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, 2006

OR

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

Commission File No. 1-31566

PROVIDENT FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(201) 333-1000

(Registrant s Telephone Number)

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

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

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

None

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

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

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

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

As of February 15, 2007, there were 79,879,017 issued and 63,316,762 shares of the Registrant s Common Stock outstanding, including 737,334 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, 2006, as quoted by the NYSE, was approximately $1.11 billion.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2007 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, in particular risks and uncertainties associated with the successful merger with, and integration of the operations of First Morris Bank & Trust, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

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

PART I

Item 1. Busines s
Provident Financial Services, Inc.

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

On October 15, 2006, the Company and First Morris Bank & Trust (First Morris) signed a definitive agreement under which First Morris will merge into the Bank. Consideration will be paid to First Morris stockholders in a combination of stock and cash. The transaction is subject to First Morris stockholder approval and regulatory approvals for both companies and is expected to close early in the second quarter of 2007.

At December 31, 2006, the Company had total assets of $5.74 billion, net loans of $3.75 billion, total deposits of $3.83 billion, and total stockholders equity of $1.02 billion. The Company s mailing address is 830 Bergen Avenue, Jersey City, New Jersey 07306-4599, and the Company s telephone number is (201) 333-1000.

The Provident Bank

Originally established in 1839, the Bank is a New Jersey-chartered capital stock savings bank headquartered in Jersey City, New Jersey. The Bank is a community- and customer-oriented bank operating 75 full-service branch offices in the New Jersey counties of Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Somerset and Union, which the Bank considers its primary market area. The Bank emphasizes personal service and customer convenience in serving the financial needs of the individuals, families and businesses residing in its markets. The Bank attracts deposits from the general public in the areas surrounding its banking offices and uses those funds, together with funds generated from operations and borrowings, to originate

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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 emphasizing the origination of commercial mortgage and commercial business loans. These loans generally have adjustable interest rates that initially are higher than the rates applicable to one- to four-family residential mortgage loans. However, these loans generally have a higher risk of loss than single-family residential mortgage loans.

Asset Quality. As of December 31, 2006, non-performing assets were $8.1 million or 0.14% of total assets, compared to $6.7 million or 0.11% of total assets at December 31, 2005. The Bank s asset quality reflects its focus on underwriting criteria and on aggressive collection efforts and conservative charge-off practices. The levels of commercial mortgage and commercial business loans and the relatively larger credit concentrations increase the Bank s credit risk.

Emphasis on Relationship Banking and Core Deposits. The Bank emphasizes the acquisition and retention of core deposit accounts, such as checking and savings accounts, and expanding customer relationships. Core deposit accounts totaled $2.27 billion at December 31, 2006, representing 59.2% of total deposits. The Bank also focuses on increasing the number of households and businesses served and the number of bank products per customer.

Increasing Non-Interest Income. The Bank s emphasis on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. A primary source of non-interest income is derived from fees on core deposit accounts. The Bank has also focused on expanding products and services to generate additional non-interest income by offering investment products, estate management and trust services. Total non-interest income was $32.0 million for the year ended December 31, 2006, compared with $29.2 million for the year ended December 31, 2005, and fee income increased to $23.3 million for the year ended December 31, 2006, from $23.0 million for the year ended December 31, 2005.

Managing Interest Rate Risk. Although the Bank s liabilities are more sensitive to changes in interest rates than its assets, the Bank manages its exposure to interest rate risk by emphasizing the origination and retention of adjustable rate and shorter-term loans. In addition, the Bank uses its investments in securities to manage interest rate risk. At December 31, 2006, 49.9% 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, 2006, the Bank s securities portfolio, excluding equity securities, totaled $1.15 billion and had an average expected life of 3.87 years.

Capital Management. The Company repurchased $99.6 million of its common stock and paid cash dividends totaling $24.3 million in 2006.

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 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov). All filed SEC reports and interim filings can also be obtained from the Bank s website, www.providentnj.com, on the Investor Relations page, without charge from the Company.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2006, the Bank operated a network of 75 full-service banking offices throughout ten counties in northern and central New Jersey, comprised of 16 offices in Hudson County, 3 in Bergen, 6 in Essex, 1 in Mercer, 23 in Middlesex, 10 in Monmouth, 2 in Morris, 6 in Ocean, 5 in Somerset and 3 in Union Counties. The Bank also maintains The Provident Loan Center in Woodbridge, 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 ten-county primary market area includes a mix of urban and suburban communities and has a diversified mix of industries including pharmaceutical and other manufacturing companies, network communications, insurance and financial services, and retail. According to the U.S. Census Bureau s most recent population estimates as of 2005, the Bank s ten-county market area has a population of 6.0 million, which was 68.7% of the state s total population. Because of the diversity of industries in the Bank s market area and, to a lesser extent, because of its proximity to the New York City financial markets, the area s economy can be significantly affected by changes in national and international economies. According to the U.S. Bureau of Labor Statistics, employment growth in New Jersey has continued to ease, rising 1.4% in 2006, compared to 1.5% in 2005. However, the state s unemployment rate has also moderated to 4.2% at year-end 2006, compared to 4.6% at year-end 2005.

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Within its ten-county market area, the Bank has an approximate 2.39% share of bank deposits as of June 30, 2006, the latest date for which statistics are available, and an approximate 1.85% deposit share of the New Jersey market statewide.

COMPETITION

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

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

LENDING ACTIVITIES

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

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

The Bank originates commercial real estate loans that are secured by income-producing properties such as multi-family residences, office buildings, and retail and industrial properties. To limit its exposure to interest rate risk, the Bank generally adjusts the interest rate following an initial five-year period in the majority of the commercial real estate loans it originates.

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

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

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

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

	At December 31,									
	2006		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential mortgage loans	$ 1,623,374	43.28%	$ 1,773,288	47.83%	$ 1,866,614	50.82%	$ 1,044,788	47.12%	$ 699,469	34.43%
Commercial mortgage loans	701,519	18.70	594,788	16.04	653,312	17.78	427,341	19.28	420,250	20.68
Multi-family mortgage loans	69,356	1.85	77,112	2.08	85,785	2.34	90,045	4.06	76,499	3.77
Construction loans	282,898	7.54	289,453	7.81	188,902	5.14	99,072	4.47	96,028	4.73
Total mortgage loans	2,677,147	71.37	2,734,641	73.76	2,794,613	76.08	1,661,246	74.93	1,292,246	63.61
Mortgage warehouse loans							4,148	0.19	276,383	13.60
Commercial loans	503,786	13.43	436,285	11.77	386,151	10.51	268,864	12.13	207,916	10.23
Consumer loans	592,948	15.80	556,645	15.02	514,296	14.00	300,825	13.57	275,812	13.57
Total other loans	1,096,734	29.23	992,930	26.79	900,447	24.51	573,837	25.89	760,111	37.40
Premiums on purchased loans	11,285	0.30	13,190	0.35	14,421	0.39	5,411	0.24	2,123	0.10
Unearned discounts	(875)	(0.02)	(1,110)	(0.03)	(1,309)	(0.04)	(1,547)	(0.07)		
Net deferred fees	(627)	(0.02)	(529)	(0.01)	(961)	(0.02)	(1,580)	(0.07)	(1,625)	(0.08)
Allowance for loan losses	(32,434)	(0.86)	(31,980)	(0.86)	(33,766)	(0.92)	(20,631)	(0.92)	(20,986)	(1.03)
Total loans, net	$ 3,751,230	100.00%	$ 3,707,142	100.00%	$ 3,673,445	100.00%	$ 2,216,736	100.00%	$ 2,031,869	100.00%

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Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2006, regarding the maturities of loans in the loan portfolio. Demand loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due within one year.

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years	Ten Through Twenty Years	Beyond Twenty Years	Total
				(In thousands)			
Residential mortgage loans	$ 6,692	$ 10,272	$ 13,172	$ 121,257	$ 585,416	$ 886,565	$ 1,623,374
Commercial mortgage loans	24,994	81,081	58,584	417,267	108,628	10,965	701,519
Multi-family mortgage loans	3,159	2,950	2,684	53,657	5,231	1,675	69,356
Construction loans	168,424	110,298	4,176				282,898
Total mortgage loans	203,269	204,601	78,616	592,181	699,275	899,205	2,677,147
Commercial loans	145,347	66,604	44,098	213,036	31,209	3,492	503,786
Consumer loans	79,506	33,241	55,815	87,392	335,473	1,521	592,948
Total loans	$ 428,122	$ 304,446	$ 178,529	$ 892,609	$ 1,065,957	$ 904,218	$ 3,773,881

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2006, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2007. Adjustable-rate loans are included based on contractual maturities.

	Due After December 31, 2007		
	Fixed	Adjustable	Total
		(In thousands)	
Residential mortgage loans	$ 815,661	$ 801,021	$ 1,616,682
Commercial mortgage loans	415,017	261,508	676,525
Multi-family mortgage loans	39,294	26,903	66,197
Construction loans		114,474	114,474
Total mortgage loans	1,269,972	1,203,906	2,473,878
Commercial loans	144,039	214,400	358,439
Consumer loans	475,721	37,721	513,442
Total loans	$ 1,889,732	$ 1,456,027	$ 3,345,759

Residential Mortgage Lending. A principal lending activity of the Bank is to originate loans secured by first mortgages on one- to four-family residences in the State of New Jersey. The Bank originates residential mortgages primarily through commissioned mortgage representatives and its branch offices. The Bank originates both fixed-rate and adjustable-rate mortgages. Residential mortgage lending represents the largest single component of the total loan portfolio. As of December 31, 2006, $1.62 billion or 43.0% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 50.7% were fixed-rate and 49.3% were adjustable-rate loans.

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

The residential mortgage portfolio is primarily underwritten to Freddie Mac and Fannie Mae standards. The Bank s standard maximum loan to value ratio is 80%. However, working through mortgage insurance companies, the Bank underwrites loans for sale to Freddie Mac or Fannie Mae programs that will finance up to 100% of the value of the residence. Generally all fixed-rate loans with terms of 20 years or more, as well as loans with a loan-to-value ratio of 97% or more, are sold into the secondary market with servicing rights retained. Fixed-rate residential mortgage loans retained in the Bank s portfolio generally include loans with a term of 15 years or less and biweekly payment loans with a term of 20 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 2006, $17.7 million, or 18.5% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2006 were long-term fixed-rate mortgages.

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

The Bank has for many years offered discounted rates on loans to low- to moderate-income individuals. Loans originated in this category over the last five years have totaled $117.3 million. The Bank also offers a special rate program for first time homebuyers under which originations have totaled over $24.4 million for the past five years.

Commercial Real Estate Loans. The Bank originates loans secured by mortgages on various commercial income producing properties, including office buildings, retail and industrial properties. Commercial real estate and construction loans have increased to 27.9% of the portfolio at December 31, 2006, from 25.8% of the portfolio at December 31, 2005. 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 then adjust after the initial period. Typically these loans are written for maturities of ten years or less and have an amortization schedule of 20 or 25 years. As a result, the typical amortization schedule will result in a substantial principal payment upon maturity. The Bank generally underwrites commercial real estate loans to a maximum 75% advance against either the appraised value of the property, or its purchase price (for loans to fund the acquisition of real estate), whichever is less. The Bank generally requires minimum debt service coverage of 1.25 times. There is a potential risk that the borrower may be unable to pay off or refinance the outstanding balance at the loan maturity date. The Bank typically lends to experienced owners or developers who have knowledge and contacts in the commercial real estate market.

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

The Bank performs more extensive diligence in underwriting commercial real estate loans than loans secured by owner occupied one- to four-family residential properties due to the larger loan amounts and the riskier nature of such loans. The Bank attempts to understand and control the risk in several ways, including inspection of all such properties and the review of the overall financial condition of the borrower and guarantors, which may include, for example, the review of the rent rolls and the verification of income. If applicable, a tenant analysis and market analysis are part of the underwriting. For commercial real estate secured loans in excess of $750,000 and for all other commercial real estate loans where it is appropriate, the Bank employs environmental experts to inspect the property and ascertain any potential environmental risks.

