PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
November 09, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

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 Number: 001-31566

PROVIDENT FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**42-1547151** **(I.R.S. Employer** **Identification No.)**
830 Bergen Avenue, Jersey City, New Jersey **(Address of Principal Executive Offices)**	**07306-4599** **(Zip Code)**

(201) 333-1000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

As of November 1, 2009 there were 83,209,293 shares issued and 60,259,313 shares outstanding of the Registrant s Common Stock, par value $0.01 per share, including 433,283 shares held by the First Savings Bank Directors Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC.

INDEX TO FORM 10-Q

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. **FINANCIAL STATEMENTS.**

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

September 30, 2009 (Unaudited) and December 31, 2008

(Dollars in thousands, except share data)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 196,001	$ 66,315
Short-term investments	3,527	2,231
Total cash and cash equivalents	199,528	68,546
Investment securities held to maturity (market value of $354,424 and $351,623 at September 30, 2009 and December 31, 2008, respectively)	338,940	347,484
Securities available for sale, at fair value	1,333,042	820,329
Federal Home Loan Bank (FHLB) stock	34,675	42,833
Loans	4,321,364	4,526,748
Less allowance for loan losses	55,731	47,712
Net loans	4,265,633	4,479,036
Foreclosed assets, net	7,044	3,439
Banking premises and equipment, net	76,611	75,750
Accrued interest receivable	24,864	23,866
Intangible assets	359,129	514,684
Bank-owned life insurance (BOLI)	130,913	126,956
Other assets	45,930	45,825
Total assets	$ 6,816,309	$ 6,548,748
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 2,385,809	$ 1,821,437
Savings deposits	870,375	872,388
Certificates of deposit of $100,000 or more	511,008	445,466
Other time deposits	1,108,019	1,087,045
Total deposits	4,875,211	4,226,336
Mortgage escrow deposits	17,928	20,074
Borrowed funds	1,004,623	1,247,681
Other liabilities	35,927	36,067

Total liabilities	5,933,689	5,530,158
Stockholders Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued		
Common stock, $0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 59,824,710 shares outstanding at September 30, 2009, and 59,610,623 shares outstanding at December 31, 2008	832	832
Additional paid-in capital	1,014,556	1,013,293
Retained earnings	305,940	454,444
Accumulated other comprehensive income (loss)	8,840	(485)
Treasury stock, at cost	(384,972)	(384,854)
Unallocated common stock held by Employee Stock Ownership Plan (ESOP)	(62,576)	(64,640)
Common stock acquired by the Directors Deferred Fee Plan (DDFP)	(7,598)	(7,667)
Deferred compensation DDFP	7,598	7,667
Total stockholders equity	882,620	1,018,590
Total liabilities and stockholders equity	$ 6,816,309	$ 6,548,748

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Three and nine months ended September 30, 2009 and 2008 (Unaudited)

(Dollars in thousands, except per share data)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Interest income:				
Real estate secured loans	$ 39,286	$ 42,465	$ 119,566	$ 124,406
Commercial loans	11,108	10,665	32,176	32,568
Consumer loans	7,722	9,106	23,819	27,932
Investment securities	3,327	3,606	10,119	10,860
Securities available for sale	11,497	10,770	32,876	32,372
Other short-term investments	1	26	13	329
Deposits	98		215	
Federal funds sold			24	164
Total interest income	73,039	76,638	218,808	228,631
Interest expense:				
Deposits	18,807	20,133	58,136	68,945
Borrowed funds	8,922	11,154	28,266	32,577
Total interest expense	27,729	31,287	86,402	101,522
Net interest income	45,310	45,351	132,406	127,109
Provision for loan losses	6,500	3,800	18,100	6,600
Net interest income after provision for loan losses	38,810	41,551	114,306	120,509
Non-interest income:				
Fees	6,652	7,281	18,347	18,287
BOLI	1,438	1,320	3,957	3,980
Net gain (loss) on loan sales	877	56	1,724	(6)
Net gain on securities transactions	195	444	1,374	845
Other-than-temporary impairment losses on securities	(701)	(1,410)	(6,167)	(1,410)
Portion of loss recognized in other comprehensive income (before taxes)			4,665	
Net impairment losses on securities recognized in earnings	(701)	(1,410)	(1,502)	(1,410)
Other income	127	84	519	1,531
Total non-interest income	8,588	7,775	24,419	23,227
Non-interest expense:				
Goodwill impairment			152,502	

Compensation and employee benefits	18,257	16,591	52,518	50,768
Net occupancy expense	4,966	5,195	15,270	15,626
FDIC Insurance	2,450	173	7,810	458
Data processing expense	2,354	2,296	7,010	6,903
Advertising and promotion expense	1,117	1,160	3,147	2,989
Amortization of intangibles	1,115	1,373	4,020	4,706
Other operating expenses	5,713	5,170	17,644	15,752
Total non-interest expense	35,972	31,958	259,921	97,202
Income (loss) before income tax expense	11,426	17,368	(121,196)	46,534
Income tax expense	2,750	4,205	7,402	12,325
Net income (loss)	$ 8,676	$ 13,163	$ (128,598)	$ 34,209
Basic earnings (loss) per share	$ 0.15	$ 0.23	$ (2.29)	$ 0.61
Average basic shares outstanding	56,311,141	56,078,691	56,240,746	56,006,174
Diluted earnings (loss) per share	$ 0.15	$ 0.23	$ (2.29)	$ 0.61
Average diluted shares outstanding	56,311,141	56,078,870	56,240,746	56,006,234

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders Equity for the Nine Months Ended September 30, 2009 and 2008 (Unaudited)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2007	$ 832	$ 1,009,120	$ 437,503	$ 4,335	$ (383,407)	$ (67,589)	$ (7,759)	$ 7,759	$ 1,000,794
Comprehensive income:									
Net income			34,209						34,209
Other comprehensive income:									
Unrealized holding losses on securities arising during the period (net of tax of ($3,057))				(4,784)					(4,784)
Reclassification adjustment for losses included in net income (net of tax of ($226))				339					339
Amortization related to post- retirement obligations (net of tax of $204)				296					296
Total comprehensive income									$ 30,060
Cash dividends declared			(19,856)						(19,856)
Distributions from DDFP		(3)					69	(69)	(3)
Purchase of treasury stock					(1,445)				(1,445)
Allocation of ESOP shares		(324)				2,055			1,731
Allocation of SAP shares		2,513							2,513
Allocation of stock options		1,774							1,774
Balance at September 30, 2008	$ 832	$ 1,013,080	$ 451,856	$ 186	$ (384,852)	$ (65,534)	$ (7,690)	$ 7,690	$ 1,015,568

