PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
November 09, 2010
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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, 2010

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	**42-1547151**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
830 Bergen Avenue, Jersey City, New Jersey	**07306-4599**
(Address of Principal Executive Offices)	**(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 x 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, 2010 there were 83,209,293 shares issued and 60,351,754 shares outstanding of the Registrant s Common Stock, par value $0.01 per share, including 428,003 shares held by the First Savings Bank Directors Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

PROVIDENT FINANCIAL SERVICES, INC.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

September 30, 2010 (Unaudited) and December 31, 2009

(Dollars in thousands, except share data)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 106,754	$ 120,823
Short-term investments	650	2,920
Total cash and cash equivalents	107,404	123,743
Investment securities held to maturity (fair value of $350,664 and $344,385 at September 30, 2010 and December 31, 2009, respectively)	334,405	335,074
Securities available for sale, at fair value	1,375,781	1,333,163
Federal Home Loan Bank (FHLB-NY) stock, at cost	34,629	34,276
Loans	4,344,657	4,384,194
Less allowance for loan losses	68,764	60,744
Net loans	4,275,893	4,323,450
Foreclosed assets, net	5,682	6,384
Banking premises and equipment, net	72,539	76,280
Accrued interest receivable	23,787	25,797
Intangible assets	355,028	358,058
Bank-owned life insurance (BOLI)	135,334	132,346
Other assets	61,813	87,601
Total assets	$ 6,782,295	$ 6,836,172
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand deposits	$ 2,687,168	$ 2,522,732
Savings deposits	887,606	868,835
Certificates of deposit of $100,000 or more	423,441	469,313
Other time deposits	906,341	1,038,297
Total deposits	4,904,556	4,899,177

Mortgage escrow deposits		18,639		18,713
Borrowed funds		903,610		999,233
Other liabilities		34,442		34,494
Total liabilities		5,861,247		5,951,617
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 59,922,431 shares outstanding at September 30, 2010, and 59,821,850 shares outstanding at December 31, 2009		832		832
Additional paid-in capital		1,016,659		1,014,856
Retained earnings		325,408		307,751
Accumulated other comprehensive income		22,825		7,731
Treasury stock, at cost		(385,109)		(384,973)
Unallocated common stock held by Employee Stock Ownership Plan (ESOP)		(59,567)		(61,642)
Common stock acquired by the Directors Deferred Fee Plan (DDFP)		(7,505)		(7,575)
Deferred compensation DDFP		7,505		7,575
Total stockholders equity		921,048		884,555
Total liabilities and stockholders equity	$	6,782,295	$	6,836,172

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Operations

Three and nine months ended September 30, 2010 and 2009 (Unaudited)

(Dollars in thousands, except per share data)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Interest income:				
Real estate secured loans	$ 40,426	$ 39,286	$ 120,630	$ 119,566
Commercial loans	10,457	11,108	30,964	32,176
Consumer loans	7,085	7,722	21,487	23,819
Investment securities	3,166	3,327	9,633	10,119
Securities available for sale and FHLB-NY stock	10,683	11,497	33,649	32,876
Deposits, Federal funds sold and other short-term investments	80	99	222	252
Total interest income	71,897	73,039	216,315	218,808
Interest expense:				
Deposits	11,571	18,807	37,341	58,136
Borrowed funds	7,291	8,922	23,030	28,266
Total interest expense	18,862	27,729	60,371	86,402
Net interest income	53,035	45,310	155,944	132,406
Provision for loan losses	8,600	6,500	26,600	18,100
Net interest income after provision for loan losses	44,435	38,810	129,344	114,306
Non-interest income:				
Fees	6,017	6,652	17,637	18,347
BOLI	1,288	1,438	4,514	3,957
Net gain on securities transactions	16	195	833	1,374
Other-than-temporary impairment losses on securities		(701)	(3,116)	(6,167)
Portion of loss recognized in other comprehensive income (before taxes)			2,946	4,665
Net impairment losses on securities recognized in earnings		(701)	(170)	(1,502)
Other income	482	1,004	971	2,243
Total non-interest income	7,803	8,588	23,785	24,419
Non-interest expense:				
Goodwill impairment				152,502
Compensation and employee benefits	17,764	18,257	52,589	52,518

Net occupancy expense	4,884	4,966	14,942	15,270
Data processing expense	2,174	2,354	6,699	7,010
FDIC insurance	1,833	2,450	5,667	7,810
Advertising and promotion expense	1,037	1,117	2,923	3,147
Amortization of intangibles	842	1,115	2,966	4,020
Other operating expenses	5,547	5,713	16,988	17,644
Total non-interest expense	34,081	35,972	102,774	259,921
Income (loss) before income tax expense	18,157	11,426	50,355	(121,196)
Income tax expense	4,694	2,750	12,765	7,402
Net income (loss)	$ 13,463	$ 8,676	$ 37,590	$ (128,598)
Basic earnings (loss) per share	$ 0.24	$ 0.15	$ 0.66	$ (2.29)
Average basic shares outstanding	56,610,647	56,311,141	56,533,545	56,240,746
Diluted earnings (loss) per share	$ 0.24	$ 0.15	$ 0.66	$ (2.29)
Average diluted shares outstanding	56,610,647	56,311,141	56,533,545	56,240,746

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders Equity for the Nine Months Ended September 30, 2010 and 2009 (Unaudited)

(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 loss:									
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 gain 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)
Purchase 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.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders Equity for the Nine Months Ended September 30, 2010 and 2009 (Unaudited) (Continued)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS EQUITY
Balance at December 31, 2009	$ 832	$ 1,014,856	$ 307,751	$ 7,731	$ (384,973)	$ (61,642)	$ (7,575)	$ 7,575	$ 884,555
Comprehensive income:									
Net income			37,590						37,590
Other comprehensive income:									
Other-than-temporary impairment on debt securities available for sale (net of tax of ($1,203))				(1,743)					(1,743)
Unrealized holding gains on securities arising during the period (net of tax of $11,889)				17,215					17,215
Reclassification adjustment for gains included in net income (net of tax of $341)				(492)					(492)
Amortization related to post-retirement obligations (net of tax of $79)				114					114
Total comprehensive income									$ 52,684
Cash dividends declared			(19,933)						(19,933)
Distributions from DDFP		(5)					70	(70)	(5)
Purchases of treasury stock					(191)				(191)
Option exercises		(16)			55				39
Allocation of ESOP shares		(627)				2,075			1,448
Allocation of SAP shares		1,828							1,828
Allocation of stock options		623							623
Balance at September 30, 2010	$ 832	$ 1,016,659	$ 325,408	$ 22,825	$ (385,109)	$ (59,567)	$ (7,505)	$ 7,505	$ 921,048

See accompanying notes to unaudited consolidated financial statements.