The Bank requires a full independent appraisal for commercial real estate. The appraiser must be selected from the Bank s approved list. The Bank also employs an independent review appraiser to verify that the appraisal meets the Bank s standards. The underwriting guidelines generally provide that the loan-to-value ratio shall not exceed 75% of the appraised value and the debt service coverage should be at least 1.25 times. In addition, financial statements are required annually for review. The Bank s policy also requires that a property inspection of commercial mortgages over $1,000,000 be completed at least every 18 months.

The Bank s largest commercial mortgage loan as of December 31, 2006 was a $25.0 million loan secured by an established, 378 room, full-service hotel in Elizabeth, New Jersey. The Bank s share of the total loan is $20.0 million, all of which was outstanding at December 31, 2006. A participation in the remaining $5.0 million was sold to another lending institution. The loan was performing in accordance with its terms and conditions as of December 31, 2006.

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

Construction Loans. The Bank continues to expand its activities in commercial construction lending. Commercial construction lending includes both new construction of residential and commercial real estate projects and the reconstruction of existing structures.

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

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

Construction lending generally involves a greater degree of risk than one- to four-family mortgage lending. Repayment of a construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject project and the successful marketing of the sale or lease of the project. Construction delays or the financial impairment of the builder may further impair the borrower s ability to repay the loan.

For all construction loans, the Bank requires an independent appraisal, which includes information on market rents and/or comparable sales and competing projects. The Bank also attempts to procure personal guarantees and conducts environmental due diligence as appropriate.

The Bank also attempts to control the risk of the construction lending process by other means. 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 holds for rental, the Bank typically holds back funds for tenant improvements until a lease is executed.

One of the Bank s two largest construction loans as of December 31, 2006 was a $28.0 million construction/permanent mortgage loan secured by an 80% pre-leased, 115,000 square foot retail shopping center located in Clifton, New Jersey. The borrower is an experienced developer of retail properties in the State of New Jersey. The loan was performing in accordance with its terms and conditions as of December 31, 2006. In addition, the Bank has a second $28.0 million construction mortgage loan commitment secured by a 100% pre-leased, to be built, 126,000 square foot medical office building in New Brunswick, New Jersey. The borrower is an experienced developer in the State of New Jersey. As of December 31, 2006, there was no outstanding balance with respect to this commitment.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. The majority of the Bank s commercial loan customers are local businesses with revenues of less than $50.0 million. The Bank offers commercial loans for equipment purchases, lines of credit or letters of credit, as well as loans where the borrower is the sole occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial loans are fully amortized over a five-year period.

The Bank also underwrites Small Business Administration 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 attained Preferred Lender status with the SBA in 2006, allowing a more streamlined application and approval process.

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

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

Commercial business loans generally bear higher interest rates than residential mortgage loans, but they also involve a higher risk of default since their repayment is generally dependent on the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment. The Bank s largest commercial loan was a $25.0 million line of credit to a financial services firm. As of December 31, 2006, there was no outstanding balance with respect to this line of credit.

Consumer Loans. The Bank offers a variety of consumer loans to individuals. Home equity loans and home equity lines of credit constituted 69.7% of the consumer loan portfolio as of December 31, 2006. Indirect marine loans comprised 19.2% of the consumer loan portfolio, and indirect auto loans comprised 9.3% of the consumer loan portfolio at December 31, 2006, respectively.

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The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, automobile loans and recreational vehicle loans.

Interest rates on home equity loans are fixed for a term not to exceed 20 years and the maximum loan amount is $500,000. A portion of the home equity loan portfolio includes first lien product loans, under which the Bank has offered special rates to borrowers who refinance first mortgage loans on the home equity (first lien) basis. The Bank s home equity lines are made at floating interest rates and the Bank provides lines of credit of up to $350,000. The approved home equity lines and utilization amounts as of December 31, 2006 were $248.0 million and $74.8 million, respectively.

The Bank originates a majority of its home equity loans and lines directly. The Bank also purchases marine and auto loans from established dealers and brokers located on the East Coast of the United States, which are underwritten to the Bank s pre-established underwriting standards. The maximum marine loan is $1,000,000. All marine loans are collateralized by a first lien on the vessel. The maximum automobile loan for a new automobile is $60,000 and for a used automobile is $40,000. All automobile loans are collateralized by a first lien on the automobile.

The Bank s consumer loan portfolio contains other types of loans such as loans on motorcycles, recreational vehicles and personal loans, which represent 1.8% of the portfolio. Personal unsecured loans are originated primarily as an accommodation to existing customers.

Consumer loans generally entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or that are secured by assets that tend to depreciate, such as automobiles, boats and recreational vehicles. Collateral repossessed by the Bank from a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan, and the remaining deficiency may warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on 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.

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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, 2006	2005 (In thousands)	2004
Originations:			
Residential mortgage	$ 95,753	$ 152,826	$ 141,338
Commercial mortgage	186,004	61,474	110,019
Multi-family mortgage	226	5,402	901
Construction	254,116	273,750	125,406
Commercial	391,161	407,685	345,111
Consumer	251,941	271,899	244,938
Subtotal of loans originated	1,179,201	1,173,036	967,713
Mortgage warehouse			3,020
Loans purchased	57,170	137,412	322,011
Total loans originated	1,236,371	1,310,448	1,292,744
Loans acquired from First Sentinel:			
Residential mortgage			720,875
Commercial mortgage			223,543
Multi-family mortgage			7,650
Construction			124,210
Commercial			7,204
Consumer			119,704
Total loans acquired from First Sentinel			1,203,186
Loans sold or securitized	17,687	36,167	86,695
Repayments:			
Residential mortgage	284,475	346,453	276,411
Commercial mortgage	79,272	119,977	107,591
Multi-family mortgage	7,982	14,075	12,812
Construction	260,671	173,199	159,785
Commercial	322,636	356,649	233,576
Consumer	212,889	225,018	147,736
Subtotal of loan repayments	1,167,925	1,235,371	937,911
Mortgage warehouse loans			7,167
Total repayments	1,167,925	1,235,371	945,078
Total reductions	1,185,612	1,271,538	1,031,773
Other items, net (1)	(6,217)	(6,999)	5,687
Net increase	$ 44,542	$ 31,911	$ 1,469,844

(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 individual lending officers are assigned dollar authority limits based upon their experience and expertise.

The largest individual lending authority is $5.0 million, which only the Chief Executive Officer and the Chief Lending Officer have. Loans in excess of $5.0 million, or which when combined with existing credits of the borrower or related borrowers exceed $5.0 million, are presented to the management Credit Committee. The Credit Committee consists of six senior officers and requires a majority vote for credit approval. The Credit Committee has a $15.0 million approval authority and the Loan Committee of the Board of Directors of the Bank has approval authority exceeding $15.0 million. All credit approvals by the Loan Committee are reported to the Board of Directors of the Bank.

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

Loans to One Borrower. The Bank s regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of unimpaired capital and surplus. As of December 31, 2006, the regulatory lending limit was $74.4 million. The Bank s internal policy limit on total loans to a borrower or related borrowers that constitute a group exposure is up to $65.0 million for loans with a risk rating of 2 or better, $60.0 million for loans with a risk rating of 3 and $50.0 million for loans with a risk rating of 4. The Bank reviews these group exposures on a quarterly basis. The Bank also sets additional limits on size of loans by loan type. At

December 31, 2006, the Bank s largest total lending relationship with an individual borrower and its related entities was $69.9 million, consisting of two lines of credit and thirteen separate commercial mortgage loans with a risk rating of 3. Each of these commercial mortgage loans is secured by a mortgage on an existing retail shopping center located in New Jersey. The borrower is a well-established, experienced developer and operator of retail properties. Management has determined that this exception to the internal policy limit is manageable and is mitigated by the diverse mix of commercial properties that secure a majority of the exposure as well as a large and diverse tenant base. This lending relationship was approved as an exception to the internal policy limits by the Loan Committee of the Board of Directors and reported to the Board of Directors of the Bank. As of December 31, 2006, all of the loans included in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2006, the Bank had $850.4 million in loans outstanding to its 50 largest borrowers and their related entities.

ASSET QUALITY

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

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

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

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

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

Delinquent Loans and Non-performing Loans and Assets. The Bank s policies require that the Chief Lending Officer continuously monitor the status of the loan portfolios and report to the Board of Directors on a monthly basis. These reports include information on impaired loans, delinquent loans, criticized and classified assets, and foreclosed assets. An impaired loan is defined as a loan for which it is probable, based on current information, that the Bank will not collect amounts due under the contractual terms of the loan agreement. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans. Impaired loans are individually identified and reviewed to determine that each loan s carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows. As of December 31, 2006, there were three impaired loans totaling $234,000.

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

Federal and state regulations as well as the Bank s policy require that the Bank utilize an internal asset classification system as a means of reporting problem and potential problem assets. Under this internal risk rating system, the Bank currently classifies problem and potential problem assets as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard

assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are required to be designated special mention.

General valuation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When the Bank classifies one or more assets, or portions thereof, as substandard or doubtful, the Bank establishes 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 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 order the establishment of additional general or specific loss allowances. In December 2006, 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, 2006, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

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Assets are classified in accordance with the management guidelines described above. At December 31, 2006, $20.6 million of assets were classified as substandard which consisted of $4.4 million in residential loans, $7.5 million in commercial and multi-family mortgage loans, $7.4 million in commercial loans and $1.3 million in consumer loans. At that same date, there were no loans classified as doubtful or loss . As of December 31, 2006, $9.8 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, 2006				At December 31, 2005				At December 31, 2004			
	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	14	$ 2,023	38	$ 4,426	27	$ 1,692	40	$ 3,956	29	$ 2,577	41	$ 4,184
Commercial mortgage loans												
Multi-family mortgage loans			1	742								
Construction loans			2	569								
Total mortgage loans	14	2,023	41	5,737	27	1,692	40	3,956	29	2,577	41	4,184
Mortgage warehouse loans												
Commercial loans	8	1,112	4	508	4	110	7	843	6	289	5	862
Consumer loans	40	1,327	39	1,304	35	1,769	59	1,206	59	1,082	53	1,149
Total loans	62	$ 4,462	84	$ 7,549	66	$ 3,571	106	$ 6,005	94	$ 3,948	99	$ 6,195

Non-Accrual Loans and Non-Performing Assets. The following table sets forth information regarding non-accrual loans and other non-performing assets. There were no troubled debt restructurings as defined in Statement of Financial Accounting Standards (SFAS) No. 114 at any of the dates indicated.

	At December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$ 4,426	$ 3,956	$ 4,184	$ 3,395	$ 4,073
Commercial mortgage loans				151	2,682
Multi-family mortgage loans	742				
Construction loans	569			217	
Mortgage warehouse loans				223	
Commercial loans	234	843	862	1,016	34
Consumer loans	1,304	1,206	1,149	1,126	1,723
Total non-accruing loans	7,275	6,005	6,195	6,128	8,512
Accruing loans delinquent 90 days or more	274				
Total non-performing loans	7,549	6,005	6,195	6,128	8,512
Foreclosed assets	528	670	140	41	

Total non-performing assets	$ 8,077	$ 6,675	$ 6,335	$ 6,169	$ 8,512
Total non-performing assets as a percentage of total assets	0.14%	0.11%	0.10%	0.14%	0.22%
Total non-performing loans to total loans	0.20%	0.16%	0.17%	0.27%	0.41%

Loans generally are placed on non-accrual status when they become 90 days or more past due or if they have been identified as presenting uncertainty with respect to the collectibility of interest or principal.

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If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $328,000 during the year ended December 31, 2006. At December 31, 2006, there were no commitments to lend additional funds to borrowers whose loans were on non-accrual status.