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders Equity for the Nine Months Ended September 30, 2009 and 2008 (Unaudited) (Continued)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2008	$ 832	$ 1,013,293	$ 454,444	$ (485)	$ (384,854)	$ (64,640)	$ (7,667)	$ 7,667	$ 1,018,590
Comprehensive income:									
Net loss			(128,598)						(128,598)
Other comprehensive loss:									
Other-than-temporary impairment on debt securities available for sale (net of tax of ($1,906))				(2,759)					(2,759)
Unrealized holding gains on securities arising during the period (net of tax of $8,797)				11,297					11,297
Reclassification adjustment for losses included in net income (net of tax of ($11))				117					117
Amortization related to post- retirement obligations (net of tax of $463)				670					670
Total comprehensive loss									$ (119,273)
Cash dividends declared			(19,906)						(19,906)
Distributions from DDFP		(5)					69	(69)	(5)
Purchases of treasury stock					(118)				(118)
Allocation of ESOP shares		(761)				2,064			1,303
Allocation of SAP shares		1,430							1,430
Allocation of stock options		599							599

Balance at September 30, 2009	$	832	$	1,014,556	$	305,940	$	8,840	$	(384,972)	$	(62,576)	$	(7,598)	$	7,598	$	882,620

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Nine months ended September 30, 2009 and 2008 (Unaudited)

(Dollars in thousands)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash flows from operating activities		
Net (loss) income	$ (128,598)	$ 34,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Goodwill impairment	152,502	
Depreciation and amortization of intangibles	9,516	10,531
Provision for loan losses	18,100	6,600
Deferred tax benefit	(5,602)	(4,495)
Increase in cash surrender value of BOLI	(3,957)	(3,980)
Net amortization of premiums and discounts on securities	1,907	229
Accretion of net deferred loan fees	(1,570)	(1,608)
Amortization of premiums on purchased loans, net	2,286	1,966
Net increase in loans originated for sale	(96,639)	(13,281)
Proceeds from sales of loans originated for sale	98,363	13,275
Proceeds from sales of foreclosed assets, net	2,851	4,953
Allocation of ESOP shares	1,303	1,731
Allocation of SAP shares	1,430	2,513
Allocation of stock options	599	1,774
Net (gain) loss on sale of loans	(1,724)	6
Net gain on securities available for sale	(1,374)	(844)
Impairment charge on securities	1,502	1,409
Net gain on sale of premises and equipment	(172)	(87)
Net gain on sale of foreclosed assets	(71)	(1)
(Increase) decrease in accrued interest receivable	(998)	1,078
Increase in other assets	(5,076)	(3,587)
Decrease in other liabilities	(140)	(5,380)
Net cash provided by operating activities	44,438	47,011
Proceeds from maturities, calls and paydowns of investment securities	40,225	35,855
Purchases of investment securities	(32,006)	(31,774)
Proceeds from sales of securities available for sale	51,105	7,731
Proceeds from maturities and paydowns of securities available for sale	211,227	159,087
Purchases of securities available for sale	(675,002)	(181,918)
Purchases of loans	(39,999)	(228,426)
Net decrease in loans	153,532	83,098
Proceeds from sales of premises and equipment	1,404	818
Purchases of premises and equipment, net	(7,589)	(4,496)
Net cash used in investing activities	(297,103)	(160,025)
Net increase (decrease) in deposits	648,875	(88,943)
(Decrease) increase in mortgage escrow deposits	(2,146)	1,573
Purchases of treasury stock	(118)	(1,445)

Cash dividends paid to stockholders	(19,906)	(19,856)
Proceeds from long-term borrowings	67,000	390,600
Payments on long-term borrowings	(156,210)	(327,601)
Net (decrease) increase in short-term borrowings	(153,848)	106,691
Net cash provided by financing activities	383,647	61,019
Net increase (decrease) in cash and cash equivalents	130,982	(51,995)
Cash and cash equivalents at beginning of period	68,546	140,629
Cash and cash equivalents at end of period	$ 199,528	$ 88,634
Cash paid during the period for		
Interest on deposits and borrowings	$ 87,726	$ 102,063
Income taxes	$ 12,372	$ 10,371

7

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Nine months ended September 30, 2009 and 2008 (Unaudited) (Continued)

(Dollars in thousands)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Non cash investing activities:		
Transfer of loans receivable to foreclosed assets	$ 6,280	$ 7,896
Loan securitizations	$ 84,855	$ 55,217

See accompanying notes to unaudited consolidated financial statements

8

Table of Contents

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly-owned subsidiary, The Provident Bank (the Bank , together with Provident Financial Services, Inc., the Company).

In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the period. Actual results could differ from these estimates. The allowance for loan losses is a material estimate that is particularly susceptible to near-term change. The current economic environment has increased the degree of uncertainty inherent in this material estimate.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results of operations that may be expected for all of 2009.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain reclassifications have been made to 2008 data to conform to current year presentation.

These unaudited consolidated financial statements should be read in conjunction with the December 31, 2008 Annual Report to Stockholders on Form 10-K.

B. Earnings (Loss) Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations:

	For the three months ended September 30,						For the nine months ended September 30,					
	2009			2008			2009			2008		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Net income (loss)	$ 8,676			$ 13,163			$ (128,598)			$ 34,209		
Basic earnings (loss) per share:												
Income (loss) available to common stockholders	$ 8,676	56,311,141	$ 0.15	$ 13,163	56,078,691	$ 0.23	$ (128,598)	56,240,746	$ (2.29)	$ 34,209	56,006,174	$ 0.61
Dilutive shares					179						60	
Diluted earnings (loss) per share:												
Income (loss) available to common stockholders	$ 8,676	56,311,141	$ 0.15	$ 13,163	56,078,870	$ 0.23	$ (128,598)	56,240,746	$ (2.29)	$ 34,209	56,006,234	$ 0.61

9

Table of Contents

Anti-dilutive stock options and awards totaling 4,367,498 shares at September 30, 2009, were excluded from the earnings per share calculations.