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Nine months ended September 30, 2010 and 2009 (Unaudited)

(Dollars in thousands)

	Nine months ended September 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 37,590	$ (128,598)
Adjustments to reconcile net income to net cash provided by operating activities:		
Goodwill impairment		152,502
Depreciation and amortization of intangibles	8,178	9,516
Provision for loan losses	26,600	18,100
Deferred tax benefit	(342)	(5,602)
Increase in cash surrender value of BOLI	(4,514)	(3,957)
Net amortization of premiums and discounts on securities	5,989	1,907
Accretion of net deferred loan fees	(815)	(1,570)
Amortization of premiums on purchased loans, net	1,402	2,286
Net increase in loans originated for sale	(12,389)	(96,639)
Proceeds from sales of loans originated for sale	13,078	98,363
Proceeds from sales of foreclosed assets, net	3,981	2,851
Allocation of ESOP shares	1,448	1,303
Allocation of SAP shares	1,828	1,430
Allocation of stock options	623	599
Net gain on sale of loans	(689)	(1,724)
Net gain on securities transactions	(833)	(1,374)
Impairment charge on securities	170	1,502
Net gain on sale of premises and equipment	(12)	(172)
Net loss (gain) on sale of foreclosed assets	5	(71)
Decrease (increase) in accrued interest receivable	2,010	(998)
Increase in other assets	(2,253)	(5,076)
Decrease in other liabilities	(52)	(140)
Net cash provided by operating activities	81,003	44,438
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities held to maturity	33,909	40,225
Purchases of investment securities held to maturity	(33,574)	(32,006)
Proceeds from sales of securities available for sale	18,926	51,105
Proceeds from maturities and paydowns of securities available for sale	380,224	211,227
Purchases of securities available for sale	(421,452)	(675,002)
Purchases of loans	(69,060)	(39,999)
Net decrease in loans	104,024	153,532
BOLI benefits paid	1,523	
Proceeds from sales of premises and equipment	2,101	1,404
Purchases of premises and equipment, net	(3,560)	(7,589)
Net cash provided by (used in) investing activities	13,061	(297,103)

Cash flows from financing activities:				
Net increase in deposits		5,379		648,875
Decrease in mortgage escrow deposits		(74)		(2,146)
Purchases of treasury stock		(191)		(118)
Proceeds from the exercise of stock options		39		
Cash dividends paid to stockholders		(19,933)		(19,906)
Proceeds from long-term borrowings		122,000		67,000
Payments on long-term borrowings		(227,310)		(156,210)
Net increase (decrease) in short-term borrowings		9,687		(153,848)
Net cash (used in) provided by financing activities		(110,403)		383,647
Net (decrease) increase in cash and cash equivalents		(16,339)		130,982
Cash and cash equivalents at beginning of period		123,743		68,546
Cash and cash equivalents at end of period	$	107,404	$	199,528
Cash paid during the period for				
Interest on deposits and borrowings	$	61,501	$	87,726
Income taxes	$	7,777	$	12,372

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Nine months ended September 30, 2010 and 2009 (Unaudited) (Continued)

(Dollars in thousands)

	Nine months ended September 30, 2010	2009
Non cash investing activities:		
Transfer of loans receivable to foreclosed assets	$ 3,986	$ 6,280
Loan securitizations	$	$ 84,855

See accompanying notes to unaudited consolidated financial statements

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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. Such estimates are used in connection with the determination of the allowance for loan losses, evaluation of goodwill for impairment, evaluation of other-than-temporary impairment on securities and the evaluation of the need for valuation allowances on deferred tax assets, among others. 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, 2010 are not necessarily indicative of the results of operations that may be expected for all of 2010.

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.

These unaudited consolidated financial statements should be read in conjunction with the December 31, 2009 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 (dollars in thousands, except share data):

	For the three months ended September 30,						For the nine months ended September 30,					
	2010			2009			2010			2009		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Loss	Weighted Average Common Shares Outstanding	Per Share Amount
Net income (loss)	$ 13,463			$ 8,676			$ 37,590			$ (128,598)		
Basic earnings (loss) per share:												
Income (loss) available to common stockholders	$ 13,463	56,610,647	$ 0.24	$ 8,676	56,311,141	$ 0.15	$ 37,590	56,533,545	$ 0.66	$ (128,598)	56,240,746	$ (2.29)

Diluted earnings (loss) per share:												
Income (loss) available to common stockholders	$ 13,463	56,610,647	$ 0.24	$ 8,676	56,311,141	$ 0.15	$ 37,590	56,533,545	$ 0.66	$ (128,598)	56,240,746	$ (2.29)

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Anti-dilutive stock options and awards totaling 4,250,190 shares at September 30, 2010, were excluded from the earnings per share calculations.

Note 2. Loans and Allowance for Loan Losses

Loans receivable at September 30, 2010 and December 31, 2009 are summarized as follows (in thousands):

	September 30, 2010	December 31, 2009
Mortgage loans:		
Residential	$ 1,413,877	$ 1,491,358
Commercial	1,174,222	1,089,937
Multi-family	305,861	227,663
Construction	133,988	195,889
Total mortgage loans	3,027,948	3,004,847
Commercial loans	741,367	785,818
Consumer loans	568,533	586,459
Total other loans	1,309,900	1,372,277
Premium on purchased loans	7,163	8,012
Unearned discounts	(126)	(266)
Net deferred (fees) costs	(228)	(676)
	$ 4,344,657	$ 4,384,194

The activity in the allowance for loan losses for the three and nine months ended September 30, 2010 and 2009 is summarized as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 61,490	$ 51,994	$ 60,744	$ 47,712
Provision charged to operations	8,600	6,500	26,600	18,100
Recoveries of loans previously charged off	712	307	1,528	2,198
Loans charged off	(2,038)	(3,070)	(20,108)	(12,279)
Balance at end of period	$ 68,764	$ 55,731	$ 68,764	$ 55,731

At September 30, 2010, the Company identified $50.1 million of loans as impaired, of which $46.9 million were collateral dependent and $3.2 million were non-collateral dependent. The Company maintained an allowance for loan losses totaling $7.5 million related to $28.7 million of collateral dependent impaired loans at September 30, 2010, based on estimates of the fair value of the collateral, giving consideration to recent appraised values and valuation estimates. In addition, at September 30, 2010, the Company identified $18.2 million of collateral dependent loans as impaired with loan to value ratios less than or equal to 100% for which no allowance for loan losses was required in accordance with GAAP. The Company maintained an allowance for loan losses totaling $285,000 related to $1.1 million of non-collateral dependent impaired loans at September 30, 2010. In addition, at September 30, 2010, the Company identified $2.1 million of non-collateral dependent loans as impaired for which discounted cash flow analyses resulted in no required allowance for loan losses.

At December 31, 2009, the Company identified $41.1 million of loans as impaired, all of which were collateral dependent. The Company maintained an allowance for loan losses totaling $12.5 million related

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to $30.1 million of collateral dependent impaired loans at December 31, 2009, based on estimates of the fair value of the collateral, giving consideration to recent appraised values and valuation estimates. In addition, at December 31, 2009, the Company identified $11.0 million of collateral dependent loans as impaired with loan to value ratios less than or equal to 100% for which no allowance for loan losses was required in accordance with GAAP.

Note 3. Deposits

Deposits at September 30, 2010 and December 31, 2009 are summarized as follows (in thousands):

	September 30, 2010	December 31, 2009
Savings	$ 887,606	$ 868,835
Money market	1,243,275	1,185,571
NOW	904,085	822,609
Non-interest bearing	539,808	514,552
Certificates of deposit	1,329,782	1,507,610
	$ 4,904,556	$ 4,899,177

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, 2010 and 2009 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	
	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	$		31	34	$		102	116
Interest cost	285	271	228	224	853	814	696	710
Expected return on plan assets	(432)	(262)			(1,296)	(786)		
Amortization of prior service cost			(1)	(1)			(3)	(3)
Amortization of the net (gain) loss	119	179	(207)	(222)	357	537	(594)	(593)
Net periodic benefit (increase) cost	$ (28)	188	51	35	$ (86)	565	201	230

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2009, that it does not expect to contribute to the Plan in 2010. As of September 30, 2010, no contributions to the Plan have been made.