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

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

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

- results of the routine loan quality reviews by the Loan Review Department and by outside third parties retained by the Loan Review Department;
- general economic and business conditions affecting key lending areas;
- credit quality trends (including trends in non-performing loans, including anticipated trends based on market conditions);
- collateral values;
- loan volumes and concentrations;
- seasoning of the loan portfolio;
- specific industry conditions within portfolio segments;
- recent loss experience in particular segments of the loan portfolio; and
- duration of the current business cycle.

When assigning a risk rating to a loan, management utilizes the Bank s internal risk rating system which is a nine point rating system. Loans deemed to be acceptable quality are rated one through four, with a rating of one established for loans with minimal risk. Loans that are deemed to be of questionable quality are rated five (watch) or six (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated seven, eight or nine, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings are then confirmed by the Loan Review Department, and for loans requiring Credit Committee approval, they are periodically reviewed by the Credit Committee in the credit renewal or approval process.

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

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

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

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

Based on the composition of the loan portfolio, management believes the primary risks inherent in the portfolio are possible increases in interest rates, a possible decline in the economy and a possible decline in real estate market values. 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 incurred losses in the remaining loan portfolio. There can be no assurance that the allowance for loan losses will be adequate to cover all losses that may in fact be realized in the future or that additional provisions for loan losses will not be required.

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

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Balance at beginning of period	$ 31,980	$ 33,766	$ 20,631	$ 20,986	$ 21,909
Charge offs:					
Residential mortgage loans	9	18	71	1,070	333
Commercial mortgage loans		22			
Multi-family mortgage loans					
Construction loans					
Mortgage warehouse loans					12,500
Commercial loans	1,025	1,008	1,671	1,904	1,859
Consumer loans	1,800	2,986	4,619	1,412	228
Total	2,834	4,034	6,361	4,386	14,920
Recoveries:					
Residential mortgage loans	158	155	186	1,523	271
Commercial mortgage loans	14	93			
Multi-family mortgage loans					
Construction loans					
Mortgage warehouse loans					
Commercial loans	305	340	432	772	451
Consumer loans	1,491	1,060	2,353	576	475
Total	1,968	1,648	2,971	2,871	1,197
Net charge-offs	866	2,386	3,390	1,515	13,723
Provision for loan losses	1,320	600	3,600	1,160	12,800
Allowance of acquired institution			12,925		
Balance at end of period	$ 32,434	$ 31,980	$ 33,766	$ 20,631	$ 20,986
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.07%	0.12%	0.08%	0.70%
Allowance for loan losses to total loans	0.86%	0.86%	0.91%	0.92%	1.02%
Allowance for loan losses to non-performing loans	429.65%	532.56%	545.05%	336.67%	246.55%

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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,									
	2006		2005		2004		2003		2002	
	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	$ 2,736	43.01%	$ 2,854	47.57%	$ 3,000	50.52%	$ 1,804	46.74%	$ 1,447	34.08%
Commercial mortgage loans	8,873	18.59	7,246	15.96	7,893	17.68	4,898	19.12	4,898	20.48
Multi-family mortgage loans	768	1.84	773	2.07	930	2.32	932	4.03	745	3.73
Construction loans	4,837	7.50	4,397	7.77	2,918	5.11	1,595	4.43	1,247	4.68
Mortgage warehouse loans							43	0.19	3,408	13.47
Commercial loans	6,311	13.35	5,676	11.70	7,400	10.45	5,278	12.03	2,708	10.13
Consumer loans	6,119	15.71	5,760	14.93	5,889	13.92	3,385	13.46	3,507	13.43
Unallocated	2,790		5,274		5,736		2,696		3,026	
Total	$ 32,434	100.00%	$ 31,980	100.00%	$ 33,766	100.00%	$ 20,631	100.00%	$ 20,986	100.00%

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INVESTMENT ACTIVITIES

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

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

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

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

Securities for 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.

CMOs are a type of debt security issued by a special-purpose entity that aggregates pools of mortgages and mortgage-related securities and creates different classes of CMO securities with varying maturities and amortization schedules as well as a residual interest with each class possessing different risk characteristics. In contrast to mortgage-backed securities from which cash flow is received (and prepayment risk is shared) pro rata by all securities holders, the cash flow from the mortgages or mortgage-related securities underlying CMOs is paid in accordance with predetermined priority to investors holding various tranches of such securities or obligations. A particular tranche of CMOs may therefore carry prepayment risk that differs from that of both the underlying collateral and other tranches. Accordingly, CMOs attempt to moderate risks associated with conventional mortgage-related securities resulting from unexpected prepayment activity. In declining interest rate environments, the Bank attempts to purchase CMOs with principal lock-out periods, reducing prepayment risk in the investment portfolio. During rising interest rate periods, the Bank s strategy is to purchase CMOs that are receiving principal payments that can be reinvested at higher current yields. Investments in CMOs involve a risk that actual prepayments will differ from those estimated in pricing the security, which may result in adjustments to the net yield on such securities. Additionally, the market value of such securities may be adversely affected by changes in the market interest rates. Management believes these securities may represent attractive alternatives relative to other investments due to the wide variety of maturity, repayment and interest rate options available. All privately-issued CMOs in the investment portfolio are rated AAA at December 31, 2006.

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

	At December 31,					
	2006		2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	$ 153,628	$ 151,054	$ 188,506	$ 186,290	$ 229,001	$ 230,115
State and municipal obligations	236,028	235,326	221,634	220,908	215,858	219,182
Equity securities			774	774	774	774
Total held-to-maturity	$ 389,656	$ 386,380	$ 410,914	$ 407,972	$ 445,633	$ 450,071
Available for Sale:						
U.S. Treasury obligations	$ 10,998	$ 10,971	$ 80,958	$ 80,378	$ 95,887	$ 95,312
State and municipal obligations	10,917	10,863	10,630	10,610	10,876	10,942
Mortgage-backed securities	693,274	681,803	902,629	887,188	1,167,838	1,169,087
FHLMC obligations	9,870	9,882			1,971	2,008
FNMA obligations	10,016	9,987				
FHLB obligations	29,893	29,813	9,923	9,844		
Corporate obligations	11,999	11,999	61,292	61,368	90,735	92,495
Equity securities	25,837	25,576	32,627	33,569	32,864	36,496
Total available for sale	$ 802,804	$ 790,894	$ 1,098,059	$ 1,082,957	$ 1,400,171	$ 1,406,340
Average expected life of securities(1)	3.87 years		3.67 years		3.37 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):

At December 31, 2006:	Carrying Value	Fair Value
FNMA	$ 371,247	$ 370,481
FHLMC	386,897	385,840

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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, 2006. 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, 2006									
	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	$	%	$	%	$ 22,448	4.39%	$ 131,180	4.84%	$ 153,628	4.77%
State and municipal obligations	6,797	4.17	42,178	3.87	118,069	3.77	68,984	3.89	236,028	3.83
Total held to maturity	$ 6,797	4.17%	$ 42,178	3.87%	$ 140,517	3.87%	$ 200,164	4.51%	$ 389,656	4.20%
Available for sale:										
U.S. Treasury obligations	$ 9,970	3.57%	$ 1,001	4.78%	$	%	$	%	$ 10,971	3.68%
State and municipal obligations	161	3.94	5,500	4.48	5,202	4.64			10,863	4.55
Mortgage-backed securities			28,749	4.51	143,231	4.46	509,823	4.60	681,803	4.56
Agency obligations	9,928	4.18	39,754	5.06					49,682	4.88
Corporate obligations	11,999	5.30							11,999	5.30
Total available for sale	$ 32,058	4.41%	$ 75,004	4.80%	$ 148,433	4.46%	$ 509,823	4.60%	$ 765,318	4.58%

(1) Yields are not tax equivalent.

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SOURCES OF FUNDS

General. Primary sources of funds consist of principal and interest cash flows received from loans and mortgage-backed securities, contractual maturities on investments, deposits, Federal Home Loan Bank (FHLB) advances and proceeds from sales of loans and investments. These sources of funds are used for lending, investing and general corporate purposes, including acquisitions and common stock repurchases.

Deposits. The Bank offers a variety of deposits for retail and business accounts. Deposit products include savings accounts, checking accounts, interest-bearing checking accounts, money market deposit accounts and certificate of deposit accounts at varying interest rates and terms. The Bank also offers IRA and KEOGH accounts. Business customers are offered several checking account and savings plans, cash management services, remote deposit capture services, payroll origination services, escrow account management and MasterCard business cards. The Bank s customer relationship management strategy focuses on relationship banking for retail and business customers to enhance the customer experience. Deposit activity is influenced by state and local economic activity, changes in interest rates, internal pricing decisions and competition. Deposits are primarily obtained from the areas surrounding the Bank s branch locations. In order to attract and retain deposits, the Bank offers competitive rates, quality customer service and offers a wide variety of products and services that meet customers needs, including online banking. The Bank has no brokered deposits.

Deposit pricing strategy is monitored monthly by the management Asset/Liability Committee. Deposit pricing is set weekly by the Bank s Treasury Department. When considering deposit pricing, the Bank considers competitive market rates, FHLB advance rates and rates on other sources of funds. Core deposits, defined as savings accounts, interest and non-interest bearing checking accounts and money market deposit accounts represented 59.2% of total deposits at December 31, 2006 and 63.1% of total deposits at December 31, 2005. As of December 31, 2006 and December 31, 2005, time deposits maturing in less than one year amounted to $1.32 billion and $1.08 billion, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2006.

	3 Months or Less	Over 3 to 6 Months	Maturity Over 6 to 12 Months (In thousands)	Over 12 Months	Total
Certificates of deposit of $100,000 or more	$ 141,118	$ 62,007	$ 140,904	$ 49,805	$ 393,834
Certificates of deposit less than $100,000	343,303	208,652	427,642	186,071	1,165,668
Total certificates of deposit	$ 484,421	$ 270,659	$ 568,546	$ 235,876	$ 1,559,502

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

	Period to Maturity from December 31, 2006						At December 31,		
	Less Than One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years (In thousands)	Five Years or More	2006	2005	2004
Rate:									
0.00 to 0.99%	$ 2,281	$ 3	$ 3	$	$ 1	$	$ 2,288	$ 3,799	$ 7,348
1.00 to 2.00%	1,096	61	2				1,159	9,190	812,561
2.01 to 3.00%	45,904	1,919				6	47,829	621,407	251,131
3.01 to 4.00%	437,555	65,433	40,629	508	1,225	2,636	547,986	589,245	129,109
4.01 to 5.00%	449,668	9,019	24,497	33,040	14,638	8,948	539,810	179,423	135,152
5.01 to 6.00%	381,787	2,349	3,239	341	14,581	9,171	411,468	35,212	40,843
6.01 to 7.00%	5,334	178	599	1,856	722	132	8,821	9,547	18,886
Over 7.01%	1	39	17	3		81	141	131	165
Total	1,323,626	$ 79,001	$ 68,986	$ 35,748	$ 31,167	$ 20,974	$ 1,559,502	$ 1,447,954	$ 1,395,195

Borrowed Funds. At December 31, 2006, the Bank had $841.0 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. agency obligations or mortgage-related securities.

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

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,		
	2006	2005	2004
	(Dollars in thousands)		
Maximum Balance:			
FHLB advances	$ 495,436	$ 679,726	$ 768,858
FHLB line of credit	91,000	48,000	70,000
Securities sold under agreements to repurchase	434,483	466,244	493,409
Average Balance:			
FHLB advances	437,612	633,000	680,297
FHLB line of credit	46,033	1,693	9,899
Securities sold under agreements to repurchase	366,933	444,454	254,185
Weighted Average Interest Rate:			
FHLB advances	3.50%	3.25%	3.04%
FHLB line of credit	5.29	3.63	1.05
Securities sold under agreements to repurchase	3.86	2.95	2.48

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

	At December 31,		
	2006	2005	2004
	(Dollars in thousands)		
FHLB advances	$ 429,788	$ 530,982	$ 700,678
FHLB line of credit	58,000	48,000	
Securities sold under repurchase agreements	353,202	391,126	465,386
Total borrowed funds	$ 840,990	$ 970,108	$ 1,166,064
Weighted average interest rate of FHLB advances	3.68%	3.27%	3.14%
Weighted average interest rate of FHLB line of credit	5.39%	4.21%	
Weighted average interest rate of securities sold under agreements to repurchase	4.16%	3.40%	2.78%

FINANCIAL MANAGEMENT AND TRUST SERVICES

The Bank offers a full range of trust and financial management services primarily to individuals. These services include wealth management services, such as investment management and investment advisory accounts, as well as custody accounts. The Bank also serves as trustee for living and testamentary trusts. Trust officers also provide estate settlement services when the Bank has been named executor or guardian of an estate. At December 31, 2006, the book value of assets under administration was $212.5 million and the number of accounts under administration was 522.