Note 2. Loans and Allowance for Loan Losses

Loans receivable at September 30, 2009 and December 31, 2008 are summarized as follows (in thousands):

	September 30, 2009	December 31, 2008
Mortgage loans:		
Residential	$ 1,523,916	$ 1,793,123
Commercial	1,002,491	923,044
Multi-family	205,503	189.462
Construction	217,275	233,727
Total mortgage loans	2,949,185	3,139,356
Commercial loans	770,899	753,173
Consumer loans	593,732	624,282
Total other loans	1,364,631	1,377,455
Premium on purchased loans	8,443	10,980
Unearned discounts	(323)	(492)
Net deferred (fees) costs	(572)	(551)
	$ 4,321,364	$ 4,526,748

The activity in the allowance for loan losses for the three and nine months ended September 30, 2009 and 2008 is summarized as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Balance at beginning of period	$ 51,994	$ 41,118	$ 47,712	$ 40,782
Provision charged to operations	6,500	3,800	18,100	6,600
Recoveries of loans previously charged off	307	700	2,198	1,903
Loans charged off	(3,070)	(2,289)	(12,279)	(5,956)
Balance at end of period	$ 55,731	$ 43,329	$ 55,731	$ 43,329

At September 30, 2009, the Company identified $46.0 million of loans as impaired, compared with $37.8 million of impaired loans at December 31, 2008. The Company maintained an allowance for loan losses totaling $6.8 million related to $34.8 million of impaired loans at September 30, 2009. In addition, at September 30, 2009, the Company identified one $11.2 million construction loan as impaired with a loan to value ratio of 77% for which no allowance for loan losses was required in accordance with GAAP. The Company maintained an allowance for loan losses on impaired loans of $6.0 million at December 31, 2008. At September 30, 2009, $42.1 million of impaired loans were deemed collateral dependent and the related allowance for loan losses was determined based on estimates of the fair value of the collateral, giving consideration to recent appraised values and valuation estimates. Impaired loans at September 30, 2009 also included $3.9 million in commercial loans to a distributor of consumer products for which terms were modified under a troubled debt restructuring in the second quarter of 2009. The loans were brought current as to principal and interest as a condition to the restructuring and have continued to perform in accordance with the modified terms. A specific reserve of $26,000 is maintained in relation to these loans based on an evaluation of the net present value of projected future cash flows.

Table of Contents

Note 3. Deposits

Deposits at September 30, 2009 and December 31, 2008 are summarized as follows (in thousands):

	September 30, 2009	December 31, 2008
Savings	$ 870,375	$ 872,388
Money market	1,113,489	756,793
NOW	784,673	602,280
Non-interest bearing	487,647	462,364
Certificates of deposit	1,619,027	1,532,511
	$ 4,875,211	$ 4,226,336

Note 4. Components of Net Periodic Benefit Cost

The Bank has a noncontributory defined benefit pension plan (the Plan) covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The Plan was frozen on April 1, 2003. All participants in the Plan are 100% vested. The Plan s assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial.

In addition to pension benefits, certain health care and life insurance benefits are currently made available to certain of the Bank s retired employees. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee is fully eligible to receive the benefits. Effective January 1, 2003, eligibility for retiree health care benefits was frozen as to new entrants and benefits were eliminated for employees with less than ten years of service as of December 31, 2002. Effective January 1, 2007, eligibility for retiree life insurance benefits was frozen to new entrants and retiree life insurance benefits were eliminated for employees with less than ten years of service as of December 31, 2006.

Net periodic benefit costs for the three and nine months ended September 30, 2009 and 2008 include the following components (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	Pension benefits		Other post-retirement benefits		Pension benefits		Other post-retirement benefits	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	$		34	41	$		116	140
Interest cost	271	267	224	252	814	761	710	764
Expected return on plan assets	(262)	(389)			(786)	(1,168)		
Amortization of prior service cost			(1)	(1)			(3)	(3)
Amortization of the net (gain) loss	179		(222)	(174)	537		(593)	(496)
Net periodic benefit cost (increase)	$ 188	(122)	35	118	$ 565	(407)	230	405

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2008 that it does not expect to contribute to the Plan in 2009. As of September 30, 2009, no contributions to the Plan have been made.

The net periodic benefit cost (increase) for pension benefits and other post-retirement benefits for the three and nine months ended September 30, 2009 were calculated using the results of the January 1, 2009 valuations.

Table of Contents

Note 5. Impact of Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued a standard that establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative GAAP for nongovernmental entities. The Codification supersedes all existing non-SEC accounting and reporting standards. Rules and interpretative releases of the SEC under the authority of Federal securities laws remain authoritative GAAP for SEC registrants. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification did not have any impact on the Company s financial condition, results of operations or amounts reported in financial statement disclosures.

In June 2009, the FASB issued a standard that requires reporting entities to evaluate former qualifying special purpose entities for consolidation, changes the approach to determining a variable interest entity s (VIE) primary beneficiary, increases the frequency of required assessments to determine whether a company is the primary beneficiary of a VIE, clarifies the characteristics that identify a VIE, and requires additional annual and interim disclosures. This standard is effective for fiscal years beginning after November 15, 2009. The adoption of this standard is not expected to have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In June 2009, the FASB issued a standard that eliminates the concept of a qualifying special purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria, revises how retained interests are initially measured, removes the guaranteed mortgage securitization recharacterization provisions, and requires additional annual and interim disclosures. This standard is effective for fiscal years beginning after November 15, 2009. The adoption of this standard is not expected to have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In June 2009, the FASB issued a standard that requires management to evaluate subsequent events through the date financial statements are issued and to disclose the date through which such evaluation occurred. The Company has evaluated subsequent events through the November 9, 2009 issuance date of the unaudited consolidated financial statements included in this Form 10-Q.

In April 2009, the FASB issued guidance regarding the estimation of fair value when the volume and level of activity for the asset or liability have significantly decreased, including guidance on identifying circumstances that indicate a transaction is not orderly. Under this guidance, if the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, transactions or quoted prices may not be determinative of fair value. Further analysis is required and significant adjustments to the transactions or quoted prices may be necessary. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. The Company considered this guidance in estimating the fair value of assets and liabilities at September 30, 2009.