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The net periodic benefit (increase) cost for pension benefits and other post-retirement benefits for the three and nine months ended September 30, 2010 was calculated using the results of the January 1, 2010 valuations.

Note 5. Impact of Recent Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of this guidance, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in this guidance encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company s adoption of this guidance is not expected to have a material effect on its consolidated financial statements.

In January 2010, the FASB issued guidance that will require more robust disclosures about: the different classes of assets and liabilities measured at fair value; the valuation techniques and inputs used; the activity in Level 3 fair value measurements; and the transfers between Levels 1, 2, and 3. The disclosure requirements relating to Level 3 measurements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. All other requirements of this guidance are effective in interim and annual periods beginning after December 31, 2009. The adoption of the required components of this guidance did not 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 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 did not 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 did not have a material 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

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Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The 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, 2010 and December 31, 2009 by level within the fair value hierarchy.

		Fair Value Measurements at Reporting Date Using:		
(Dollars in thousands)	**September 30, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Measured on a recurring basis:				
Securities available for sale	1,375,781	106,308	1,269,473	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	27,420			27,420
Foreclosed assets	5,682			5,682

		Fair Value Measurements at Reporting Date Using:		
(Dollars in thousands)	**December 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Measured on a recurring basis:				
Securities available for sale	1,333,163	225,851	1,107,312	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	28,309			28,309
Foreclosed assets	6,384			6,384
Goodwill	346,290			346,290

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.

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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, 2010, and the year ended December 31, 2009.

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 evaluates the quality of Level 2 matrix pricing through comparison to comparable securities. The Company also may hold 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, 2010, and the year ended December 31, 2009.

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. The annual goodwill impairment test as of September 30, 2010 was completed in the fourth quarter of 2010. Based upon the step one analysis, goodwill was not impaired and no further charge was required.

There were no changes to the valuation techniques for fair value measurement during the three and nine months ended September 30, 2010 and the twelve months ended December 31, 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.

FHLB-NY Stock

The carrying value of FHLB-NY stock is its cost. The fair value of FHLB-NY stock is based on redemption at par value.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, 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.

The loan valuations, thus determined, do not necessarily represent an exit price that would be achieved in an active market.

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, 2010 and December 31, 2009 are presented in the following table (in thousands):

	September 30, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	$ 107,404	107,404	123,743	123,743
Securities available for sale	1,375,781	1,375,781	1,333,163	1,333,163
Investment securities held to maturity	334,405	350,664	335,074	344,385
FHLB-NY stock	34,629	34,629	34,276	34,276
Loans, net	4,275,893	4,479,921	4,323,450	4,424,286
Financial liabilities:				
Deposits	$ 4,904,556	4,920,612	4,899,177	4,913,650
Borrowed funds	903,610	933,157	999,233	1,020,245

Limitations

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

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

Significant assets and liabilities that are not considered financial assets or liabilities include goodwill and other intangible assets, 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, 2010, the Company had $1.38 billion and $334.4 million in available for sale and held to maturity investment securities, respectively. Many factors, including lack of liquidity in the secondary market for certain securities, lack of reliable pricing information, regulatory actions, changes in the business environment or any 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. These investments may pose a higher risk of future impairment charges as a result of the weak economic environment and the potential negative effect on future performance of these private label mortgage-backed securities. The total number of all held to maturity and available for sale securities in an unrealized loss position as of September 30, 2010 totaled 25, compared with 85 at December 31, 2009. This included five private label mortgage-backed securities at September 30, 2010, with an amortized cost of $27.5 million and unrealized losses totaling $2.1 million. All of these private label mortgage-backed securities were below investment grade at September 30, 2010.

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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, 2010 and December 31, 2009 (in thousands):

	September 30, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 2,750	11		2,761
Mortgage-backed securities	46,047	2,347		48,394
State and municipal obligations	276,549	13,573	(112)	290,010
Corporate obligations	9,059	440		9,499
	$ 334,405	16,371	(112)	350,664

	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 1,000		(8)	992
Mortgage-backed securities	64,197	1,801	(445)	65,553
State and municipal obligations	260,455	8,037	(206)	268,286
Corporate obligations	9,422	146	(14)	9,554
	$ 335,074	9,984	(673)	344,385

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

The amortized cost and fair value of investment securities at September 30, 2010 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, 2010	
	Amortized cost	Fair value
Due in one year or less	$ 15,666	15,802
Due after one year through five years	97,108	101,521
Due after five years through ten years	99,344	105,469
Due after ten years	76,240	79,478
Mortgage-backed securities	46,047	48,394
	$ 334,405	350,664

The following table represents the Company s disclosure on investment securities with temporary impairment at September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
State and municipal obligations	5,301	(112)			5,301	(112)
	$ 5,301	(112)			5,301	(112)

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	December 31, 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
Agency obligations	$ 992	(8)			992	(8)
Mortgage-backed securities			9,082	(445)	9,082	(445)
State and municipal obligations	18,138	(206)			18,138	(206)
Corporate obligations	2,246	(14)			2,246	(14)
	$ 21,376	(228)	9,082	(445)	30,458	(673)

Based on its detailed review of the securities portfolio, the Company believes that as of September 30, 2010, 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.

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, 2010 and December 31, 2009 (in thousands):

	September 30, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 105,322	986		106,308
Mortgage-backed securities	1,213,776	36,750	(2,590)	1,247,936
State and municipal obligations	10,831	708		11,539
Corporate obligations	9,549	449		9,998
	$ 1,339,478	38,893	(2,590)	1,375,781

	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$ 223,951	1,901		225,851
Mortgage-backed securities	1,076,467	19,911	(11,698)	1,084,680
State and municipal obligations	12,199	575	(73)	12,701
Corporate obligations	9,567	437	(74)	9,931
	$ 1,322,184	22,824	(11,845)	1,333,163

The amortized cost and fair value of securities available for sale at September 30, 2010, 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, 2010	
	Amortized cost	Fair value
Due in one year or less	$ 66,838	67,618
Due after one year through five years	53,248	54,217
Due after five years through ten years	5,616	6,010
Mortgage-backed securities	1,213,776	1,247,936
	$ 1,339,478	1,375,781

No securities were sold in the three months ended September 30, 2010. Proceeds from the sale of securities available for sale for the nine months ended September 30, 2010 were $18,926,000, resulting in gross gains of $833,000, with no gross losses. 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. For the nine months ended September 30, 2009, sales of securities generated total proceeds of $51,105,000, resulting in gross gains and gross losses of $1,498,000 and $124,000, respectively.

The following table represents the Company s disclosure on securities available for sale with temporary impairment at September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010 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	$ 145,453	(476)	25,340	(2,114)	170,793	(2,590)
	$ 145,453	(476)	25,340	(2,114)	170,793	(2,590)

	December 31, 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	$ 272,909	(2,939)	55,226	(8,759)	328,135	(11,698)
State and municipal obligations	737	(17)	1,056	(56)	1,793	(73)
Corporate obligations			922	(74)	922	(74)
	$ 273,646	(2,956)	57,204	(8,889)	330,850	(11,845)

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

Beginning credit loss amount as of December 31, 2009	$ 768
Add: Initial OTTI credit losses	
Subsequent OTTI credit losses	170
Less: Realized losses for securities sold	
Securities intended or required to be sold	
Increases in expected cash flows on debt securities	
Ending credit loss amount as of September 30, 2010	$ 938

For the three months ended September 30, 2010, the Company did not incur a net other-than-temporary impairment charge on its investment securities portfolio. A $701,000 charge was recognized in the third quarter of 2009. The impairment charges in 2009 related to reductions in the market value of investments in common stock of publicly traded financial institutions.

