$ (3,691)	$ 7,025	$ 11,291	$ 16,657	$ 27,948

Comparison of Financial Condition at December 31, 2011 and December 31, 2010

Total assets increased $272.9 million, or 4.0%, to $7.10 billion at December 31, 2011, from $6.82 billion at December 31, 2010, primarily due to an increase in net loans outstanding.

Cash and cash equivalents increased $17.4 million to $69.6 million at December 31, 2011, from $52.2 million at December 31, 2010. The Company expects to deploy these cash balances to fund loan originations and investment purchases and repay maturing borrowings.

Total loans increased $238.1 million, or 5.5%, to $4.58 billion at December 31, 2011, from $4.41 billion at December 31, 2010. For the year ended December 31, 2011, loan originations totaling $1.51 billion and loan purchases of $79.5 million were partially offset by repayments of $1.30 billion and loan sales of $12.9 million. Multi-family loans increased $177.0 million to $564.1 million at December 31, 2011, compared to $387.2 million at December 31, 2010. Commercial loans increased $93.5 million to $849.0 million at December 31, 2011, compared to $755.5 million at December 31, 2010, and commercial real estate loans increased $73.4 million to $1.25 billion at December 31, 2011, compared to $1.18 billion at December 31, 2010. Residential mortgage loans decreased $77.7 million to $1.31 billion at December 31, 2011, compared to $1.39 billion at December 31, 2010, as loan repayments attributable to an active refinance market outpaced originations. One- to four-family residential mortgage loan originations totaled $146.7 million and one- to four-family residential mortgage loans purchased totaled $79.5 million for the year ended December 31, 2011. Principal repayments on residential mortgage loans totaled $285.8 million, and residential mortgage loans sold totaled $12.9 million for the year ended December 31, 2011. Construction loans decreased $10.4 million to $114.8 million at December 31, 2011, compared to $125.2 million at December 31, 2010. The Company has de-emphasized construction lending for the past two years due to adverse market conditions. Consumer loans decreased $8.6 million to $561.0 million at December 31, 2011, compared to $569.6 million at December 31, 2010.

Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $2.78 billion, accounting for 59.8% of the loan portfolio at December 31, 2011, compared to $2.45 billion, or 55.6% of the loan portfolio at December 31, 2010. 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 $1.87 billion and accounted for 40.2% of the loan portfolio at December 31, 2011, compared to $1.96 billion, or 44.4%, of the loan portfolio at December 31, 2010. 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, 2011 was $11.3 million. Of this total, 8 loans totaling $3.0 million were 90 days or more delinquent. General valuation reserves of 6.5%, or $195,000, were allocated to these loans at December 31, 2011.

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 $82.1 million and $58.6 million, respectively, at December 31, 2011. The Company s participations in SNCs included four relationships classified as substandard (rated 7) under the Company s loan risk rating system with gross commitments and outstanding balances of $34.6 million at December 31, 2011. Of these adversely classified SNCs, three loan relationships consisted of commercial construction loans on properties located in New York City and New Jersey, and one was a commercial loan to a Pennsylvania media company. All of the Company s SNC participations were current as to the payment of principal and interest as of December 31, 2011.

The Company had outstanding junior lien mortgages totaling $278.3 million at December 31, 2011. Of this total, 47 loans totaling $5.5 million were 90 days or more delinquent. General valuation reserves of 10%, or $550,000, were allocated to these loans at December 31, 2011.

At December 31, 2011, the Company had outstanding indirect marine loans totaling $51.5 million. Of this total, 3 loans totaling $838,000 were 90 days or more delinquent. General valuation reserves of 40%, or $335,000, were allocated to these loans at December 31, 2011. Marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The allowance for loan losses increased $5.6 million to $74.4 million at December 31, 2011, as a result of provisions for loan losses of $28.9 million, partially offset by net charge-offs of $23.3 million during 2011. The increase in the allowance for loan losses was attributable to an increase in non-performing loans, and an increase in commercial loans as a percentage of the loan portfolio to 59.8% at December 31, 2011, from 55.6% at December 31, 2010. Total non-performing loans at December 31, 2011 were $122.5 million, or 2.63% of total loans, compared with $97.3 million, or 2.21% of total loans at December 31, 2010. At December 31, 2011, impaired loans totaled $103.2 million with related specific reserves of $9.3 million. Within total impaired loans, there were $9.3 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, 2011, the Company s allowance for loan losses was 1.60% of total loans, compared with 1.56% of total loans at December 31, 2010.