In April 2009, the FASB issued guidance that changes the amount of an other-than-temporary impairment that is recognized in earnings when there are non-credit losses on a debt security which management does not intend to sell, and for which it is more-likely-than-not that the entity will not be required to sell the security prior to the recovery of the non-credit impairment. In those situations, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security s amortized cost basis and its fair value would be included in other comprehensive income. This guidance also requires additional disclosures about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance is reflected in the unaudited consolidated financial statements and in Note 6 thereto.

In April 2009, the FASB issued guidance requiring disclosures about fair value of financial instruments for interim reporting periods of a publicly traded company, as well as in annual financial statements. The disclosure requirements are effective for interim reporting periods ending after June 15, 2009, and are included in Note 7 to the unaudited consolidated financial statements.

In June 2008, the FASB ratified guidance that requires that all nonrefundable maintenance deposits be accounted for as a deposit, with the deposit expensed or capitalized in accordance with the lessee s maintenance accounting policy when the

Table of Contents

underlying maintenance is performed. Once it is determined that an amount on deposit is not probable of being used to fund future maintenance expense, it is to be recognized as additional expense at the time such determination is made. This guidance is effective for fiscal years beginning after July 1, 2009. The adoption of this guidance is not expected to have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In June 2008, the FASB issued guidance that requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents to be treated as participating securities and, therefore, included in the earnings allocation in computing earnings per share under the two-class method. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, all previously reported earnings per share data must be retroactively adjusted to conform with the requirements of the this guidance. The adoption of this guidance did not have a material impact on the Company s calculation of earnings per share for the periods presented.

In March 2008, the FASB issued a standard that establishes enhanced disclosure requirements about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this standard did not have a material impact on the Company s financial condition, results of operations or financial statement disclosures.

In February 2008, the FASB issued guidance that delayed the application of a fair value standard for non-financial assets and non-financial liabilities until January 1, 2009. The adoption of this guidance is reflected in the Company s fair value disclosures appearing in Note 6 to the unaudited consolidated financial statements.

In December 2007, the FASB issued a standard that establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, this standard requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. This standard became effective on January 1, 2009. The adoption of this standard did not have a significant impact on the Company s financial condition, results of operations or financial statement disclosures.

Note 6. Fair Value Measurement of Assets and Liabilities

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

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

Table of Contents

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following tables present the assets and liabilities reported on the consolidated statements of financial condition, measured on a recurring and non-recurring basis, at their fair values as of September 30, 2009 and December 31, 2008 by level within the fair value hierarchy.

	September 30, 2009			
(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured on a recurring basis:				
Securities available for sale				
U.S. Agency obligations	$ 227,043	$	$	$ 227,043
Mortgage-backed securities		1,069,944		1,069,944
State and municipal obligations		17,660		17,660
Corporate obligations		9,920		9,920
Equity securities	8,475			8,475
	$ 235,518	$ 1,097,524	$	$ 1,333,042
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral			35,359	35,359
Foreclosed assets			7,044	7,044
Goodwill			346,289	346,289
	$	$	$ 388,692	$ 388,692

	December 31, 2008			
(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured on a recurring basis:				
Securities available for sale				
U.S. Treasury obligations	$ 1,013	$	$	$ 1,013
U.S. Agency obligations	94,474			94,474
Mortgage-backed securities		689,461		689,461
State and municipal obligations		18,107		18,107
Corporate obligations		3,345		3,345
Equity securities	13,929			13,929
	109,416	710,913		820,329
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$	$	$ 18,642	$ 18,642

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

The valuation techniques described below were used to measure fair value of financial instruments in the preceding table on a recurring basis during the three and nine months ended September 30, 2009, and the year ended December 31, 2008.

Table of Contents

For securities available for sale, fair value was estimated using a market approach. The majority of the Company s securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or comparable securities. The Company also holds equity securities and debt instruments issued by the U.S. government and U.S. government agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

The valuation techniques described below were used to measure fair value of financial instruments in the preceding table on a non-recurring basis during the three and nine months ended September 30, 2009, and the year ended December 31, 2008.

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments to comparable assets based on the appraisers market knowledge and experience, and are considered Level 3 inputs.

Assets acquired through foreclosure or deed in lieu of foreclosure included in the preceding table are carried at fair value, less estimated costs to sell. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments to comparable assets based on the appraisers market knowledge and experience, and are considered Level 3 inputs. When an asset is acquired, the excess of the loan balance over fair value, less estimated costs to sell, is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

The fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies. Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other factors. Estimated cash flows may extend far into the future and by their nature are difficult to determine over an extended time frame. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates. The Company recognized a goodwill impairment charge of $152.5 million during the three months ended March 31, 2009.

There were no changes to the valuation techniques for fair value measurement during the three and nine months ended September 30, 2009.

Note 7. Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for the Company s financial instruments.

Cash and Cash Equivalents

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

Investment Securities and Securities Available for Sale

The fair value of investment securities and securities available for sale is estimated using a market approach. The majority of the Company s securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. The Company also holds equity securities and debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices.

Federal Home Loan Bank of New York Stock

The carrying cost and the fair value of the investment in the common stock of the Federal Home Loan Bank of New York (FHLB-NY) is based on its par value. There is no market for FHLB-NY stock.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories.

The fair value of performing loans is estimated using a combination of techniques, including discounting estimated future cash flows and quoted market prices of similar instruments, where available.

The fair value for significant non-performing loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits and savings deposits, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with similar remaining maturities.

Borrowed Funds

The fair value of borrowed funds is estimated by discounting future cash flows using rates available for debt with similar terms and maturities.

Commitments to Extend Credit and Letters of Credit

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

The estimated fair values of the Company s financial instruments as of September 30, 2009 and December 31, 2008 are presented in the following table (in thousands):

	September 30, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	$ 199,528	199,528	68,546	68,546
Securities available for sale	1,333,042	1,333,042	820,329	820,329
Investment securities held to maturity	338,940	354,424	347,484	351,623
FHLB stock	34,675	34,675	42,833	42,833
Loans	4,265,633	4,388,531	4,479,036	4,620,925
Financial liabilities:				
Deposits	4,875,211	4,895,111	4,226,336	4,233,141
Borrowed funds	1,004,623	1,032,178	1,247,681	1,271,763

Limitations

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

Table of Contents

nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

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

Note 8. Investment Securities

At September 30, 2009, the Company had $1.33 billion and $338.9 million in available for sale and held to maturity investment securities, respectively. Many factors, including a lack of liquidity in the secondary market for certain securities, a lack of reliable pricing information, adverse regulatory actions, adverse changes in the business environment or any unexpected changes in the competitive marketplace could have an adverse effect on the Company s investment portfolio which could result in other-than-temporary impairment on certain investment securities in future periods. Included in the Company s investment portfolio are private label mortgage-backed securities and common stock holdings of publicly traded financial institutions. These investments may pose a higher risk of future impairment charges as a result of the current economic downturn and the potential negative effect on future performance of these private label mortgage-backed securities and equity securities. At September 30, 2009, approximately $22.6 million and $111.0 million of the mortgage-backed securities classified as held to maturity and available for sale, respectively, were private label mortgage-backed securities, while the remainder of the mortgage-backed securities were issued by U.S. government sponsored agencies. The private label mortgage-backed securities classified as held to maturity and available for sale had gross unrealized losses of $447,000 and $11.2 million, respectively, at September 30, 2009.