For the nine months ended September 30, 2010 and 2009, the Company recognized net other-than-temporary impairment charges on securities of $170,000 and $1.5 million, respectively. For the nine months ended September 30, 2010, the impairment charge related to an investment in a non-agency mortgage-backed security, and for the prior year period, the other than temporary impairment charges included $238,000 related to a non-agency mortgage-backed security and a $1.3 million charge related to the reduction in the market value of investments in the common stock of publicly traded financial institutions.

The temporary loss position associated with the remaining debt securities is the result of changes in interest rates relative to the coupon of the individual security and changes in credit spreads. In addition, there remains a lack of liquidity in certain sectors of the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company does not have the intent to sell securities in a temporary loss position at September 30, 2010, and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery.

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 at September 30, 2010.

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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 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.

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 collectability of principal may not be reasonably assured. For residential mortgage and consumer loans, this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.

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

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

Management assigns general valuation allowance (GVA) percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type. The appropriateness of these percentages is evaluated by management at least annually. In the second quarter of 2010, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, GVA percentages applied to the marine loan portfolio were increased to reflect an increase in historical loss experience.

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

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

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. Goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. The Company engages an independent third party to perform an annual analysis as of September 30, or more frequently if necessary, 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.

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

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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.

Significant assumptions made in the estimation of the fair value of the Reporting Unit using the Public Market Peers, Comparable Transactions, and Control Premium approaches included the comparability of the selected regional and national peers, subjective adjustments for variations in franchise value and credit risk versus peers, and adjustments for projected market trends. In addition, assumptions were made in the use of the DCF approach regarding projections of future free cash flow resulting from asset growth, profitability, dividend payouts, and non-cash expenses. All of these assumptions may be affected by a number of factors, including, but not limited to, changes in interest rates, regulation and legislation, and competition. For the purpose of the impairment evaluation performed as of September 30, 2010, it was assumed that external factors would remain consistent with the then current environment.

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, 2009, the Company 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 annual goodwill impairment test as of September 30, 2010 was completed in the fourth quarter of 2010, with no further impairment indicated based on the step one analysis. The step one analysis at September 30, 2010 indicated that the fair value of the reporting unit substantially exceeded the carrying value of the reporting unit by 27.9%. At September 30, 2010, the carrying value of goodwill was $346.3 million.

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. Turmoil in the credit markets resulted in a lack of liquidity in certain sectors of the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company 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 did not incur an other-than-temporary securities impairment loss for the three months ended September 30, 2010, compared to a $701,000 charge recognized in the same period of 2009. For the nine months ended September 30, 2010 and 2009, the Company recognized net other-than-temporary impairment charges of $170,000 and $1.5 million, respectively.

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, 2010 AND DECEMBER 31, 2009

Total assets at September 30, 2010 were $6.78 billion, a decrease of $53.9 million from $6.84 billion at December 31, 2009, due primarily to decreases in loans, other assets, cash and cash equivalents, partially offset by an increase in securities available for sale.

Cash and cash equivalents decreased $16.3 million to $107.4 million at September 30, 2010, from $123.7 million at December 31, 2009. The Company utilized these funds to purchase securities available for sale and repay maturing borrowings.

Securities available for sale, at fair value, increased $42.6 million, or 3.2%, to $1.38 billion at September 30, 2010, compared to $1.33 billion at December 31, 2009. The increase in securities available for sale was primarily due to purchases of Agency-guaranteed mortgage-backed securities. The Company sold $18.1 million of Agency-guaranteed mortgage-backed securities as part of its interest rate risk management process during the first quarter of 2010, resulting in net gains of $817,000. The weighted average life of the Company s available for sale securities portfolio was 2.5 years at September 30, 2010 compared to 3.0 years at December 31, 2009.

Total net loans at September 30, 2010 decreased $47.6 million, or 1.1%, to $4.28 billion, compared to $4.32 billion at December 31, 2009. Loan originations totaled $759.8 million and loan purchases totaled $69.1 million for the nine months ended September 30, 2010. Compared with December 31, 2009, residential mortgage loans decreased $77.5 million, construction loans decreased $61.9 million, commercial loans decreased $46.1 million and consumer loans decreased $17.9 million, while commercial mortgage and multi-family mortgage loans increased $85.9 million and $78.2 million, respectively. The decreases in residential mortgages and consumer loans are due to refinance activity, the market preference for fixed rate loans, which the Company chooses to sell rather than retain for portfolio and the lack of qualified loan demand. The decrease in construction loans is representative of the slow real estate market and the lack of qualified loan demand. In addition, total residential mortgage loans decreased as a result of the sale of $12.4 million of newly-originated, primarily 30-year fixed-rate loans as part of the Company s interest rate risk management process.

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Commercial and multi-family real estate, construction and commercial loans totaled $2.36 billion, representing 54.3% of the loan portfolio at September 30, 2010, compared to $2.30 billion, or 52.5% of the loan portfolio at December 31, 2009. 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 $1.98 billion and accounted for 45.7% of the loan portfolio at September 30, 2010, compared to $2.08 billion, or 47.5% of the portfolio at December 31, 2009.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated Alt-A mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50%. The balance of these Alt-A loans at September 30, 2010 was $15.9 million. Of this total, nine loans totaling $3.3 million were 90 days or more delinquent. General valuation reserves of 10.0%, or $334,000, were allocated to these loans at September 30, 2010.

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 $125.1 million and $105.6 million, respectively, at September 30, 2010. The Company s participations in SNCs included five loans classified as substandard (rated 7) under the Company s loan risk rating system with gross commitments of $50.1 million and outstanding balances of $49.3 million at September 30, 2010. Of these adversely classified SNCs, four loans are commercial construction loans on properties located in New York City and one is a commercial loan to a New Jersey business. All of the Company s SNC participations were current as to the payment of principal and interest as of September 30, 2010.

The Company had outstanding junior lien mortgages totaling $302.5 million at September 30, 2010. Of this total, 46 loans totaling $3.2 million were 90 days or more delinquent. General valuation reserves of 10%, or $320,000, were allocated to these loans at September 30, 2010.

The Company had outstanding indirect marine loans totaling $71.0 million at September 30, 2010. Of this total, seven loans totaling $1.5 million were 90 days or more delinquent. General valuation reserves of 30%, or $445,000, were allocated to these loans at September 30, 2010. The Bank curtailed its marine lending in 2008 and 2009. Marine loans are currently originated on a direct limited basis as an accommodation to existing customers.

At September 30, 2010, the Company had two commercial lending relationships totaling $2.8 million classified as troubled debt restructurings, which were performing in accordance with their modified terms.