SUBSIDIARY ACTIVITIES

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

Provident Title, LLC was a joint venture in which the Bank had a 49% interest and Investor s Title Agency, Inc. had a 51% interest. Provident Title, LLC was licensed to sell title insurance in the State of New Jersey. Provident Title, LLC ceased doing business on August 31, 2005.

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 PSB Funding Corporation.

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

FSB Financial LLC is an inactive wholly-owned subsidiary of the Bank that engaged in retail non-deposit investment product sales.

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

TPB Realty, LLC, is a wholly-owned subsidiary of the Bank formed to invest in real estate development joint ventures principally targeted at meeting the housing needs of low- and moderate-income communities in the Bank s market. At December 31, 2006, TPB Realty had total assets of $2.1 million.

PERSONNEL

As of December 31, 2006, the Company had 795 full-time and 162 part-time employees. None of the Company s employees were represented by a collective bargaining group. The Company believes its relationship with its employees is good.

REGULATION

General

The Company, as a bank holding company controlling the Bank, is subject to the Bank Holding Company Act of 1956, as amended (BHCA), and the rules and regulations of the Federal Reserve Board under the BHCA. The Company is also subject to the provisions of the New Jersey Banking Act of 1948 (the New Jersey Banking Act) and the regulations of the Commissioner of the New Jersey Department of Banking and Insurance (Commissioner) under the New Jersey Banking Act applicable to bank holding companies. The Company and the Bank are required to file reports with, and otherwise comply with the rules and regulations of the Federal Reserve Board and the Commissioner. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company s compliance with various regulatory requirements. The Company files certain reports with, and otherwise complies with, the rules and regulations of the SEC under the federal securities laws and the listing requirements of the New York Stock Exchange.

The Bank is a New Jersey chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to extensive regulation, examination and supervision by the Commissioner as the issuer of its charter, and by the FDIC as the deposit insurer. The Bank must file reports with the Commissioner and the FDIC concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the FDIC conduct periodic examinations to assess the Bank s compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings bank can engage and is intended primarily for the protection of the deposit insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Any change in applicable laws and regulations, whether by the Commissioner, the FDIC, the Federal Reserve Board or through legislation, could have a material adverse impact on the Company and the Bank and their operations and stockholders.

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 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. 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 approval of the Commissioner. New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers is limited by federal law and the related regulations.

Loans-to-One-Borrower Limitations. With certain specified exceptions, a 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 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.

The components of Tier 2 capital are comprised of:

- cumulative perpetual preferred stock;

certain perpetual preferred stock for which the dividend rate may be reset periodically;

hybrid capital instruments, including mandatory convertible securities;

term subordinated debt;

intermediate term preferred stock;

allowance for loan losses; and

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up to 45% of pretax net unrealized holding gains on available for sale equity securities with readily determinable fair market values. The allowance for loan losses may be includible in Tier 2 capital up to a maximum of 1.25% of risk-weighted assets. Overall, the amount of Tier 2 capital that may be included in total capital cannot exceed 100% of Tier 1 capital. The FDIC regulations establish a minimum leverage capital requirement for banks in the strongest financial and managerial condition, with a rating of 1 (the highest examination rating of the FDIC for banks) under the Uniform Financial Institutions Rating System that are not anticipating or experiencing significant growth, of not less than a ratio of 3.0% of Tier 1 capital to total assets. For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the bank.

The FDIC regulations also establish a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital, which is defined as the sum of Tier 1 capital and Tier 2 capital, to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of a bank s risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

The federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of a bank s exposure to declines in the economic value of a bank s capital due to changes in interest rates when assessing such bank s capital adequacy. Under such a risk assessment, examiners will evaluate a bank s capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors. According to the agencies, applicable considerations include:

the quality of the bank s interest rate risk management process;

the overall financial condition of the bank; and

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

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

The following table shows the Bank s leverage ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio, at December 31, 2006:

	As of December 31, 2006		
		Percent of	
	Capital	Assets[(1)]	Capital Requirements[(1)]
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 448,180	8.46%	4.0%
Tier 1 risk-based capital	448,180	11.31	4.0
Total risk-based capital	480,614	12.13	8.0

(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 the table shows, as of December 31, 2006, 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 meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the FDIC insurance funds. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a financial subsidiary are subject to additional restrictions.

Federal law permits a state-chartered savings bank to engage, through financial subsidiaries, in any activity in which a national bank may engage through a financial subsidiary and on substantially the same terms and conditions. In general, the law permits a national bank that is well-capitalized and well-managed to conduct, through a financial subsidiary, any activity permitted for a financial holding company other than insurance underwriting, insurance investments, real estate investment or development or merchant banking. The total assets of all such financial subsidiaries may not exceed the lesser of 45% of the bank s total assets or $50 billion. The bank must have policies and procedures to assess the financial subsidiary s risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary s assets with the bank s and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. The Bank meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries.

Federal Home Loan Bank System. The Bank is a member of the FHLB system, which consists of twelve regional FHLBs, each subject to supervision and regulation by the Federal Housing Finance Board (FHFB). The FHLB provides a central credit facility primarily for member institutions. The Bank, as a member of the FHLB of New York, is required to purchase and hold shares of capital stock in that FHLB in an amount as required by that FHLB s capital plan and minimum capital requirements. The Bank is in compliance with these requirements.

Deposit Insurance. The Federal Deposit Insurance Reform Act of 2005 was signed into law on February 8, 2006. Among other things this legislation merged the Savings Association Insurance Fund and the Bank Insurance Fund into a unified fund as of March 15, 2006, and increased the amount of deposit insurance from $100,000 to $130,000 with a cost of living adjustment to become effective in five years. The Act also requires the reserve ratio to be modified to provide for a range between 1.15% and 1.50% of estimated insured deposits. The new legislation requires the FDIC to issue regulations implementing the law. The changes required by the law will not become effective until the final regulations have been issued.

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 does not know of any practice, condition or violation that might lead to termination of 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.

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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 a satisfactory Community Reinvestment Act rating in its most recently completed federal examination, which was conducted by the FDIC as of March 2005.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice.

Safety and Soundness Standards. Each federal banking agency, including the FDIC, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder.

In addition, FDIC regulations require a bank that is given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan to the FDIC. If, after being so notified, a bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC may issue an order directing corrective and other actions of the types to which a significantly undercapitalized institution is subject under the prompt corrective action provisions discussed below. If a bank fails to comply with such an order, the FDIC may seek to enforce such an order in judicial proceedings and to impose civil monetary penalties.

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

An institution will be treated as well capitalized if:

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

An institution will be treated as adequately capitalized if:

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

An institution will be treated as undercapitalized if:

- its total risk-based capital is less than 8%; or
- its Tier 1 risk-based-capital is less than 4%; and
- its leverage ratio is less than 4% (or less than 3% if the institution receives the highest rating under the Uniform Financial Institutions Rating System).

An institution will be treated as significantly undercapitalized if:

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

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

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

Loans to a Bank s Insiders

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

An exception is 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.

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 $8.5 million and up to $45.8 million, subject to adjustment by the Federal Reserve Board, and an initial reserve of $1.2 million plus 10% against that portion of total transaction accounts in excess of up to $45.8 million. The first $8.5 million of otherwise reservable balances, subject to adjustments by the Federal Reserve Board, are exempted from the reserve requirements. The Bank is in compliance with these requirements. Because required reserves must be maintained in the form of either vault cash, a non-interest bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce the Bank s interest-earning assets.

Internet Banking

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

The USA PATRIOT Act

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

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

Holding Company Regulation

Federal Regulation. The Company is regulated as a bank holding company. Bank holding companies are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for the Bank. As of December 31, 2006, the Company s total capital and Tier 1 capital ratios exceed these minimum capital requirements.

The following table shows the Company s leverage ratio, Tier 1 risk-based capital ratio and the total risk-based capital ratio as of December 31, 2006:

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	As of December 31, 2006		
	Capital	Percent of Assets(1)	Capital Requirements(1)
	(Dollars in thousands)		
Regulatory Tier 1 leverage capital	$ 597,190	11.21%	4.0%
Tier 1 risk-based capital	597,190	14.98	4.0
Total risk-based capital	629,623	15.79	8.0

(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 the table shows, as of December 31, 2006, the Company was also well capitalized under Federal Reserve Bank guidelines.

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

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

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

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

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

acquiring a savings and loan association.

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

each of its depository institution subsidiaries is well capitalized ;

each of its depository institution subsidiaries is well managed ;

each of its depository institution subsidiaries has at least a satisfactory Community Reinvestment Act rating at its most recent examination; and

the bank holding company has filed a certification with the Federal Reserve Board that it elects to become a financial holding company.

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

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

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

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

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act of 2002, the Company s Chief Executive Officer and Chief Financial Officer each certify that the Company s quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under the Sarbanes-Oxley Act of 2002 have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company s internal controls; they have made certain disclosures to the Company s auditors and the audit committee of the board of directors about the Company s internal controls; and they have included information in the Company s quarterly and annual reports about their evaluation and whether there have been significant changes in the Company s internal controls or in other factors that could significantly affect internal controls.

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, 2006 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, 2006, the Bank had an unrecognized tax liability of $21.2 million with respect to this reserve.

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

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2006, 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 pay the greater of the corporate business tax (CBT) (at 9% of taxable income) or the Alternative Minimum Assessment (AMA) tax. There are two methods for calculating the AMA tax, the gross receipts method or the gross profits method. Under the gross receipts method, the tax is calculated by multiplying the gross receipts by the applicable factor, which ranges from 0.125% to 0.4%. Under the gross profits method, the tax is calculated by multiplying the gross profits by the applicable factor, which ranges from 0.25% to 0.8%. The taxpayer has the option of choosing either the gross receipts or gross profits method, but once an election is made, the taxpayer must use the same method for the next four tax years. The AMA tax is creditable against the CBT in a year in which the CBT is higher, limited to the AMA for that year, and limited to an amount such that the tax is not reduced by more than 50% of the tax otherwise due and other statutory minimums. The AMA tax for each taxpayer may not exceed $5.0 million per year and the sum of the AMA for each member of an affiliated group may not exceed $20.0 million per year for members of an affiliated group with five or more taxpayers. For tax years beginning after June 30, 2006, the AMA tax shall be zero.

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

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

Item 1A. Risk Factors.

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

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The Company May Fail to Realize the Anticipated Benefits of the Proposed Merger of First Morris Bank & Trust into The Provident Bank

On October 16, 2006, the Company announced the proposed merger of First Morris Bank & Trust with and into The Provident Bank, the Company s wholly-owned bank subsidiary. The proposed merger remains subject to approval by banking regulators, as well as the stockholders of First Morris Bank & Trust. We anticipate completing the merger early in the second quarter of 2007. The success of the proposed merger will depend on, among other things, the Company s ability to realize anticipated cost savings and to combine the businesses of The Provident Bank and First Morris Bank & Trust in a manner that does not materially disrupt the existing customer relationships of The Provident Bank or First Morris Bank & Trust or result in decreased revenues from any loss of customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

The Company and First Morris Bank & Trust have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of the Company s or First Morris Bank & Trust s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of the Company to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

Our Construction, Commercial Real Estate and Commercial Loans Expose Us to Increased Lending Risks

Our strategy continues to be to increase our construction loans, commercial mortgage loans and commercial 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, 2006, the average loan size for a construction loan was $3.4 million, for a commercial real estate loan was $1.5 million and for a commercial loan was $207,000, compared to an average loan size of $180,000 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 have a significant impact on our construction loans, commercial mortgage loans and commercial loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. A 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, decreases in real estate values and a slowdown 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.