Investment Securities Held to Maturity

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for investment securities held to maturity at September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	$ 69,565	2,186	(453)	71,298
State and municipal obligations	259,916	13,607		273,523
Corporate obligations	9,459	159	(15)	9,603
	$ 338,940	15,952	(468)	354,424

	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	$ 91,435	910	(1,236)	91,109
State and municipal obligations	256,049	5,485	(1,020)	260,514
	$ 347,484	6,395	(2,256)	351,623

The Bank generally purchases securities for long-term investment purposes, and differences between amortized cost and fair values may fluctuate during the investment period.

17

Table of Contents

The amortized cost and fair value of investment securities at September 30, 2009 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	September 30, 2009	
	Amortized cost	Fair value
Due in one year or less	$ 15,277	15,397
Due after one year through five years	85,708	89,655
Due after five years through ten years	106,111	111,765
Due after ten years	62,279	66,309
Mortgage-backed securities	69,565	71,298
	$ 338,940	354,424

The following table represents the Company s disclosure on investment securities with temporary impairment at September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$ 8,032	(61)	7,095	(392)	15,127	(453)
Corporate obligations	1,724	(15)			1,724	(15)
	$ 9,756	(76)	7,095	(392)	16,851	(468)

	December 31, 2008 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$ 20,294	(994)	8,395	(242)	28,689	(1,236)
State and municipal obligations	31,548	(716)	10,915	(304)	42,463	(1,020)
	$ 51,842	(1,710)	19,310	(546)	71,152	(2,256)

Based on its detailed review of the securities portfolio, the Company believes that as of September 30, 2009, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The review of the portfolio for other-than-temporary impairment considers the percentage and length of time the market value of an investment is below book value as well as general market conditions, changes in interest rates, credit risk and whether the Company has the intent to sell the securities and whether it is not more likely than not that the Company would be required to sell the securities before the anticipated recovery.

Table of Contents

Securities Available for Sale

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for securities available for sale at September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 224,618	2,425		227,043
Mortgage-backed securities	1,055,757	25,900	(11,713)	1,069,944
State and municipal obligations	16,938	760	(38)	17,660
Corporate obligations	9,573	418	(71)	9,920
Equity securities	9,144	11	(680)	8,475
	$ 1,316,030	29,514	(12,502)	1,333,042

	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury obligations	$ 997	16		1,013
Agency obligations	91,360	3,114		94,474
Mortgage-backed securities	692,020	9,578	(12,137)	689,461
State and municipal obligations	17,664	490	(47)	18,107
Corporate obligations	3,558		(213)	3,345
Equity securities	14,617	93	(781)	13,929
	$ 820,216	13,291	(13,178)	820,329

The amortized cost and fair value of securities available for sale at September 30, 2009, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	September 30, 2009	
	Amortized cost	Fair value
Due in one year or less	$ 162,163	162,949
Due after one year through five years	82,833	85,217
Due after five years through ten years	6,133	6,457
Mortgage-backed securities	1,055,757	1,069,944
Equity securities	9,144	8,475
	$ 1,316,030	1,333,042

Proceeds from the sale of securities available for sale for the three months ended September 30, 2009 were $2,533,000, resulting in gross gains of $208,000 and gross losses of $13,000. Proceeds from the sale of securities available for sale for the nine months ended September 30, 2009 were $51,105,000, resulting in gross gains of $1,498,000 and gross losses of $124,000.

Table of Contents

The following table represents the Company s disclosure on securities available for sale with temporary impairment at September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$ 77,902	(1,172)	55,183	(10,541)	133,085	(11,713)
State and municipal obligations			1,141	(38)	1,141	(38)
Corporate obligations			923	(71)	923	(71)
Equity securities	1,024	(364)	734	(316)	1,758	(680)
	$ 78,926	(1,536)	57,981	(10,966)	136,907	(12,502)

	December 31, 2008 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	$ 98,334	(8,283)	19,718	(3,854)	118,052	(12,137)
State and municipal obligations	1,133	(47)			1,133	(47)
Corporate obligations	1,863	(195)	482	(18)	2,345	(213)
Equity securities	3,905	(780)	298	(1)	4,203	(781)
	$ 105,235	(9,305)	20,498	(3,873)	125,733	(13,178)

For the three months ended September 30, 2009, the Company recorded other-than-temporary impairment charges of $701,000 related to reductions in the market value of investments in the common stock of publicly traded financial institutions. For the nine months ended September 30, 2009, the Company recorded other-than-temporary impairment charges of $238,000 in connection with the credit-related impairment of a non-investment grade private label mortgage-backed security and an other-than-temporary impairment charge of $1.3 million, related to reductions in the market value of investments in the common stock of publicly traded financial institutions.

The temporary loss position associated with debt securities is the result of changes in interest rates relative to the coupon of the individual security and changes in credit spreads. In addition, the current turmoil in the credit markets has resulted in a lack of liquidity in the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. Equity securities with unrealized losses consist primarily of common stocks of local financial institutions that the Company believes have no direct exposure to sub-prime lending and that are subject to short-term cyclical market price fluctuations as a result of a number of factors including the current and projected interest rate environment and negative perceptions about the health of the financial sector in general. The Company does not have the intent to sell these securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of securities in an unrealized loss position as of September 30, 2009 totaled 41, compared with 137 at December 31, 2008. There were 27 private label mortgage-backed securities at September 30, 2009, with an amortized cost of $144.2 million and unrealized losses totaling $11.6 million. Of these securities, 25 securities were investment grade and two securities were below investment grade at September 30, 2009. Of the investment grade securities, 23 were rated AAA. At September 30, 2009, the non-investment grade securities were analyzed for impairment and were not considered to be other-than-temporarily impaired.