The following table sets forth information regarding the Company s non-performing assets as of September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010	December 31, 2009
Mortgage loans:		
Residential	$ 38,297	28,622
Commercial	19,548	23,356
Multi-family	62	
Construction	9,965	13,186
Total mortgage loans	67,872	65,164
Commercial loans	28,515	12,548
Consumer loans	7,123	6,765
Total non-performing loans	103,510	84,477
Foreclosed assets	5,682	6,384
Total non-performing assets	$ 109,192	90,861

The following table sets forth information regarding the Company s 60-89 day delinquent loans at September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010	December 31, 2009
Mortgage loans:		
Residential	$ 6,749	6,093
Commercial	970	778
Multi-family	206	
Construction	322	1,051
Total mortgage loans	8,247	7,922
Commercial loans	384	3,934
Consumer loans	3,449	2,766
Total 60-89 day delinquent loans	$ 12,080	14,622

At September 30, 2010, the allowance for loan losses totaled $68.8 million, or 1.58% of total loans, compared with $60.7 million, or 1.39% of total loans at December 31, 2009. Total non-performing loans increased $19.0 million to $103.5 million, or 2.38% of total loans at September 30, 2010, from $84.5 million, or 1.93% of total loans at December 31, 2009.

Non-performing commercial loans increased $16.0 million, to $28.5 million at September 30, 2010, from $12.5 million at December 31, 2009. This increase consisted primarily of four relationships which totaled $18.5 million, offset by net charge-offs in the nine month period of $6.8 million. At September 30, 2010, non-performing commercial loans consisted of 82 loans, with the largest single outstanding loan balance being $6.5 million.

Non-performing residential mortgage loans increased $9.7 million, to $38.3 million at September 30, 2010, from $28.6 million at December 31, 2009. The Company attributes the increase in non-performing residential mortgages to continued unemployment, declining property values and increased personal debt levels.

Non-performing consumer loans increased $358,000, to $7.1 million at September 30, 2010, from $6.8 million at December 31, 2009. This was primarily due to an increase in non-performing home equity loans and lines of credit, offset by a reduction in non-performing indirect marine loans.

Non-performing commercial mortgage loans decreased $3.8 million, to $19.5 million at September 30, 2010, from $23.4 million at December 31, 2009. The decrease in non-performing commercial mortgage loans was largely attributable to net charge-offs of $5.8 million, offset by the addition of a $2.0 million commercial mortgage loan, secured by collateral with an estimated current loan-to-value ratio of 53%.

Non-performing construction mortgage loans decreased $3.2 million, to $10.0 million at September 30, 2010, from $13.2 million at December 31, 2009, primarily due to the completed foreclosure of a $2.7 million loan and $429,000 of repayments on a SNC.

At September 30, 2010, the Company held $5.7 million of foreclosed assets, compared with $6.4 million at December 31, 2009. Foreclosed assets are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $4.5 million of commercial real estate, $241,000 of residential properties and $929,000 of marine vessels at September 30, 2010.

Non-performing assets totaled $109.2 million, or 1.61% of total assets at September 30, 2010, compared with $90.9 million, or 1.33% of total assets at December 31, 2009.

Other assets decreased $25.8 million, or 29.4%, to $61.8 million at September 30, 2010, from $87.6 million at December 31, 2009, primarily due to the settlement of equity fund redemptions that were pending as of December 31, 2009, the amortization of prepaid FDIC insurance and income tax accruals.

Total deposits at September 30, 2010 were $4.90 billion, an increase of $5.4 million, from December 31, 2009. Core deposits, consisting of all savings and demand deposit accounts, increased $183.2 million, or 5.4% to $3.57 billion at September 30, 2010, compared with December 2009. Higher-costing time deposits decreased $177.8 million, or 11.8 % to $1.33 billion at September 30, 2010, compared with $1.51 billion at December 31, 2009.

Core deposits represented 72.9% of total deposits at September 30, 2010, compared to 69.2% of total deposits at December 31, 2009. Within core deposits, NOW checking account balances increased $81.5 million, to $904.1 million at September 30, 2010, money market account balances increased $57.7 million, to $1.24 billion at September 30, 2010, non-interest bearing demand deposit accounts increased $25.3 million, to $539.8 million at September 30, 2010, and savings account balances increased $18.8 million, to $887.6 million at September 30, 2010. These increases were primarily due to increases in municipal money market and checking account balances, Provident SmartChecking and Platinum relationship checking and money market account balances, and business checking account balances. Time deposit decreases were primarily in the 15- and 18-month maturity categories.

Borrowed funds were reduced by $95.6 million, or 9.6%, during the nine months ended September 30, 2010, to $903.6 million, as the Company deployed excess liquidity arising from increased core deposit funding, and cash inflows from the loan portfolio. Borrowed funds represented 13.3% of total assets at September 30, 2010, a reduction from 14.6% at December 31, 2009.

Total stockholders equity increased $36.5 million, or 4.1%, to $921.0 million at September 30, 2010, from $884.6 million at December 31, 2009. This increase was primarily due to net income of $37.6 million, a net increase of $15.1 million in other comprehensive income and a net increase of $3.9 million in the allocation of shares to stock-based compensation plans, partially offset by $19.9 million in cash dividends. At September 30, 2010, book value per share and tangible book value per share were $15.37 and $9.45, respectively, compared with $14.79 and $8.80, respectively, at December 31, 2009.

Common stock repurchases during the nine months ended September 30, 2010 totaled 17,600 shares at an average cost of $10.86 per share. At September 30, 2010, 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 million overnight line of credit and a $100 million one-month overnight re-pricing line of credit, each with the FHLB-NY. As of September 30, 2010, the Company did not have any outstanding borrowings against these lines of credit.

Cash needs for the nine months ended September 30, 2010 were provided for primarily from income and principal payments on investments, mortgage-backed securities, and loans, sales of loans and securities, and deposit inflows. The cash was used primarily to fund interest and operating expenses, investment and loan purchases, repayment of borrowings and current loan originations.

As of September 30, 2010, the Bank and the Company exceeded all current regulatory capital requirements as follows:

	At September 30, 2010			
	Required		Actual	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Bank:				
Regulatory Tier 1 leverage capital	$ 256,584	4.00%	$ 456,380	7.11%
Tier 1 risk-based capital	168,852	4.00	456,380	10.81
Total risk-based capital	337,704	8.00	509,344	12.07
Company:				
Regulatory Tier 1 leverage capital	$ 256,613	4.00%	$ 545,017	8.50%
Tier 1 risk-based capital	168,832	4.00	545,017	12.91
Total risk-based capital	337,664	8.00	597,975	14.17

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

General. The Company reported net income of $13.5 million, or $0.24 per basic and diluted share for the three months ended September 30, 2010, compared to net income of $8.7 million, or $0.15 per basic and diluted share for the three months ended September 30, 2009. For the nine months ended September 30, 2010, the Company reported net income of $37.6 million, or $0.66 per basic and diluted share. Excluding a non-cash goodwill impairment charge recorded in the first quarter of 2009, net operating income for the nine months ended September 30, 2009 was $23.9 million, or $0.43 per basic and diluted share. The Company recognized a $152.5 million, or $2.71 per share goodwill impairment charge during the quarter ended March 31, 2009. This accounting charge resulted in a net loss of $128.6 million, or $2.29 per basic and diluted share for the nine months ended September 30, 2009.

Earnings and per share data for the three and nine months ended September 30, 2010, compared with the same periods in 2009, benefitted from lower funding costs, with net interest income increasing $7.7 million and $23.5 million, for the three and nine months ended September 30, 2010, respectively, compared with the same periods in 2009. This improvement was partially offset by increases in the provision for loan losses of $2.1 million and $8.5 million for the three and nine months ended September 30, 2010, respectively, compared with the same periods in 2009, due to increases in non-performing loans; downgrades in credit risk ratings; and an increase in commercial loans as a percentage of the total loan portfolio. In addition, prior year earnings and per share data for the nine months ended September 30, 2009 were impacted by an industry-wide special assessment imposed by the FDIC as part of its plan to restore the deposit insurance fund. The cost of this special assessment to the Company in the second quarter of 2009 was $1.9 million, or $0.03 per basic and diluted share, net of tax.