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

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

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

Our emphasis on continued diversification of our loan portfolio through the origination of construction loans, commercial mortgage loans, and commercial loans has been one of the more significant factors we have taken into account in evaluating our

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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 determine to make additional or increased provisions for loans losses, which could adversely affect our earnings.

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

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

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations are affected substantially by our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Changes in interest rates could have an adverse affect on net interest income because, as a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would result in a decrease in our average interest rate spread and net interest income, which would have a negative effect on our profitability. In the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no actions to mitigate the effect of such change, we are projecting that our net interest income would decrease 2.1% or $3.4 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, 2006, our available for sale securities portfolio totaled $790.9 million. Unrealized gains and losses on securities available for sale are reported as a separate component of 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 increased prepayments of loans and mortgage related securities, as borrowers refinance to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest such prepayments at rates that are comparable to the rates on existing loans or securities.

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

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

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

Item 1B. Unresolved Staff Comments

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

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Item 2. Properties
Property

At December 31, 2006, the Bank conducted business through 75 full-service branch offices located in Hudson, Bergen, Essex, Mercer, Middlesex, Monmouth, Morris, Ocean, Somerset and Union Counties, New Jersey. The aggregate net book value of premises and equipment was $59.8 million at December 31, 2006.

Item 3. Legal Proceedings
The Company is involved in various legal actions and claims arising in the normal course of its business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company s financial condition and results of operations.

Item 4. Submission of Matters to a Vote of Security Holders
No matters were submitted to a vote of the Company s stockholders during the fourth quarter of the year ended December 31, 2006.

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, 2006, there were 79,879,017 shares of the Company s common stock issued and 63,233,548 shares outstanding and 6,372 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.

	2006			2005		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 18.96	$ 18.00	$ 0.09	$ 19.14	$ 17.06	$ 0.07
Second Quarter	18.61	17.65	0.10	17.88	16.03	0.08
Third Quarter	18.88	17.50	0.10	18.23	17.22	0.08
Fourth Quarter	18.78	18.01	0.10	19.00	16.42	0.09

On January 24, 2007, the Board of Directors declared a quarterly cash dividend of $0.10 per common share, which was paid on February 28, 2007, to common stockholders of record as of the close of business on February 15, 2007. 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 Provident common stock for the period beginning January 16, 2003, the first date that Provident common stock traded, as reported by the New York Stock Exchange (at a closing price of $15.50 per share on such date), through December 31, 2006, (b) the cumulative total return on stocks included in the Russell 2000 Index over such period, and (c) the cumulative total return of the SNL Thrift Index over such period. The SNL Thrift Index produced by SNL Financial LC, contains all thrift institutions traded on the New York, American and NASDAQ stock exchanges. The initial offering price of Provident common stock in the mutual-to-stock conversion of The Provident Bank was $10.00 per share. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an assumed investment of $100.

	Period Ending					
Index	**01/16/03**	**06/30/03**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
Provident Financial Services, Inc.	100.00	123.17	122.81	127.53	124.08	124.18
Russell 2000	100.00	114.32	142.80	168.97	176.67	209.12
SNL Thrift Index	100.00	115.82	137.31	152.99	158.38	184.62

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The following table reports information regarding purchases of the Company s common stock during the fourth quarter of 2006 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, 2006 through October 31, 2006		$		3,532,626
November 1, 2006 through November 30, 2006	75,400	18.14	75,400	3,457,226
December 1, 2006 through December 31, 2006	262,400	18.16	262,400	3,194,826
Total	337,800	18.15	337,800	

(1) On April 26, 2006, the Company s Board of Directors approved the purchase of up to 3,426,274 shares of its common stock under a general repurchase program. On July 26, 2006, the Company s Board of Directors approved the purchase of an additional 3,284,058 shares of its common stock under a 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 Provident Financial Services, Inc. presented in Item 8. On January 15, 2003, the Bank completed its conversion from a mutual savings bank to a stock savings bank, and in connection therewith the Company sold 59,618,300 shares of common stock which resulted in $567.2 million of net proceeds, of which $293.2 million was utilized to acquire all of the outstanding common stock of the Bank. In addition, the Company contributed $4.8 million in cash and 1,920,000 shares of its common stock to The Provident Bank Foundation.

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	2006	2005	At December 31, 2004 (In thousands)	2003	2002
Selected Financial Condition Data:					
Total assets	$ 5,742,964	$ 6,052,374	$ 6,433,322	$ 4,284,878	$ 3,919,208
Loans, net(1)	3,751,230	3,707,142	3,673,445	2,216,736	2,031,869
Investment securities(2)	389,656	410,914	445,633	517,789	216,119
Securities available for sale	790,894	1,082,957	1,406,340	1,151,829	1,242,118
Deposits	3,826,463	3,921,458	4,050,473	2,695,976	3,243,334
Borrowed funds	840,990	970,108	1,166,064	736,328	323,081
Stockholders equity	1,019,156	1,076,295	1,136,776	817,119	326,009

	2006	2005	For the Year Ended December 31, 2004 (In thousands)	2003	2002
Selected Operations Data:					
Interest income	$ 282,139	$ 276,462	$ 229,543	$ 184,506	$ 177,307
Interest expense	117,611	95,007	67,185	54,633	63,241
Net interest income	164,528	181,455	162,358	129,873	114,066
Provision for loan losses	1,320	600	3,600	1,160	12,800
Net interest income after provision for loan losses	163,208	180,855	158,758	128,713	101,266
Non-interest income	31,951	29,221	29,151	23,834	24,147
Non-interest expense	118,273	124,178	119,334	126,779	89,087
Income before income tax expense and the cumulative effect of a change in accounting principle	76,886	85,898	68,575	25,768	36,326
Income tax expense	23,201	27,399	19,274	7,024	9,231
Income before the cumulative effect of a change in accounting principle	53,685	58,499	49,301	18,744	27,095
Cumulative effect of change in accounting principle (3)					(519)
Net income	$ 53,685	$ 58,499	$ 49,301	$ 18,744	$ 26,576
Earnings Per Share:					
Basic earnings per share (4)	$ 0.88	$ 0.89	$ 0.80	$ 0.31	
Diluted earnings per share (4)	$ 0.87	$ 0.88	$ 0.80	$ 0.31	

(1) Loans are shown net of allowance for loan losses, deferred fees and unearned discount.
(2) Investment securities are held to maturity.
(3) In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, the Company performed a goodwill impairment test on the goodwill associated with the purchase of Provident Mortgage Corporation. It was determined that the goodwill was impaired and a charge of $519,000 was recorded as a cumulative effect of a change in accounting principle.
(4) Basic and diluted earnings per share for the year ended December 31, 2003 include the results of operations from January 15, 2003, the date the Company became the holding company for the Bank and the date the Bank completed its conversion, in the amount of $17,755,000.

	2006	2005	At or For the Year Ended December 31, 2004	2003	2002
Selected Financial and Other Data(1)					
Performance Ratios:					

Return on average assets	0.92%	0.94%	0.93%	0.46%	0.86%
Return on average equity	5.17	5.32	5.06	2.31	8.71
Average net interest rate spread	2.80	3.01	3.09	2.91	3.59
Net interest margin(2)	3.23	3.34	3.40	3.37	3.96
Average interest-earning assets to average interest-bearing liabilities	1.18	1.18	1.22	1.32	1.17
Non-interest income to average total assets	0.55	0.47	0.55	0.58	0.78
Non-interest expenses to average total assets	2.02	2.00	2.24	3.08	2.90
Efficiency ratio(3)	60.20	58.94	62.31	66.87	64.46
Asset Quality Ratios:					
Non-performing loans to total loans	0.20	0.16%	0.17%	0.27%	0.41%
Non-performing assets to total assets	0.14	0.11	0.10	0.14	0.22
Allowance for loan losses to non-performing loans	429.65	532.56	545.05	336.67	246.55
Allowance for loan losses to total loans	0.86	0.86	0.91	0.92	1.02
Capital Ratios:					
Leverage capital(4)	11.21%	11.98%	11.88%	18.81%	8.98%
Total risk based capital(4)	15.79	18.45	19.80	31.44	13.32
Average equity to average assets	17.77	17.68	18.34	19.73	9.92
Other Data:					
Number of full-service offices	75	76	78	54	49
Full time equivalent employees	877	892	926	717	656

(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.

	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002
Efficiency Ratio Calculation:					
Net interest income	$ 164,528	$ 181,455	$ 162,358	$ 129,873	$ 114,066
Non-interest income	31,951	29,221	29,151	23,834	24,147
Total income	$ 196,479	$ 210,676	$ 191,509	$ 153,707	$ 138,213
Non-interest expense	118,273	124,178	119,334	126,779	89,087
Less: Provident Bank Foundation donation				(24,000)	
Adjusted non-interest expense	$ 118,273	$ 124,178	$ 119,334	$ 102,779	$ 89,087
Expense/income	60.20%	58.94%	62.31%	66.87%	64.46%

(4) Leverage capital ratios are presented as a percentage of tangible assets. Risk-based capital ratios are presented as a percentage of risk-weighted assets.

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 operating 75 full-service branches in ten counties throughout northern and central New Jersey.

On December 22, 2003, the Company entered into an agreement and plan of merger, under which First Sentinel Bancorp, Inc. (First Sentinel) merged with and into the Company, and First Savings Bank, the wholly-owned subsidiary of First Sentinel, merged with and into the Bank. The Company completed the acquisition of First Sentinel and the merger of First Savings Bank with and into the Bank, as of July 14, 2004.

On October 15, 2006, the Company and First Morris Bank & Trust (First Morris) signed a definitive agreement under which First Morris will merge with and into the Bank. Consideration will be paid to First Morris stockholders in a combination of stock and cash. The transaction is subject to First Morris stockholder approval and regulatory approvals for both companies and is expected to close early in the second quarter of 2007.

Strategy

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

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

In recent years, the Bank has focused on commercial real estate, construction, multi-family and commercial loans as part of its strategy to diversify the loan portfolio and reduce interest rate risk. These types of loans generally have adjustable rates that initially are higher than residential mortgage loans and generally have a higher rate of risk. The Bank s credit policy focuses on quality underwriting standards and close monitoring of the loan portfolio. At year-end 2006, retail loans accounted for 58.7% of the loan portfolio and commercial loans accounted for 41.3%. 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 Customer Relationship Management 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, 2006, core deposits were 59.2% of total deposits.

A significant amount of capital was raised in the conversion of the Bank to a stock-chartered bank in 2003. Management has developed a capital management strategy to effectively utilize excess capital and improve return on equity and earnings per share growth. The Company s capital management strategy includes the following components: payment of cash dividends; stock repurchases; acquisitions; and use of wholesale leverage. The Company declared and paid its first cash dividend in the second quarter of 2003, and has since increased the quarterly cash dividend per share five times for a total of 125.0%. The Company s Board of Directors approved the most recent quarterly cash dividend of $0.10 per common share paid on February 28, 2007.

In 2006, the Company repurchased 5.5 million shares of its common stock at an average cost of $18.20 per share. At December 31, 2006, approximately 3.2 million shares remained eligible for repurchase under the current common stock repurchase authorization.