The Company estimates the loss projections for each security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the nine months ended September 30, 2009. One private label mortgage-backed security, classified as available for sale, with an

Table of Contents

amortized cost basis of $14.0 million, was deemed to have other-than-temporary impairment totaling $4.9 million at June 30, 2009. Of the total amount of the impairment, $238,000 was due to estimated credit losses and charged to earnings and $4.7 million was recognized in other comprehensive income for the quarter ended June 30, 2009. The evaluation of this security included a range of likely future cash flows and management-applied, security-specific assumptions as well as market assumptions based on the credit characteristics of this security. The assumptions used to determine the cash flows were based on prepayment, delinquency, loss severity and credit support information. Multiple present value cash flow analyses were used to determine the future expected cash flows. The average borrower credit score measured as a FICO for the loans underlying this security was 733, and the average loan-to-value ratio was 68%. The additional cash flow assumptions that were incorporated into this analysis used credit default rates between 2% and 4% and loss severity expectations ranging between 35% and 60%, discounted at the security s effective interest rate.

Although the Company recognized an other-than-temporary impairment on this security during the second quarter of 2009, it is currently performing in accordance with contractual obligations.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward Looking Statements

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

The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company also advises 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.

Critical Accounting Policies

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

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

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

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

Management assigns general valuation allowance (GVA) percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type. The appropriateness of these percentages is evaluated by management at least annually. In the second quarter of 2009, management completed its most recent evaluation of the GVA percentages. In that evaluation, the historical look-back period for assessing the magnitude of potential losses was shortened from five years to two years in recognition of recent macroeconomic and real estate market conditions, resulting in increases to GVA allocation percentages.

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

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

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. Goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. The Company engages an independent third party to perform an annual analysis during the fourth quarter as of September 30 to test the aggregate balance of goodwill for impairment. The fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies. Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other factors. Estimated cash flows may extend far into the future and by their nature are difficult to determine over an extended time frame. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates.

Table of Contents

The goodwill impairment analysis is a two-step process, to evaluate the potential impairment of the goodwill on the financial statements of the Bank. For this analysis, the Reporting Unit is defined as the Bank, which includes all core and retail banking operations of the Company but excludes the assets, liabilities, equity, earnings and operations held exclusively at the Company level. Four standard valuation methodologies common to valuation in business combination transactions involving financial institutions were used: (1) the Public Market Peers approach based on the trading prices of similar publicly traded companies as measured by standard valuation ratios; (2) the Comparable Transactions approach based on pricing ratios recently paid in the sale or merger of comparable banking franchises; (3) the Control Premium approach based on the Company s trading price (a proxy for the Bank s market pricing ratios were it publicly traded) followed by the application of an industry based control premium; and (4) the Discounted Cash Flow (DCF) approach where value is estimated based on the present value of projected dividends and a terminal value. These valuation techniques take into account the Bank s recent operating history, current operating environment and future prospects.

The Public Market Peers approach and the Comparable Transactions approach are based on Level 2 inputs. The Control Premium approach is based on a combination of Level 1 inputs (the quoted price for the Company s common stock) and Level 2 inputs (an estimated control premium based on comparable transactions). The DCF approach is based on Level 3 inputs including projections of future operations based on assumptions derived from management, the experience of the independent valuation firm that conducted the analysis and information from publicly available sources. All approaches were considered in the final estimate of fair value, with the approaches weighted based upon their applicability based upon the fair value hierarchy. These approaches and the resulting fair value conclusions are consistent with standard valuation techniques used by other market participants in evaluating business combinations for financial institutions.

If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an additional test must be performed. The second step test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

As reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Company performed an annual goodwill impairment test as of September 30, 2008, and a subsequent test as of December 31, 2008. The results of both analyses indicated that goodwill was not impaired. As a result of the continued decline in the first quarter of 2009 in stock prices in the financial services sector and in the Company s common stock price, the Company initiated a goodwill impairment test as of March 31, 2009. The step one analysis as of March 31, 2009, indicated potential impairment. Upon completion of the second step test, it was determined that the carrying amount of the goodwill exceeded its implied fair value and an impairment charge in the amount of $152.5 million was recognized as of March 31, 2009. The Company has determined that no triggering events have occurred during the quarter ended September 30, 2009 that would require the Company to perform an impairment test prior to the annual test. The annual goodwill impairment test as of September 30, 2009 was completed in the fourth quarter of 2009, with no impairment indicated. No goodwill impairment loss was required to be recognized for the three months ended September 30, 2009 or 2008, or the nine months ended September 30, 2008.

The Company s available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. Estimated fair values are based on market quotations or matrix pricing as discussed in Note 6 to the unaudited consolidated financial statements. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. The Company conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. If such a decline were deemed other-than-temporary, the Company would measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. The market value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the market value of fixed-rate securities decreases and as interest rates fall, the market value of fixed-rate securities increases. The current turmoil in the credit markets, primarily as a result of the continued fallout from sub-prime lending, resulted in a lack of liquidity in the mortgage-backed securities market. Increases in delinquencies and foreclosures, primarily in securities that are backed by sub-prime loans, have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company evaluates if it has the intent to sell these securities and if it is not more likely than not that the Company would be required to sell the securities before the anticipated recovery. The Company also has investments in common stock issued by several publicly traded financial institutions, the valuation of which is affected by the institutions performance, economic and stock market conditions. The Company recognized other-than-temporary securities impairment losses totaling $701,000 and $1.5 million for the three and nine months ended September 30, 2009, respectively. The Company recognized other-than-temporary securities impairment losses totaling $1.4 million for the three and nine months ended September 30, 2008.

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 allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

Total assets at September 30, 2009 increased $267.6 million, or 4.1%, to $6.82 billion, compared to $6.55 billion at December 31, 2008, primarily as a result of increases in securities available for sale and cash and cash equivalents, partially offset by decreases in loans and intangible assets.

Cash and cash equivalents increased $131.0 million to $199.5 million at September 30, 2009, from $68.5 million at December 31, 2008, as a result of deposit inflows and proceeds from repayments and sales of loans. The Company will continue to deploy these balances to fund loan originations, investment purchases and the repayment of maturing borrowings.