Net Interest Income. Total net interest income increased $7.7 million, or 17.0%, to $53.0 million for the quarter ended September 30, 2010, from $45.3 million for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, total net interest income increased $23.5 million, or 17.8%, to $155.9 million, from $132.4 million for the same period in 2009. Interest income for the third quarter of 2010 decreased $1.1 million to $71.9 million from $73.0 million for the same period in 2009. For the nine months ended September 30, 2010, interest income decreased $2.5 million to $216.3 million, from $218.8 million for the nine months ended September 30, 2009. Interest expense decreased $8.9 million, or 32.0%, to $18.9 million for the quarter ended September 30, 2010, from $27.7 million for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, interest expense decreased $26.0 million, or 30.1%, to $60.4 million, from $86.4 million for the nine months ended September 30, 2009. The improvement in net interest income for the three and nine months ended September 30, 2010, versus the comparable 2009 periods, was attributable to the continued downward re-pricing of interest-bearing liabilities and the strategic repositioning of the deposit portfolio. The Company remains focused on creating and expanding core deposit relationships, while strategically permitting the run-off of certain higher-cost single service time deposits.

The net interest margin for the quarter ended September 30, 2010 was 3.50%, an increase of 2 basis points and 49 basis points, from 3.48% for the quarter ended June 30, 2010, and from 3.01% for the quarter ended September 30, 2009, respectively. The increase in the net interest margin for the three months ended September 30, 2010, versus the trailing quarter and the quarter ended September 30, 2009, was primarily attributable to decreases in the cost of interest-bearing liabilities. The weighted average yield on interest-earning assets was 4.74% for the three months ended September 30, 2010, compared with 4.81% for the trailing quarter and 4.84% for the three months ended September 30, 2009. The weighted average cost of interest-bearing liabilities was 1.42% for the quarter ended September 30, 2010, compared with 1.51% for the trailing quarter and 2.07% for the third quarter of 2009. The average cost of deposits for the three months ended September 30, 2010 was 1.05%, compared with 1.13% for the trailing quarter and 1.73% for the same period last year. The average cost of borrowings for the three months ended September 30, 2010 was 3.15%, compared with 3.27% for the trailing quarter and 3.50% for the same period last year.

For the nine months ended September 30, 2010, the net interest margin increased 43 basis points to 3.45%, compared with 3.02% for the nine months ended September 30, 2009. The increase in net interest margin for the nine months ended September 30, 2010, versus the same period in 2009, was primarily attributable to decreases in the cost of interest-bearing liabilities. The weighted average yield on interest-earning assets declined 22 basis points to 4.78% for the nine months ended September 30, 2010, compared with 5.00% for the nine months ended September 30, 2009, however the weighted average cost of interest-bearing liabilities declined 72 basis points to 1.52% for the nine months ended September 30, 2010, compared with 2.24% for the same period in 2009. The average cost of deposits for the nine months ended September 30, 2010 was 1.15%, compared with 1.90% for the same period last year. The average cost of borrowings for the nine months ended September 30, 2010 was 3.26%, compared with 3.52% for the same period last year.

For the three months ended September 30, 2010, the average balance of net loans decreased $32.8 million to $4.25 billion, from $4.29 billion for the same period in 2009. Income on loans secured by real estate increased $1.1 million to $40.4 million, or 2.9% for the three months ended September 30, 2010, from $39.3 million for the three months ended September 30, 2009. Interest income on commercial loans decreased $651,000 to $10.5 million, or 5.9% for the three months ended September 30, 2010, from $11.1 million for the three months ended September 30, 2009. Consumer loan interest income decreased $637,000, or 8.3%, to $7.1 million for the three months ended September 30, 2010, from $7.7 million for the three months ended September 30, 2009. The average loan yield for the three months ended September 30, 2010, increased 2 basis points to 5.42%, from 5.40% for the same period in 2009.

For the nine months ended September 30, 2010, the average balance of net loans decreased $42.6 million, or 1.0%, to $4.27 billion, from $4.31 billion for the same period in 2009. Income on loans secured by real estate decreased $794,000, or 0.7%, to $120.4 million for the nine months ended September 30, 2010, from $119.6 million for the nine months ended September 30, 2009. Interest income on commercial loans decreased $1.2 million, or 3.8%, to $31.0 million for the nine months ended September 30, 2010, from $32.2 million for the nine months ended September 30, 2009. Consumer loan interest income decreased $2.3 million, or 9.8%, to $21.5 million for the nine months ended September 30, 2010, from $23.8 million for the nine months ended September 30, 2009. The average loan yield for the nine months ended September 30, 2010, decreased 3 basis points to 5.41%, from 5.44% for the same period in 2009.

Interest income on investment securities held to maturity decreased $161,000, or 4.8%, to $3.2 million for the quarter ended September 30, 2010, from $3.3 million for the quarter ended September 30, 2009. Average investment securities held to maturity decreased $5.5 million, or 1.6%, to $332.9 million for the quarter ended September 30, 2010, from $338.4 million for the same period last year. For the nine months ended September 30, 2010, interest income on investment securities held to maturity decreased $486,000, or 4.8%, to $9.6 million, from $10.1 million for the same period in 2009. Average investment securities held to maturity decreased $6.7 million, or 2.0%, to $333.4 million for the nine months ended September 30, 2010, from $340.0 million for the same period last year.

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Interest income on securities available for sale and FHLB-NY stock decreased $814,000, or 7.1%, to $10.7 million for the quarter ended September 30, 2010, from $11.5 million for the quarter ended September 30, 2009. The average balance of securities available for sale increased $109.6 million, or 9.2%, to $1.30 billion for the three months ended September 30, 2010, from $1.19 billion for the same period in 2009. For the nine months ended September 30, 2010, interest income on securities available for sale and FHLB-NY stock increased $773,000, or 2.4%, to $33.6 million, from $32.9 million for the nine months ended September 30, 2009. The average balance of securities available for sale increased $277.8 million, or 27.6%, to $1.29 billion for the nine months ended September 30, 2010, from $1.01 billion for the same period in 2009. The average yield of securities available for sale decreased to 3.18% and 3.36% for the three and nine months ended September 30, 2010, respectively, from 3.71% and 4.17% for the three and nine months ended September 30, 2009, respectively.

The average balance of interest-bearing core deposit accounts increased $347.7 million, or 13.2%, to $2.99 billion for the quarter ended September 30, 2010, from $2.64 billion for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, average interest-bearing core deposits increased $511.8 million, or 21.0%, to $2.95 billion, from $2.44 billion for the same period in 2009. Average time deposit account balances decreased $298.7 million, or 18.0%, to $1.36 billion for the quarter ended September 30, 2010, from $1.66 billion for the same period in 2009. For the nine months ended September 30, 2010, average time deposits decreased $246.1 million, or 14.9%, to $1.41 billion, from $1.65 billion for the same period in 2009. Interest paid on deposit accounts decreased $7.2 million, or 38.5%, to $11.6 million for the quarter ended September 30, 2010, from $18.8 million for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, interest paid on deposit accounts declined $20.8 million, or 35.8%, to $37.3 million, from $58.1 million for the nine months ended September 30, 2009. The average cost of interest-bearing deposits decreased to 1.05% and 1.15% for the three and nine months ended September 30, 2010, respectively, from 1.73% and 1.90% for the three and nine months ended September 30, 2009, respectively.