Non-performing commercial mortgage loans increased $13.4 million, to $29.5 million at December 31, 2011, from $16.1 million at December 31, 2010. At December 31, 2011, the Company held 13 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a $13.4 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, 2011. 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 increased $8.6 million, to $32.1 million at December 31, 2011, from $23.5 million at December 31, 2010. Non-performing commercial loans at December 31, 2011 consisted of 19 loans. The largest non-performing commercial loan relationship consisted of four loans to a power systems manufacturer with total outstanding balances of $9.1 million at December 31, 2011. All contractual payments on these loans were current at December 31, 2011.

Non-performing construction loans increased $1.6 million, to $11.0 million at December 31, 2011, from $9.4 million at December 31, 2010. At December 31, 2011, non-performing construction loans consisted of two loans to the same borrower secured by a first mortgage on a 77,000 square foot newly constructed Class A office building, a 7,000 square foot fully leased retail building and a parcel of land with approvals for a 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. The loan was current as to the payment of principal and interest at December 31, 2011. The Company has an unfunded commitment of $3.6 million on this loan at December 31, 2011.

Non-performing multi-family loans at December 31, 2011, consisted of one loan for $997,000, compared to a $201,000 non-performing multi-family loan at December 31, 2010.

In addition, non-performing consumer loans increased $1.7 million, to $8.5 million at December 31, 2011. The Company attributes the increase in non-performing consumer loans to continued elevated levels of unemployment, decreased property values and increased personal debt levels.

At December 31, 2011, the Company held $12.8 million of foreclosed assets, compared with $2.9 million at December 31, 2010. Foreclosed assets at December 31, 2011 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $6.6 million of commercial real estate, $5.5 million of residential properties, and $0.7 million of marine vessels at December 31, 2011.

Non-performing assets totaled $135.4 million, or 1.91% of total assets at December 31, 2011, compared to $100.1 million, or 1.47% of total assets at December 31, 2010. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $3.5 million during the year ended December 31, 2011.

Total deposits increased $278.9 million, or 5.7%, during the year ended December 31, 2011 to $5.16 billion. Core deposits, consisting of savings and demand deposit accounts, increased $428.4 million, or 11.9%, to $4.03 billion at December 31, 2011. The majority of the core deposit increase was in commercial checking deposits, retail checking deposits and money market deposits, partially offset by a decline in savings deposits. Time deposits decreased $149.5 million, or 11.7%, to $1.13 billion at December 31, 2011, with the majority of the decrease occurring in the 15-month and shorter maturity categories. The Company remains focused on developing core deposit relationships, while strategically permitting the run-off of higher-cost time deposits. Core deposits represented 78.1% of total deposits at December 31, 2011, compared to 73.8% at December 31, 2010.

Borrowed funds were reduced $49.5 million, or 5.1% during the year ended December 31, 2011, to $920.2 million, as wholesale funding was replaced with core deposit growth. Borrowed funds represented 13.0% of total assets at December 31, 2011, a reduction from 14.2% at December 31, 2010.

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Total stockholders equity increased $30.8 million to $952.5 million at December 31, 2011, from $921.7 million at December 31, 2010. This increase was a result of net income of $57.3 million and the allocation of shares to stock-based compensation plans of $6.4 million, partially offset by cash dividends of $26.8 million, other comprehensive income of $5.2 million and common stock repurchases of $4.1 million

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. 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 $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.

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 25.0% 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.

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

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

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

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

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

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

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

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

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

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

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, 2011 and 2010, loan repayments totaled $1.30 billion and $1.15 billion, respectively.

One- to four-family residential loans, consumer loans, commercial real estate loans, multi-family loans and commercial and small business loans are the primary investments of the Company. Purchasing securities for the investment portfolio is a secondary use of funds and the investment portfolio is structured to complement and facilitate the Company s lending activities and ensure adequate liquidity. Loan originations and purchases totaled $1.59 billion for the year ended December 31, 2011, compared to $1.23 billion for the year ended December 31, 2010. Purchases for the investment portfolio totaled $531.0 million for the year ended December 31, 2011, compared to $626.3 million for the year ended December 31, 2010.

At December 31, 2011, the Bank had outstanding loan commitments to borrowers of $770.4 million, including undisbursed home equity lines and personal credit lines of $273.2 million at December 31, 2011. Total deposits increased $278.9 million for the year ended December 31, 2011. 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 $755.1 million at December 31, 2011. 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, 2011, the Bank exceeded all minimum regulatory capital requirements. At December 31, 2011, the Bank s leverage (Tier 1) capital ratio was 7.42%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2011, the Bank s total risk-based capital ratio was 12.13%. 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, 2011, 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	$ 747,021	$ 326,090	$ 151,127	$ 568	$ 269,236
Letters of credit	23,368	14,166	9,181		21
Total Off-Balance Sheet	770,389	340,256	160,308	568	269,257
Contractual Obligations:					
Operating leases					