Securities available for sale, at fair value, increased $512.7 million, or 62.5%, to $1.33 billion at September 30, 2009, compared to $820.3 million at December 31, 2008. The increase in the securities available for sale portfolio included $84.9 million of residential mortgage loan pools that were securitized by the Company in the first quarter of 2009 and are now held as securities available for sale. The loan securitization was undertaken to enhance the liquidity and risk-based capital treatment of the underlying loans. Securities purchases for the nine months ended September 30, 2009 consisted primarily of U.S. Government Agency guaranteed mortgage-backed securities and obligations. The weighted average life of the Company s available for sale securities portfolio was 3.1 years at September 30, 2009 compared to 3.0 years at December 31, 2008.

Federal Home Loan Bank stock decreased $8.2 million, or 19.0%, to $34.7 million at September 30, 2009, from $42.8 million at December 31, 2008. The Company invests in stock of the Federal Home Loan Bank of New York (FHLB-NY) as required under the terms of membership. The level of required stock holdings is dependent, in part, on outstanding borrowings by the Company from the FHLB-NY.

Total net loans at September 30, 2009, decreased $213.4 million, or 4.8%, to $4.27 billion, compared to $4.48 billion at December 31, 2008. Loan originations totaled $843.0 million and loan purchases totaled $40.0 million for the nine months ended September 30, 2009. Compared with December 31, 2008, residential mortgage loans decreased $269.2 million, consumer loans decreased $30.5 million, and construction loans decreased $16.5 million, while commercial mortgage and multi-family loans increased $95.5 million and commercial loans increased $17.7 million. In addition to amortization, pay-offs, and the securitization of $84.9 million of loans in the first quarter of 2009, total residential mortgage loans decreased as a result of the sale of $96.6 million of newly originated, primarily 30-year fixed-rate loans as part of the Company s interest rate risk management process. Commercial real estate, construction and commercial loans totaled $2.20 billion, representing 50.9% of the loan portfolio at September 30, 2009, compared to $2.10 billion, or 46.5% of the loan portfolio at December 31, 2008. The Company intends to continue to focus on the origination of commercially oriented loans. Retail loans, which consist of residential mortgage loans and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $2.12 billion and accounted for 49.1% of the loan portfolio at September 30, 2009, compared to $2.42 billion, or 53.5% of the portfolio at December 31, 2008.

The Company does not originate or purchase sub-prime or option ARM loans. On a limited basis, the Company has originated Alt-A mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50%. The balance of these Alt-A loans at September 30, 2009 was $19.8 million. Of this total, 10 loans totaling $4.4 million were 90 days or more delinquent. General valuation reserves of 10%, or $444,000, were allocated to these loans at September 30, 2009.

Table of Contents

The Company participates in loans originated by other banks, including participations designated as Shared National Credits (SNC). The Company s gross commitments and outstanding balances as a participant in SNCs were $149.3 million and $113.2 million, respectively, at September 30, 2009. The Company s participations in SNCs included three loans classified as substandard (rated 7) under the Company s loan risk rating system with gross commitments of $36.9 million and outstanding balances of $34.6 million, respectively, at September 30, 2009. These adversely classified SNCs are all commercial construction loans on projects located in New York City. All of the Company s SNC participations were current as to the payment of principal and interest as of September 30, 2009.

The Company had outstanding junior lien mortgages totaling $310.9 million at September 30, 2009. Of this total, 40 loans totaling $3.2 million were 90 days or more delinquent. General valuation reserves of 10%, or $323,000, were allocated to these loans at September 30, 2009.

The Company had outstanding indirect marine loans totaling $93.4 million at September 30, 2009. Of this total, 21 loans totaling $3.1 million were 90 days or more delinquent. General valuation reserves of 20%, or $605,000, were allocated to these loans at September 30, 2009.

The following table sets forth information regarding the Company s non-performing assets as of September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
Mortgage loans:		
Residential	$ 22,627	$ 14,503
Commercial	34,815	24,830
Construction	7,072	9,403
Total mortgage loans	64,514	48,736
Commercial loans	5,885	4,456
Consumer loans	7,833	5,926
Total non-performing loans	78,232	59,118
Foreclosed assets	7,044	3,439
Total non-performing assets	$ 85,276	$ 62,557

The following table sets forth information regarding the Company s 60-89 day delinquent loans as of September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
Mortgage loans:		
Residential	$ 6,260	$ 5,786
Commercial		
Construction		
Total mortgage loans	6,260	5,786
Commercial loans	3,847	1,482
Consumer loans	1,976	1,356
Total 60-89 day delinquent loans	12,083	8,624

At September 30, 2009, the allowance for loan losses totaled $55.7 million, or 1.29% of total loans, compared with $47.7 million, or 1.05% of total loans at December 31, 2008. Total non-performing loans increased $19.1 million to $78.2 million, or 1.81% of total loans at September 30, 2009, from $59.1 million, or 1.31% of total loans at December 31, 2008.

Non-performing commercial mortgage loans increased $10.0 million, to $34.8 million at September 30, 2009, from $24.8 million at December 31, 2008. The increase in non-performing commercial mortgage loans was largely attributable to the addition, in the third quarter of 2009, of an $11.2 million senior participation interest in a $283.0 million Shared National Credit. Proceeds from this construction loan facility are being used to convert an existing 35-story, 631,000 square foot office building in New York City into a mixed-use 349-unit residential condominium and 251-room hotel. The project has been impacted by additional costs and a decline in sales activity. While this loan has been classified as non-accrual, the hotel construction is nearing completion and the loan was current as to principal and interest at September 30, 2009. The Company estimates a loan-to-value ratio of approximately 77% at September 30, 2009, and therefore, in accordance with GAAP, no specific reserve has been allocated to this loan. The Company had an unfunded commitment on this loan of an additional $527,000 at September 30, 2009.

The remaining balance of non-performing commercial mortgage loans at September 30, 2009 was primarily attributable to two loans to a single real estate developer. The first is an $11.4 million loan secured by a planned unit development of 203 single family detached townhouse and age restricted units; and the second is a $9.1 million commercial mortgage loan secured by a 184-unit, age restricted townhouse project. At September 30, 2009, these loans were deemed impaired and were allocated $5.1 million of the allowance for loan losses. Management believes that the allowance for loan losses allocated to this credit relationship is appropriate and adequate based on recent appraisals and projections of net realizable value. There is no contractual commitment to advance additional funds to this borrower.