Average borrowings decreased $95.1 million, or 9.4%, to $917.1 million for the quarter ended September 30, 2010, from $1.01 billion for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, average borrowings decreased $129.5 million, or 12.1%, to $943.4 million, from $1.07 billion for the nine months ended September 30, 2009. Interest paid on borrowed funds decreased $1.6 million, or 18.3%, to $7.3 million for the quarter ended September 30, 2010, from $8.9 million for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, interest paid on borrowed funds decreased $5.2 million, or 18.5%, to $23.0 million, from $28.3 million for the nine months ended September 30, 2009. The average cost of borrowings decreased to 3.15% and 3.26% for the three and nine months ended September 30, 2010, respectively, from 3.50% and 3.52% for the three and nine months ended September 30, 2009, respectively.

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 adequate to absorb probable credit losses 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 allowance for loan losses on a quarterly basis and makes provisions for loan losses to maintain the adequacy of the allowance. The Company s emphasis on continued diversification of the loan portfolio through the origination of commercial mortgage loans, commercial loans and construction loans has been one of the factors management has considered in evaluating the allowance for loan losses and provision for loan losses. In the event the Company further increases the amount of such types of loans in the portfolio, management may determine that additional or increased provisions for loan losses are necessary.

The Company recorded provisions for loan losses of $8.6 million and $26.6 million for the three and nine months ended September 30, 2010, respectively. This compared with provisions for loan losses of $6.5 million and $18.1 million recorded for the three and nine months ended September 30, 2009, respectively. The increase in the provision for loan losses for the three and nine months ended September 30, 2010, compared with the same periods in 2009, was attributable to an increase in non-performing loans, downgrades in risk ratings, and an increase in commercial loans as a percentage of the loan portfolio to 54.3% at September 30, 2010, from 50.9% at September 30, 2009. For the three and nine months ended September 30, 2010, the Company had net charge-offs of $1.3 million and $18.6 million, respectively, compared with net charge-offs of $2.8 and $10.1 million, respectively, for the same periods in 2009. At September 30, 2010, the Company s allowance for loan losses was 1.58% of total loans, compared with 1.39% of total loans at December 31, 2009 and 1.29% of total loans at September 30, 2009.

Non-Interest Income. Non-interest income totaled $7.8 million for the quarter ended September 30, 2010, a decrease of $785,000 compared to the same period in 2009. Fee income for the quarter ended September 30, 2010 decreased $635,000, or 9.5%, compared to the same period in 2009, primarily as a result of a decrease in equity fund income due to the redemption of equity fund holdings in late 2009. In addition, net gains on securities transactions declined $179,000 for the quarter ended September 30, 2010, compared with the same quarter in 2009. Other income for the quarter ended September 30, 2010 totaled $482,000, a decrease of $522,000 compared to the same period in 2009. This decrease was attributable to a reduction in gains resulting from fewer loan sales. Income related to Bank-owned life insurance decreased $150,000 for the three month period ended September 30, 2010, compared to the same period in 2009, as a result of reductions in crediting rates. Partially offsetting these decreases for the current quarter ended September 30, 2010, the Company did not incur an other-than-temporary impairment charge on investments securities, compared to a $701,000 charge recognized in the third quarter of 2009.

For the nine months ended September 30, 2010, non-interest income totaled $23.8 million, a decrease of $634,000, or 2.6%, compared to the same period in 2009. Other income declined by $1.3 million for the nine months ended September 30, 2010, compared with the same period in 2009, primarily as a result of a reduction in gains resulting from fewer loan sales and a non-recurring gain recognized on the sale of a Bank-owned parcel of land in 2009. Fee income for the nine months ended September 30, 2010 decreased $710,000, or 3.9%, compared to the same period in 2009, primarily as a result of a decrease in equity fund income due to the redemption of equity fund holdings in late 2009. In addition, net gains on securities transactions declined $541,000 for the nine months ended September 30, 2010, compared with the same period in 2009. These net gains on securities transactions totaled $833,000 for the nine months ended September 30, 2010, compared with net gains of $1.4 million for the same period in 2009. The Company recognized net other-than-temporary impairment charges of $170,000 and $1.5 million during the nine months ended September 30, 2010 and 2009, respectively. Income related to Bank-owned life insurance increased $557,000 for the nine month period ended September 30, 2010, compared to the same period in 2009, as a result of appreciation in the cash surrender value and receipt of policy claim proceeds in the second quarter of 2010.

Non-Interest Expense. For the three months ended September 30, 2010, non-interest expense decreased $1.9 million, or 5.3%, to $34.1 million, compared to $36.0 million for the three months ended September 30, 2009. FDIC insurance expense decreased $617,000 for the three months ended September 30, 2010, compared with the same period in 2009. Compensation and benefits expense decreased $493,000 for the three months ended September 30, 2010, compared with the same period in 2009, due to costs associated with the retirement of two senior executives in the prior year quarter. This reduction was partially offset by an increase in the accrual for incentive compensation in the quarter ended September 30, 2010. The increase in incentive compensation is based upon the Company s current projection of performance goal attainment. Amortization of intangibles decreased $273,000 for the three months ended September 30, 2010, compared

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with the same period of 2009, as a result of scheduled reductions in core deposit intangible amortization. In addition, data processing expense decreased $180,000 for the three months ended September 30, 2010, compared with the same period in 2009, and other operating expenses decreased $166,000 for the quarter ended September 30, 2010, compared with the same period last year.

Non-interest expense for the nine months ended September 30, 2010 was $102.8 million. Excluding the $152.5 million goodwill impairment charge recorded in the first quarter of 2009, non-interest expense decreased $4.6 million, or 4.3%, from $107.4 million for the nine months ended September 30, 2009. FDIC insurance expense decreased $2.1 million for the nine months ended September 30, 2010, compared with the same period in 2009. In the prior year period, a special assessment was imposed on the Company as part of an industry-wide plan to restore the deposit insurance fund. The FDIC special assessment of $3.1 million was accrued during the quarter ended June 30, 2009 and paid September 30, 2009. The decrease was partially offset by an increase in expense resulting from an increase in FDIC premium rates and a larger deposit base subject to assessment. In addition, amortization of intangibles decreased $1.1 million for the nine months ended September 30, 2010, compared with the same period of 2009, as a result of scheduled reductions in core deposit intangible amortization and the non-recurring acceleration in core deposit intangible amortization related to the sale of branches in 2009. Other operating expenses totaled $17.0 million for the nine months ended September 30, 2010, a decrease of $656,000 from the same prior year period. This reduction was primarily due to non-recurring costs incurred in the nine months ended September 30, 2009 related to the dissolution of a real estate joint venture.