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

Critical Accounting Policies

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

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

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

When assigning a risk rating to a loan, management utilizes a nine point internal risk rating system. Loans deemed to be acceptable quality are rated one through four, with a rating of one established for loans with minimal risk. Loans that are deemed to be of questionable quality are rated five (watch) or six (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated seven, eight or nine, respectively. Commercial mortgage, commercial and construction loans are rated individually and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager, the Chief Lending Officer and the Credit Administration Department. The risk ratings are then confirmed by the Loan Review Department and, for loans requiring Credit Committee approval, they are periodically reviewed by the Credit Committee in the credit renewal or approval process.

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

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

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. The Company engages an independent third party to perform an annual analysis to test the aggregate balance of goodwill for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets . For purposes of goodwill impairment evaluation, the Bank is identified as the reporting unit. The fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies including a review of comparable transactions and discounted cash flow analysis. If the carrying amount of goodwill pursuant to this analysis were to exceed the implied fair value of goodwill, an impairment loss would be recognized. No impairment loss was required to be recognized for the years ended December 31, 2006, 2005 or 2004.

The Company s available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income (loss) in stockholders equity. Estimated fair values are based on published or securities dealers market prices. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. The Company conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other than temporary. If such a decline were deemed other than temporary, the Company would write down the security to fair value through a charge to current period operations. The market value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the market value of fixed-rate securities decreases and as interest rates fall, the market value of fixed-rate securities increases. With significant changes in interest rates, the Company evaluates its intent and ability to hold securities to maturity or for a sufficient period of time to recover the recorded principal balance.

The determination of whether deferred tax assets will be realizable is predicated on estimates of future taxable income. Such estimates are subject to management s judgment. A valuation reserve is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. In 2006 and 2005, the valuation reserve pertaining to the charitable contributions carry-forward declined $108,000 and $838,000, respectively, as a result of the utilization of the related deferred tax asset. In 2004, the Company reduced the valuation reserve pertaining to the charitable contribution carry-forward as a result of projected improvement in the Company s ability to generate sufficient future taxable income to realize the deferred tax asset.

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.

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Average Balance Sheet. The following table sets forth certain information for the years ended December 31, 2006, 2005 and 2004. 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,								
	2006			2005			2004		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Federal funds sold and short-term investments	$ 7,655	$ 404	5.27%	$ 58,156	$ 1,801	3.10%	$ 87,635	$ 1,001	1.14%
Investment securities (1)	405,701	16,828	4.15	428,461	17,185	4.01	484,583	19,183	3.96
Securities available for sale	925,010	39,758	4.30	1,249,419	48,607	3.89	1,253,570	45,968	3.67
Federal Home Loan Bank Stock	36,015	2,118	5.88	44,813	2,091	4.67	41,261	707	1.71
Net loans (2)	3,714,388	223,031	6.00	3,658,930	206,778	5.65	2,906,982	162,684	5.60
Total interest-earning assets	5,088,769	282,139	5.54	5,439,779	276,462	5.08	4,774,031	229,543	4.81
Non-interest earning assets	754,789			781,133			541,829		
Total assets	$ 5,843,558			$ 6,220,912			$ 5,315,860		
Interest-bearing liabilities:									
Savings deposits	$ 1,313,997	18,198	1.38%	$ 1,474,053	15,657	1.06%	$ 1,254,758	11,011	0.88%
Demand deposits	579,366	8,020	1.38	618,280	6,223	1.01	541,120	4,274	0.79
Time deposits	1,527,721	57,973	3.79	1,399,258	37,894	2.71	1,156,388	24,221	2.09
Borrowed funds	875,011	33,420	3.82	1,105,948	35,233	3.19	956,922	27,679	2.89
Total interest-bearing liabilities	4,296,095	117,611	2.74	4,597,539	95,007	2.07	3,909,188	67,185	1.72
Non-interest bearing liabilities	508,840			523,531			431,709		
Total liabilities	4,804,935			5,121,070			4,340,897		
Stockholders equity	1,038,623			1,099,842			974,963		
Total liabilities and equity	$ 5,843,558			$ 6,220,912			$ 5,315,860		
Net interest income		$ 164,528			$ 181,455			$ 162,358	
Net interest rate spread			2.80%			3.01%			3.09%
Net interest earning assets	$ 792,674			$ 842,240			$ 864,843		
Net interest margin (3)			3.23%			3.34%			3.40%

Ratio of interest-earning assets to total interest-bearing liabilities	1.18x	1.18x	1.22x

(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,					
	2006 vs. 2005			2005 vs. 2004		
	Increase/(Decrease) Due to		Total Increase/	Increase/(Decrease) Due to		Total Increase/
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Federal funds sold and short-term investments	$ (2,171)	$ 774	$ (1,397)	$ (431)	$ 1,231	$ 800
Investment securities	(939)	582	(357)	(2,239)	241	(1,998)
Securities available for sale	(13,581)	4,732	(8,849)	(151)	2,790	2,639
Federal Home Loan Bank Stock	(456)	483	27	66	1,318	1,384
Loans	3,226	13,027	16,253	42,261	1,833	44,094
Total interest-earning assets	(13,921)	19,598	5,677	39,506	7,413	46,919
Interest-bearing liabilities:						
Savings deposits	(1,823)	4,364	2,541	2,141	2,505	4,646
Demand deposits	(407)	2,204	1,797	547	1,402	1,949
Time deposits	3,760	16,319	20,079	5,668	8,005	13,673
Borrowed funds	(8,093)	6,280	(1,813)	4,533	3,021	7,554
Total interest-bearing liabilities	(6,563)	29,167	22,604	12,889	14,933	27,822
Net interest income	$ (7,358)	$ (9,569)	$ (16,927)	$ 26,617	$ (7,520)	$ 19,097

Comparison of Financial Condition at December 31, 2006 and December 31, 2005

Total assets were $5.74 billion at December 31, 2006, compared to $6.05 billion at December 31, 2005, with the decrease due primarily to reductions in cash and securities balances that were used to fund loan originations, repayments of borrowings, common stock repurchases and net deposit outflows.

Total loans at December 31, 2006 were $3.78 billion, compared to $3.74 billion at December 31, 2005. The increase in loans was driven by loan originations of $1.18 billion and loan purchases of $57.2 million. Residential mortgage loans decreased $149.9 million to $1.62 billion at December 31, 2006, compared to $1.77 billion at December 31, 2005. Residential mortgage loan originations totaled $95.8 million and one- to four-family loans purchased totaled $57.2 million for the year ended December 31, 2006. Principal repayments on residential mortgage loans totaled $284.5 million, and loans sold totaled $17.7 million for the year ended December 31, 2006. Commercial real estate loans increased $106.7 million to $701.5 million at December 31, 2006, compared to $594.8 million at December 31, 2005. Commercial real estate loan originations totaled $186.0 million and repayments on commercial real estate loans totaled $79.3 million for the year ended December 31, 2006. Multi-family loans decreased $7.8 million to $69.4 million at December 31, 2006, compared to $77.1 million at December 31, 2005. Construction loans decreased $6.6 million to $282.9 million at December 31, 2006, compared to $289.5 million at December 31, 2005. Commercial loans increased $67.5 million to $503.8 million at December 31, 2006, compared to $436.3 million at December 31, 2005. Consumer loans increased $36.3 million to $592.9 million at December 31, 2006, compared to $556.6 million at December 31, 2005. Retail loans, which consist of one- to four-family residential mortgages and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $2.22 billion and accounted for 58.7% of the loan portfolio at December 31, 2006, compared to $2.33 billion, or 62.5%, of the portfolio at December 31, 2005. The decrease in retail loans as a percentage of the total loan portfolio was largely the result of residential loan prepayments and sales and to organic growth in the commercial mortgage and commercial loan portfolios. The Company continues to rebalance the loan portfolio over time, consistent with its strategy towards a more commercial mix. Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $1.56 billion, accounting for 41.3% of the loan portfolio at December 31, 2006, compared to $1.40 billion, or 37.5%, at December 31, 2005.

The allowance for loan losses increased $454,000 at December 31, 2006, as a result of provisions for loan losses of $1.3 million, partially offset by net charge-offs of $866,000 during 2006. Non-performing loans totaled $7.5 million at December 31, 2006, compared to $6.0 million at December 31, 2005. Non-performing loans as a percentage of total loans were 0.20% at December 31, 2006 and 0.16% at December 31, 2005. The allowance for loan losses as a percentage of total loans was 0.86% at December 31, 2006 and 2005.

Intangible assets decreased $6.1 million to $429.7 million at December 31, 2006, from $435.8 million at December 31, 2005, due primarily to the amortization of the core deposit intangible relating to the First Sentinel acquisition. At December 31, 2006, the goodwill and the core deposit intangible related to the First Sentinel acquisition totaled $389.9 million and $17.8 million, respectively.

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The core deposit intangible is being amortized on an accelerated basis over 8.8 years. The Company performs periodic impairment testing of intangible assets. There was no impairment recognized in 2006 or 2005.

Total investments decreased $321.8 million, or 20.9%, during the year ended December 31, 2006. Proceeds from investment sales, maturities and scheduled cash flows were used to fund loan growth, repay borrowings, repurchase common stock and fund net deposit outflows.

Total deposits decreased $95.0 million to $3.83 billion at December 31, 2006, from $3.92 billion at December 31, 2005. At December 31, 2006, core deposits represented 59.2% of total deposits, compared with 63.1% at December 31, 2005. Core deposits decreased $206.5 million to $2.27 billion at December 31, 2006, from $2.47 billion at December 31, 2005, as depositors shifted funds to higher-yielding investments. Certificates of deposit increased $111.5 million to $1.56 billion at December 31, 2006, from $1.45 billion at December 31, 2005, with much of that growth occurring in the under one-year maturity categories, as depositors opted for shorter-maturity instruments in a rising interest rate environment.

Borrowed funds decreased $129.1 million to $841.0 million at December 31, 2006, from $970.1 million at December 31, 2005. The decrease was a result of repayments made during the year as part of the Company s strategy to reduce wholesale funding in a flat or inverted yield curve environment. In addition, subordinated debentures that had an outstanding balance of $26.4 million at December 31, 2005 were redeemed in December 2006.

Total stockholders equity decreased $57.1 million to $1.02 billion at December 31, 2006, from $1.08 billion at December 31, 2005. This decrease was a result of common stock repurchases of $99.6 million and cash dividends of $24.3 million, partially offset by comprehensive income of $55.5 million and the allocation of shares to stock-based compensation plans of $11.3 million.

Comparison of Operating Results for the Years Ended December 31, 2006 and December 31, 2005

General. Net income for the year ended December 31, 2006 was $53.7 million, compared to net income of $58.5 million for the year ended December 31, 2005. Return on average assets for the year ended December 31, 2006 was 0.92%, compared to 0.94% for 2005. Return on average equity was 5.17% for the year ended December 31, 2006, compared to 5.32% for 2005. Basic and diluted earnings per share were $0.88 and $0.87, respectively, for the year ended December 31, 2006, compared to basic and diluted earnings per share of $0.89 and $0.88, respectively, for 2005. The earnings and per share data for the year ended December 31, 2006 were impacted by a one-time executive severance payment previously reported by the Company, which resulted in an after-tax charge of $473,000, or $0.01 per share. The earnings and per share data for the year ended December 31, 2006 were further impacted by a loss on the early extinguishment of debt, which resulted in an after-tax charge of $403,000, or $0.01 per share. The earnings and per share data for the year ended December 31, 2005 were impacted by the acceptance of a Voluntary Resignation Initiative (VRI) by certain officers of the Company, which resulted in an after-tax charge of $815,000, or $0.01 per share.

Net Interest Income. Net interest income decreased $16.9 million, or 9.3%, to $164.5 million for 2006, from $181.5 million for 2005. The average interest rate spread decreased 21 basis points to 2.80% for 2006, from 3.01% for 2005. The net interest margin decreased 11 basis points to 3.23% for 2006, compared to 3.34% for 2005.