Non-performing residential mortgage loans increased $8.1 million, to $22.6 million at September 30, 2009, from $14.5 million at December 31, 2008. Furthermore, non-performing consumer loans increased $2.0 million, to $7.8 million at September 30, 2009, from $5.9 million at December 31, 2008. The Company attributes the increase in non-performing residential mortgage and consumer loans to rising unemployment, declining property values and increased personal debt levels.

Non-performing commercial loans increased $1.4 million, to $5.9 million at September 30, 2009, from $4.4 million at December 31, 2009. Non-performing commercial loans consisted of 34 loans. The largest non-performing commercial loan had an outstanding balance of $880,000 at September 30, 2009.

Non-performing construction mortgage loans decreased $2.3 million, to $7.1 million at September 30, 2009, from $9.4 million at December 31, 2008, as a result of repayments due to unit sales. Non-performing construction mortgage loans at September 30, 2009 consisted of one $7.1 million loan to a real estate developer secured by a 5-story, 66-unit, 2 bedroom condominium project. At September 30, 2009, this loan was deemed impaired and was allocated $1.1 million of the allowance for loan losses. Management believes that the allowance for loan losses allocated to this relationship is appropriate and adequate based on recent appraisals and projections of net realizable value. There is no contractual commitment to advance additional funds to this borrower.

At September 30, 2009, the Company held $7.0 million of foreclosed assets, compared with $3.4 million at December 31, 2008. Foreclosed assets at September 30, 2009 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $3.5 million of commercial real estate, $2.0 million of residential properties, $1.5 million of boats, and $21,000 of automobiles at September 30, 2009.

Non-performing assets totaled $85.3 million, or 1.25% of total assets at September 30, 2009, compared to $62.6 million, or 0.96% of total assets at December 31, 2008.

Intangible assets decreased $155.6 million to $359.1 million at September 30, 2009, from $514.7 million at December 31, 2008. At September 30, 2009, the Company had goodwill totaling $346.3 million, compared to $498.8 million at December 31, 2008, resulting primarily from acquisitions completed in 2004 and 2007. U.S. GAAP requires companies to perform an annual test for goodwill impairment. As reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Company performed an annual goodwill impairment test as of September 30, 2008, and a subsequent test as of December 31, 2008. The results of both analyses indicated that goodwill was not impaired. As a result of the continued decline in the first quarter of 2009 in stock prices in the financial services sector and in the Company s common stock price, the Company initiated a goodwill impairment test as of March 31, 2009, indicating that goodwill resulting from these acquisitions was impaired. The Company recognized a $152.5 million goodwill impairment charge for the quarter ended March 31, 2009.

Total deposits increased $648.9 million, or 15.4%, to $4.88 billion at September 30, 2009, from $4.23 billion at December 31, 2008, with core deposits increasing $562.4 million and time deposits increasing $86.5 million. Core deposits, consisting of all demand and savings deposits, represented 66.8% of total deposits at September 30, 2009, compared to 63.7% of total deposits at December 31, 2008. Within core deposits, money market account balances increased $356.7 million, to $1.11 billion at September 30, 2009, NOW checking account balances increased $182.4 million, to $784.7 million at September 30, 2009, non-interest bearing demand deposit accounts increased $25.3 million, to $487.6 million at September 30, 2009, and savings account balances decreased $2.0 million, to $870.4 million at September 30, 2009. These increases are primarily due to increases in municipal money market and checking account balances, SmartChecking and Platinum relationship checking and money market account balances, and business checking account balances. Time deposit increases were primarily in the 18-month and shorter maturity categories.

Borrowed funds were reduced $243.1 million, or 19.5%, to $1.00 billion at September 30, 2009, from $1.25 billion at December 31, 2008, as the Company used excess liquidity arising from the increase in core deposit funding to repay maturing advances. Borrowings as a percentage of total assets decreased to 14.7% at September 30, 2009, from 19.1% at December 31, 2008.

Total stockholders equity decreased $136.0 million, or 13.3%, to $882.6 million at September 30, 2009, from $1.02 billion at December 31, 2008. This decrease was primarily due to the year-to-date net loss of $128.6 million and $19.9 million in cash dividends, partially offset by $9.3 million in other comprehensive income and the allocation of shares to stock-based compensation plans of $3.3 million. At September 30, 2009, book value per share and tangible book value per share were $14.75 and $8.75, respectively, compared with $17.09 and $8.45, respectively, at December 31, 2008. The net loss for the nine months ended September 30, 2009, and the resulting decrease in stockholders equity and book value per share were attributable to the $152.2 million non-cash goodwill impairment charge recognized in the first quarter of 2009. Tangible equity as a percentage of tangible assets was 8.11% at September 30, 2009, compared with 8.35% at December 31, 2008. Common stock repurchases during the nine months ended September 30, 2009, totaled 11,000 shares at an average cost of $10.67 per share. At September 30, 2009, 2.1 million shares remained eligible for repurchase under the current stock repurchase program authorized by the Company s Board of Directors.

Liquidity and Capital Resources. The Company s primary sources of funds are deposits, FHLB-NY advances, repurchase agreements, loan repayments, maturities of investments and cash flows from mortgage-backed securities. Scheduled loan amortization is a fairly predictable source of funds, while loan and mortgage-backed securities prepayments and deposit flows are influenced by interest rates, local economic conditions and the competitive marketplace. Additional sources of liquidity that are available to the Company, should the need arise, are a $100.0 million overnight line of credit and a $100.0 million one-month overnight re-pricing line of credit, each with the FHLB-NY. As of September 30, 2009, the Company did not have any outstanding borrowings against these lines of credit.

Cash needs for the nine months ended September 30, 2009, were provided for primarily from deposit inflows; income and principal payments on loans, investments and mortgage-backed securities; and sales of loans and securities. The cash was used primarily to fund interest and operating expenses, current loan originations, investment and loan purchases and the repayment of borrowings.

As of September 30, 2009, the Bank and the Company exceeded all regulatory capital requirements as follows:

	At September 30, 2009			
	Required		Actual	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Bank:				
Regulatory Tier 1 leverage capital	$ 254,380	4.00%	$ 412,329	6.48%
Tier 1 risk-based capital	167,158	4.00	412,329	9.87
Total risk-based capital	334,316			