Income Tax Expense. For the three months ended September 30, 2010, the Company s income tax expense was $4.7 million, compared with $2.8 million for the same period in 2009. For the nine months ended September 30, 2010, the Company s income tax expense was $12.8 million, compared with $7.4 million for the same period in 2009. The increase in income tax expense was attributable to higher pre-tax income and a higher effective tax rate. The Company s effective tax rates were 25.9% and 25.4%, respectively, for the three and nine months ended September 30, 2010, compared with 24.1% and 23.6%, excluding the impact of the goodwill impairment charge recognized in the first quarter of 2009, which was not tax deductible, for the three and nine months ended September 30, 2009, respectively. The increase in the effective tax rate was attributable to a projection of higher taxable income for the full year 2010.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

The 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 the economic value of equity. The Asset/Liability Committee reviews a variety of strategies that project changes in asset or liability mix, various interest rate scenarios and the impact of those changes on projected net interest income and net income.

The Company endeavors to acquire and retain core deposit accounts and expand customer relationships in order to maintain a less interest rate sensitive funding base. The Company s ability to retain maturing certificate of deposit accounts is the result of its strategy to remain competitively priced within its marketplace, typically within the upper quartile of rates offered by its competitors. The Company s pricing strategy may vary depending upon current funding needs and the ability of the Company to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB-NY during periods of pricing dislocation.

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

Parallel yield curve shifts for market rates;

Current asset and liability spreads to market interest rates are fixed;

Traditional savings and interest-bearing demand accounts move at 10% of the rate ramp in either direction;

Retail Money Market accounts move at 25% of the rate ramp in either direction; and

Higher-balance demand deposit tiers and promotional demand accounts move at 75% of the rate ramp in either direction.

The following table sets forth the results of a twelve-month net interest income projection model as of September 30, 2010 (dollars in thousands):

Change in Interest Rates in	**Net Interest Income**		
Basis Points (Rate Ramp)	**Dollar Amount**	**Dollar Change**	**Percent Change**
-100	$ 201,140	(7,533)	(3.6)
Static	208,673		
+100	207,876	(797)	(0.4)
+200	203,288	(5,385)	(2.6)
+300	199,864	(8,809)	(4.2)

The preceding table indicates that as of September 30, 2010, in the event of a 300 basis point increase in interest rates whereby rates ramp up evenly over a twelve-month period, net interest income would decrease 4.2%, or $8.8 million. In the event of a 100 basis point decrease in interest rates, net interest income is projected to decrease 3.6%, or $7.5 million. Due to the current Federal Reserve Bank targets for the Federal Funds rate between 0.25% and 0.00%, a forecast of rates declining 200 basis points is not meaningful.

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 result of the economic value of equity model as of September 30, 2010 (dollars in thousands):

Change in Interest Rates	**Present Value of Equity**	**Present Value of Equity as Percent of**

(Basis Points)				Present Value of Assets	
	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
-100	$ 1,221,520	(4,326)	(0.35)	17.07	(0.68)
Flat	1,225,846			17.18	
+100	1,182,960	(42,886)	(3.50)	16.76	(2.48)
+200	1,117,311	(108,535)	(8.85)	16.05	(6.61)
+300	1,022,352	(203,494))	(16.60)	14.94	(13.05)

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The above table indicates that as of September 30, 2010, in the event of an immediate and sustained 300 basis point increase in interest rates, the present value of equity is projected to decrease 16.6%, or $203.5 million. If rates were to decrease 100 basis points, the model forecasts a 0.35%, or $4.3 million decrease in the present value of equity. Due to the current Federal Reserve Bank targets for the Federal Funds rate between 0.25% and 0.00%, a forecast of rates declining 200 basis points is not meaningful.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the use 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 a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or re-pricing 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 the Company s net interest income and will differ from actual results.

Item 4. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of management, including the Principal Executive Officer and the Principal Financial Officer, the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) were evaluated at the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures are effective. There has been no change in the Company s internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is involved in various legal actions and claims arising in the normal course of 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 1A. RISK FACTORS

Except as disclosed in the Company s Quarterly Report on Form 10-Q for the quarter ended June 30,2010, there have been no material changes to the risk factors previously disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the Securities and Exchange Commission. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operation.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs (1)
July 1, 2010 Through July 31, 2010				2,122,333
August 1, 2010 Through August 31, 2010				2,122,333
September 1, 2010 Through September 30, 2010	1,105	$ 12.19	1,105	2,121,228
Total	1,105	$ 12.19	1,105	

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

Item 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable

Item 4. [REMOVED and RESERVED]

Item 5. OTHER INFORMATION.

None

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Item 6. Exhibits.
The following exhibits are filed herewith:

3.1	Certificate of Incorporation of Provident Financial Services, Inc. [1]
3.2	Second Amended and Restated Bylaws of Provident Financial Services, Inc. [5]
4.1	Form of Common Stock Certificate of Provident Financial Services, Inc. [1]
10.1	Employment Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated September 23, 2009. [9]
10.2	Form of Amended and Restated Change in Control Agreement between Provident Financial Services, Inc. and certain executive officers. [10]
10.3	Amended and Restated Employee Savings Incentive Plan, as amended. [2]
10.4	Employee Stock Ownership Plan[1] and Amendment No. 1 to the Employee Stock Ownership Plan. [2]
10.5	Supplemental Executive Retirement Plan of The Provident Bank. [7]
10.6	Amended and Restated Supplemental Executive Savings Plan. [7]
10.7	Retirement Plan for the Board of Managers of The Provident Bank. [7]
10.8	The Provident Bank Amended and Restated Voluntary Bonus Deferral Plan. [7]
10.9	Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan. [7]
10.10	First Savings Bank Directors Deferred Fee Plan, as amended.[3]
10.11	The Provident Bank Non-Qualified Supplemental Defined Contribution Plan. [11]
10.12	Provident Financial Services, Inc. 2003 Stock Option Plan. [4]
10.13	Provident Financial Services, Inc. 2003 Stock Award Plan. [4]
10.14	Provident Financial Services, Inc. 2008 Long-Term Equity Incentive Plan. [6]
10.15	Voluntary Separation Agreement and General Release by and between The Provident Bank and Linda A. Niro dated as of July 8, 2009. [8]
10.16	Consulting Services Agreement by and between The Provident Bank and Paul M. Pantozzi made as of September 22, 2009. [9]
10.17	Change in Control Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated September 23, 2009. [9]

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Stockholder s Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.*

* Furnished, not filed.

[1] Filed as an exhibit to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission (Registration No. 333-98241).

[2] Filed as an exhibit to the Company s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (File No. 001-31566).

[3] Filed as an exhibit to the Company s September 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (File No. 001-31566).

[4] Filed as an exhibit to the Company s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003 (File No. 001-31566).

[5] Filed as an exhibit to the Company s December 31, 2007 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2008 (File No. 001-31566).

[6] Filed as an exhibit to the Company s Proxy Statement for the 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 14, 2008 (File No. 001-31566).

[7] Filed as an exhibit to the Company s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009 (File No. 001-31566).

[8] Filed as an exhibit to the Company s June 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (File No. 001-31566).

[9] Filed as an exhibit to the Company s September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (File No. 001-31566).

[10] Filed as an exhibit to the Company s December 31, 2009 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010 (File No. 001-31566)

[11] Filed as an exhibit to the Company s May 27, 2010 Current Report on Form 8-K filed with the Securities and Exchange Commission on June 3, 2010 (File No. 001-31566).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	PROVIDENT FINANCIAL SERVICES, INC.
Date: November 9, 2010	By: /s/ Christopher Martin Christopher Martin Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2010	By: /s/ Thomas M. Lyons Thomas M. Lyons Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date: November 9, 2010	By: /s/ Frank Muzio Frank Muzio First Vice President and Chief Accounting Officer (Principal Accounting Officer)

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