Interest income increased $5.7 million, or 2.1%, to $282.1 million for 2006, compared to $276.5 million for 2005. The increase in interest income was attributable to an increase in the yield on average earning assets. Average interest-earning assets decreased $351.0 million, or 6.5%, to $5.09 billion for 2006, compared to $5.44 billion for 2005. Average outstanding loan balances increased $55.5 million, or 1.5%, to $3.71 billion for 2006 from $3.66 billion for 2005. The average balance of investment securities decreased $22.8 million, or 5.3%, to $405.7 million for 2006, compared to $428.5 million for 2005. The average balance of securities available for sale decreased $324.4 million, or 26.0%, to $925.0 million for 2006, compared to $1.25 billion for 2005. Average federal funds sold and short-term investment balances decreased $50.5 million, or 86.8%, to $7.7 million for 2006, from $58.2 million for 2005. The yield on interest-earning assets increased 46 basis points to 5.54% for 2006, from 5.08% for 2005.

Interest expense increased $22.6 million, or 23.8%, to $117.6 million for 2006, from $95.0 million for 2005. The increase in interest expense was attributable to the increase in the average cost of interest-bearing liabilities for 2006 compared with 2005. The average balance of interest-bearing liabilities decreased $301.4 million, or 6.6%, to $4.30 billion for 2006, compared to $4.60 billion for 2005. Rates paid on interest-bearing liabilities increased 67 basis points to 2.74% for 2006, from 2.07% for 2005. Average interest-bearing deposits decreased $70.5 million, or 2.0%, to $3.42 billion for 2006, from $3.49 billion for 2005. The average rate paid on interest-bearing deposits increased 75 basis points to 2.46% for 2006, from 1.71% for 2005. Average interest-bearing core deposits decreased $199.0 million, or 9.5%, for 2006, compared with 2005, while average time deposits increased $128.5 million, or 9.2%, for 2006, compared with 2005. Average outstanding borrowings, including subordinated debentures, decreased $230.9 million, or 20.9%, to $875.0 million for 2006, compared with $1.11 billion for 2005. The average rate paid on borrowings increased to 3.82% for 2006, from 3.19% for 2005.

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

The provision for loan losses was $1.3 million in 2006, compared to $600,000 in 2005. The increase in the provision for loan losses was primarily attributable to loan growth and a shift in the composition of the loan portfolio to a higher percentage of commercial loans compared with 2005. Net charge-offs for 2006 were $866,000, compared to $2.4 million for 2005. Total charge-offs for the year ended December 31, 2006 were $2.8 million, compared to $4.0 million for the year ended December 31, 2005. Recoveries for the year ended December 31, 2006 were $2.0 million, compared to $1.6 million for the year ended December 31, 2005.

The allowance for loan losses at December 31, 2006 was $32.4 million, or 0.86% of total loans, compared to $32.0 million, or 0.86% of total loans at December 31, 2005.

At December 31, 2006, non-performing loans as a percentage of total loans were 0.20%, compared to 0.16% at December 31, 2005. Non-performing assets as a percentage of total assets were 0.14% at December 31, 2006, compared to 0.11% at December 31, 2005. At December 31, 2006, non-performing loans were $7.5 million, compared to $6.0 at December 31, 2005, and non-performing assets were $8.1 million at December 31, 2006, compared to $6.7 million at December 31, 2005.

Non-Interest Income. For the year ended December 31, 2006, non-interest income totaled $32.0 million, an increase of $2.7 million, or 9.3%, compared to 2005. Other income increased $1.5 million for the year ended December 31, 2006, compared with 2005, primarily due to gains recognized on the call of FHLB advances. In addition, gains on securities sales increased $862,000 and fee income increased $337,000 for the year ended December 31, 2006, compared with 2005. The increase in fee income was primarily due to increases in deposit fees.

Non-Interest Expense. For the year ended December 31, 2006, non-interest expense decreased $5.9 million, or 4.8%, to $118.3 million, compared to $124.2 million for the same period in 2005. Compensation and employee benefits expense decreased $1.5 million for the year ended December 31, 2006, compared with 2005, as a result of reductions in medical benefit costs due to changes in plan design, benefits and participant contributions, as well as reductions in staff and the $1.4 million expense recorded in the second quarter of 2005 in connection with the VRI, partially offset by $800,000 in executive severance recorded in the third quarter of 2006. The Company employed 877 full-time equivalent employees at December 31, 2006, compared to 926 full-time equivalent employees at January 1, 2005. Net occupancy expense decreased $1.4 million for the year ended December 31, 2006, compared with 2005, primarily as a result of reductions in equipment maintenance costs and depreciation expense. Amortization of intangibles decreased $1.3 million for the year ended December 31, 2006, compared with 2005, as a result of scheduled reductions in the amortization of core deposit intangibles. Other non-interest expense decreased $829,000 for the year ended December 31, 2006, compared with 2005, despite a $682,000 loss on the early extinguishment of subordinated debentures, due to reductions in a variety of expense categories including ATM and debit card maintenance costs, insurance, litigation and telephone expense. Advertising and promotions expense decreased $458,000 for the year ended December 31, 2006, compared with 2005. Data processing expense decreased $439,000 for the year ended December 31, 2006, compared with 2005, primarily due to the outsourcing of items processing in the fourth quarter of 2005.

The Company s non-interest expense as a percentage of average assets was 2.02% for the year ended December 31, 2006, compared with 2.00% for 2005. The efficiency ratio (non-interest expense divided by the sum of net interest income and non-interest income) was 60.20% for the year ended December 31, 2006, compared with 58.94% for 2005. The Company s expense and efficiency ratios have been adversely impacted by the reductions in assets and revenue resulting from the Company s de-leveraging of the balance sheet to reduce interest rate risk, given the current unfavorable interest rate environment.

Income Tax Expense. Income tax expense decreased $4.2 million, to $23.2 million, on income before taxes of $76.9 million resulting in an effective tax rate of 30.2% in 2006, compared to income tax expense of $27.4 million on income before taxes of $85.9 million in 2005, resulting in an effective tax rate of 31.9%. The reduction in the Company s effective tax rate was a result of a larger proportion of the Company s income being derived from tax-exempt interest and Bank-owned life insurance appreciation, as well as state tax benefits recorded on subsidiary company net operating losses.

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Comparison of Operating Results for the Years Ended December 31, 2005 and December 31, 2004

General. Net income for the year ended December 31, 2005 was $58.5 million, compared to net income of $49.3 million for the year ended December 31, 2004. Return on average assets for the year ended December 31, 2005 was 0.94%, compared to 0.93% for 2004. Return on average equity was 5.32% for the year ended December 31, 2005, compared to 5.06% for 2004. Basic and diluted earnings per share were $0.89 and $0.88 respectively for the year ended December 31, 2005, compared to basic and diluted earnings per share of $0.80 for 2004. Earnings and per share data reflect the inclusion of the operations of First Sentinel which merged with the Company on July 14, 2004, and the related issuance of 18.5 million shares of the Company s common stock in connection with the merger from the July 14, 2004 merger date. Earnings for the year ended December 31, 2005 also reflect the acceptance of a Voluntary Resignation Initiative (VRI) by certain officers of the Company in the second quarter of 2005, which resulted in an after-tax charge of $815,000. One-time expenses totaling $1.2 million, net of tax, related to the merger and integration of First Sentinel s operations were recognized in 2004.

Net Interest Income. Net interest income increased $19.1 million, or 11.8%, to $181.5 million for 2005, from $162.4 million for 2004. The average interest rate spread decreased 8 basis points to 3.01% for 2005, from 3.09% for 2004. The net interest margin decreased six basis points to 3.34% for 2005, compared to 3.40% for 2004.

Interest income increased $46.9 million, or 20.4%, to $276.5 million for 2005, compared to $229.5 million for 2004. The increase in interest income was primarily attributable to increased earning asset volume as a result of the First Sentinel acquisition and increases in the yield on average earning assets. Average interest-earning assets increased $665.7 million, or 13.9%, to $5.44 billion for 2005, compared to $4.77 billion for 2004. Average outstanding loan balances increased $751.9 million, or 25.9%, to $3.66 billion for 2005 from $2.91 billion for 2004. The average balance of investment securities decreased $56.1 million, or 11.6%, to $428.5 million for 2005, compared to $484.6 million for 2004. The average balance of securities available for sale decreased $4.2 million, or 0.3%, to $1.25 billion for 2005, compared to $1.25 billion for 2004. Average federal funds sold and short-term investment balances decreased $29.5 million, or 33.6%, to $58.2 million for 2005, from $87.6 million for 2004. The yield on interest-earning assets increased 27 basis points to 5.08% for 2005, from 4.81% for 2004.

Interest expense increased $27.8 million, or 41.4%, to $95.0 million for 2005, from $67.2 million for 2004. The increase in interest expense was attributable to increased interest-bearing liability volume as a result of the First Sentinel acquisition and to the increase in the average cost of interest-bearing liabilities for 2005 compared with 2004. The average balance of interest-bearing liabilities increased $688.4 million, or 17.6%, to $4.60 billion for 2005, compared to $3.91 billion for 2004. Rates paid on interest-bearing liabilities increased 35 basis points to 2.07% for 2005, from 1.72% for 2004. Average interest-bearing deposits increased $539.3 million, or 18.3%, to $3.49 billion for 2005, from $2.95 billion for 2004. The average rate paid on interest-bearing deposits increased 37 basis points to 1.71% for 2005, from 1.34% for 2004. Average interest-bearing core deposits increased $296.5 million, or 16.5%, for 2005, compared with 2004, while average time deposits increased $242.9 million, or 21.0%, for 2005, compared with 2004. Average outstanding borrowings, including subordinated debentures, increased $149.0 million, or 15.6%, to $1.11 billion for 2005, compared with $956.9 million for 2004. The average rate paid on borrowings increased to 3.19% for 2005, from 2.89% for 2004.

Provision for Loan Losses. The provision for loan losses was $600,000 in 2005, compared to $3.6 million in 2004. The decrease in the provision for loan losses was attributable to lower loan growth and an improvement in asset quality compared with 2004. Net charge-offs for 2005 were $2.4 million, compared to $3.4 million for 2004. Total charge-offs for the year ended December 31, 2005 were $4.0 million, compared to $6.4 million for the year ended December 31, 2004. Recoveries for the year ended December 31, 2005 were $1.6 million, compared to $3.0 million for the year ended December 31, 2004.

The allowance for loan losses at December 31, 2005 was $32.0 million, or 0.86% of total loans, compared to $33.8 million, or 0.91% of total loans at December 31, 2004.

At December 31, 2005, non-performing loans as a percentage of total loans were 0.16%, compared to 0.17% at December 31, 2004. Non-performing assets as a percentage of total assets were 0.11% at December 31, 2005, compared to 0.10% at December 31, 2004. At December 31, 2005, non-performing loans were $6.0 million, compared to $6.2 at December 31, 2004, and non-performing assets were $6.7 million at December 31, 2005, compared to $6.3 million at December 31, 2004.

Non-Interest Income. For the year ended December 31, 2005, total non-interest income totaled $29.2 million, an increase of $70,000 or 0.2% compared to 2004. Fee income from deposit accounts increased $2.1 million, or 10.1%, to $23.0 million for 2005, from $20.9 million for 2004. This increase was primarily attributable to deposit fees, loan prepayment fees, ATM and debit card fees and fees related to the outsourcing of the official check function. Income on BOLI increased $666,000 or 14.9% in 2005 compared to 2004, primarily as a result of the additional BOLI acquired from the First Sentinel merger. The increases in fee income and BOLI were largely offset by a reduction in securities gains of $1.0 million and a decline in other income of $1.7 million. Other income for the year ended December 31, 2005, included losses on loan sales of $152,000 compared with gains of $1.5 million recorded in 2004.

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Non-Interest Expense. For the year ended December 31, 2005, non-interest expense increased $4.8 million, or 4.1%, to $124.2 million, compared to $119.3 million for 2004. Compensation and employee benefits expense increased $3.7 million, or 6.1%, to $64.8 million for 2005, from $61.1 million for 2004. The increase in compensation and benefits expense for 2005 was primarily attributable to the increase in staff following the First Sentinel acquisition and the expense recognized in the second quarter of 2005 in connection with the VRI. The increase in salaries, incentives and related payroll taxes of $2.0 million, include the $1.4 million in expense recognized in the second quarter of 2005 in connection with the acceptance of the VRI by certain officers of the Bank. Pension and other post retirement benefit expense increased $1.6 million and employee insurance increased $846,000 in 2005, compared with 2004. For the year ended December 31, 2005, stock-based compensation expense decreased $336,000 to $11.4 million compared to $11.7 million for the same period in 2004.

Net occupancy expense increased $2.4 million, or 14.4% for 2005, compared with 2004, primarily as a result of the additional 22 branch locations added through the First Sentinel acquisition, including the former headquarters building which serves as the Provident Loan Center as well as two de novo branches opened in 2004.

Advertising and promotions expense decreased $1.7 million, or 28.3% for the year ended 2005, compared with the same period in 2004, as a result of customer communications associated with the integration of First Sentinel in 2004.

Data processing expense increased $530,000, or 6.4% for 2005, compared with 2004, primarily due to the acquisition and integration of First Sentinel s operations.

Amortization of intangibles increased $1.9 million for the year ended December 31, 2005, compared with the same period in 2004, primarily as a result of the amortization of the core deposit intangible recorded in connection with the First Sentinel acquisition.

Other operating expenses decreased $2.0 million, or 9.4% for 2005, compared with 2004. This decrease was primarily due to significant reductions in consultant and audit related expense, insurance costs and ATM processing expense.

Income Tax Expense. Income tax expense increased $8.1 million, to $27.4 million, on income before taxes of $85.9 million resulting in an effective tax rate of 31.9% in 2005, compared to income tax expense of $19.3 million on income before taxes of $68.6 million in 2004 resulting in an effective tax rate of 28.1%. In 2004, the Company reduced a valuation reserve pertaining to charitable contribution carry-forwards created in connection with the formation of The Provident Bank Foundation in early 2003. The reduction in valuation reserve resulted in a decrease in 2004 income tax expense of $1.9 million.

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Liquidity and Capital Resources

Liquidity refers to the Company s ability to generate adequate amounts of cash to meet financial obligations to its depositors, to fund loans and securities purchases, deposit outflows and operating expenses. Sources of funds include scheduled amortization of loans, loan prepayments, scheduled maturities of investments, cash flows from mortgage-backed securities and the ability to borrow funds from the FHLB of New York and approved broker dealers. The Bank has a $100.0 million overnight line of credit and a $100.0 million one-month overnight repricing line of credit with the FHLB of New York. As of December 31, 2006, there were $58.0 million outstanding borrowings against these lines of credit.

Cash flows from loan payments and maturing investment securities are a fairly predictable source of funds. Changes in interest rates, local economic conditions and the competitive marketplace can influence loan prepayments, prepayments on mortgage-backed securities and deposit flows. For the year ended December 31, 2006, loan repayments totaled $1.17 billion compared to $1.24 billion for the year ended December 31, 2005.

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 $1.24 billion for the year ended December 31, 2006, compared to $1.31 billion for the year ended December 31, 2005. Purchases for the investment portfolio totaled $87.9 million for the year-ended December 31, 2006, compared to $124.6 million for the year ended December 31, 2005.

At December 31, 2006, the Bank had outstanding loan commitments to borrowers of $772.6 million. Undisbursed home equity lines and personal credit lines were $159.1 million at December 31, 2006. Total deposits decreased $95.0 million for the year ended December 31, 2006. Deposit activity is affected by changes in interest rates, competitive pricing and product offerings in the marketplace, local economic conditions and other factors such as stock market volatility. Certificate of deposit accounts that are scheduled to mature within one year totaled $1.32 billion at December 31, 2006. 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 funds to meet all of its funding requirements.

As of December 31, 2006, the Bank exceeded all regulatory capital requirements. At December 31, 2006, the Bank s leverage (Tier 1) capital ratio was 8.46%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2006, 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 risk-based capital ratio of at least 10.00%. As of December 31, 2006, the Bank exceeded the well-capitalized capital requirements.

Off-Balance Sheet and Contractual Obligations

Off-balance sheet and contractual obligations as of December 31, 2006, 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	$ 772,641	$ 772,641	$	$	$
Letters of credit	30,946	30,946			
Total Off-Balance Sheet	803,587	803,587			
Contractual Obligations:					
Operating leases	13,504	2,966	4,618	3,380	2,540
Certificate of deposits	1,559,502	1,323,626	147,987	66,915	20,974
Total Contractual Obligations	1,573,006	1,326,592	152,605	70,295	23,514
Total	$ 2,376,593	$ 2,130,179	$ 152,605	$ 70,295	$ 23,514

Off-balance sheet commitments consist of unused commitments to borrowers for term loans, unused lines of credit and outstanding letters of credit. Total off-balance sheet obligations were $803.6 million at December 31, 2006, an increase of $100.2 million, or 14.2%, from $703.4 million at December 31, 2005.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There were no securities purchases that were entered into in December 2006 or 2005 that would have settled in January 2007 or 2006, respectively. Total contractual obligations at December 31, 2006 were $1.57 billion, an increase of $111.7 million, or 7.6%, compared to $1.46 billion at December 31, 2005. Contractual obligations under operating leases increased $180,000, or 1.4%, to $13.5 million at December 31, 2006, compared to $13.3 million at December 31, 2005, and certificate of deposit accounts increased $111.5 million, or 7.7%, to $1.56 billion at December 31, 2006, from $1.45 billion at December 31, 2005.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

The Company s strategy for liabilities has been to maintain a stable core-funding base by focusing on core deposit account acquisition and increasing products and services per household. Certificate of deposit accounts as a percentage of total deposits were 40.8% at December 31, 2006 compared to 36.9% at December 31, 2005. Certificate of deposit accounts are generally short-term. As of December 31, 2006, 84.9% of all time deposits had maturities of one year or less compared to 74.3% at December 31, 2005. The Company s ability to retain maturing certificate of deposit accounts is the result of a strategy to remain competitively priced within the marketplace, typically within the upper quartile of rates offered by competitors. The Company s pricing strategy may vary depending upon funding needs and the Company s ability to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB during periods of pricing dislocation.

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

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

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The following table sets forth the results of the twelve month projected net interest income model as of December 31, 2006.

Change in Interest Rates in Basis Points (Rate Ramp)	Net Interest Income Amount ($)	Change ($)	Change (%)
	(Dollars in thousands)		
-200	$ 158,683	$ 1,250	0.8%
-100	158,509	1,076	0.7
Static	157,433		
+100	155,841	(1,592)	(1.0)
+200	154,082	(3,351)	(2.1)

The above table indicates that as of December 31, 2006, in the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, the Company would experience a 2.1%, or $3.4 million decrease in net interest income. In the event of a 200 basis point decrease in interest rates, whereby rates ramp down 200 basis points evenly over a twelve-month period, the Company would experience a 0.8%, or $1.3 million increase in net interest income.

Another measure of interest rate sensitivity is to model changes in economic value of equity through the use of immediate and sustained interest rate shocks. The following table illustrates the economic value of equity model results as of December 31, 2006.

	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
Change in Interest Rates (Basis Points)	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
	(Dollars in thousands)				
-200	$ 1,284,749	$ 74,100	6.1%	21.3%	4.0%
-100	1,260,133	49,484	4.1	21.0	2.8
Flat	1,210,649			20.4	
+100	1,144,454	(66,195)	(5.5)	19.6	(4.1)
+200	1,077,876	(132,773)	(11.0)	18.8	(8.3)

The above table indicates that as of December 31, 2006, in the event of an immediate and sustained 200 basis point increase in interest rates, the Company would experience an 11.0%, or $132.8 million reduction in the present value of equity. If rates were to decrease 200 basis points, the Company would experience a 6.1%, or $74.1 million increase in the present value of equity.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the making of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company s interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

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Item 8. Financial Statements and Supplementary Data

The following are included in this item:

(A) Report of Independent Registered Public Accounting Firm

(B) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

(C) Consolidated Financial Statements:

(1) Consolidated Statements of Financial Condition as of December 31, 2006 and 2005

(2) Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004

(3) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2006, 2005 and 2004

(4) Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

(5) Notes to Consolidated Financial Statements

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

(1) Condensed Statement of Financial Condition as of December 31, 2006 and 2005

(2) Condensed Statement of Income for the years ended December 31, 2006, 2005 and 2004

(3) Condensed Statement of Cash Flows for the years ended December 31, 2006, 2005 and 2004

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Provident Financial Services, Inc.:

We have audited the accompanying consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Provident Financial Services, Inc. and subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As disclosed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payments on January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Provident Financial Services, Inc. and subsidiary s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey

February 28, 2007

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Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Stockholders

Provident Financial Services, Inc.:

We have audited management's assessment, included on page 87 of the Annual Report on Form 10-K, Item 9A., Controls Procedures Management s Report on Internal Control Over Financial Reporting, that Provident Financial Services, Inc. and subsidiary (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Provident Financial Services, Inc. and subsidiary maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Provident Financial Services, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Short Hills, New Jersey

February 28, 2007

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2006 and 2005

(Dollars in Thousands, except share data)

	December 31, 2006	December 31, 2005
ASSETS		
Cash and due from banks	$ 89,390	$ 107,353
Short-term investments	2,667	9,915
Total cash and cash equivalents	92,057	117,268
Investment securities (market value of $386,380 and $407,972 at December 31, 2006 and December 31, 2005, respectively)	389,656	410,914
Securities available for sale, at fair value	790,894	1,082,957
Federal Home Loan Bank Stock	35,335	43,794
Loans	3,783,664	3,739,122
Less allowance for loan losses	32,434	31,980
Net loans	3,751,230	3,707,142
Foreclosed assets, net	528	670
Banking premises and equipment, net	59,811	60,949
Accrued interest receivable	21,705	23,155
Intangible assets	429,718	435,838
Bank-owned life insurance	116,271	111,075
Other assets	55,759	58,612
Total assets	$ 5,742,964	$ 6,052,374
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 1,005,679	$ 1,109,507
Savings deposits	1,261,282	1,363,997
Certificates of deposit of $100,000 or more	393,834	304,229
Other time deposits	1,165,668	1,143,725
Total deposits	3,826,463	3,921,458
Mortgage escrow deposits	17,616	18,121
Borrowed funds	840,990	970,108
Subordinated debentures		26,444
Other liabilities	38,739	39,948
Total liabilities	4,723,808	4,976,079
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued		
Common stock, $0.01 par value, 200,000,000 shares authorized, 79,879,017 shares issued and 63,233,548 shares outstanding at December 31, 2006 and 68,661,800 shares outstanding at December 31, 2005, respectively	799	799

Additional paid-in capital	937,616	964,555
Retained earnings	424,958	395,589
Accumulated other comprehensive loss	(7,150)	(8,906)
Treasury stock	(266,587)	(167,113)
Unallocated common stock held by the Employee Stock Ownership Plan	(70,480)	(73,316)
Common stock acquired by the Stock Award Plan		(35,313)
Common stock acquired by the Directors Deferred Fee Plan	(13,010)	(13,224)
Deferred compensation - Directors Deferred Fee Plan	13,010	13,224
Total stockholders' equity	1,019,156	1,076,295
Total liabilities and stockholders equity	$ 5,742,964	$ 6,052,374

See accompanying notes to consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years ended December 31, 2006, 2005 and 2004

(Dollars in Thousands, except share data)

	Years ended December 31,		
	2006	**2005**	**2004**
Interest income:			
Real estate secured loans	$ 160,192	$ 154,332	$ 121,291
Commercial loans	27,840	21,923	18,309
Consumer loans	34,999	30,523	23,084
Investment securities	16,828	17,185	19,183
Securities available for sale	41,876	50,698	46,675
Other short-term investments	161	513	480
Federal funds	243	1,288	521
Total interest income	282,139	276,462	229,543