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**PROVIDENT FINANCIAL SERVICES, INC.**

*2009 Annual Report*



**MOVING FORWARD RESPONSIBLY**

## CORPORATE PROFILE

**Provident Financial Services, Inc.** is the holding company for The Provident Bank. Established in 1839, The Provident Bank emphasizes personal service and customer convenience in attending to the financial needs of businesses, individuals and families in northern and central New Jersey. The Bank offers a broad array of deposit, loan, asset management and investment products and services through its network of 82 branches and its internet and telephone banking services.

## FINANCIAL HIGHLIGHTS

(In thousands, except branch data, per share data and percent data)

At December 31,	2009	2008	2007	2006
Total assets	<b>\$6,836,172</b>	\$6,548,748	\$6,359,391	\$5,742,964
Net loans outstanding	<b>4,323,450</b>	4,479,036	4,255,509	3,751,230
Investment securities	<b>335,074</b>	347,484	358,491	389,656
Securities available for sale	<b>1,333,163</b>	820,329	769,615	790,894
Deposits	<b>4,899,177</b>	4,226,336	4,224,820	3,826,463
Borrowings	<b>999,233</b>	1,247,681	1,075,104	840,990
Stockholders' equity	<b>884,555</b>	1,018,590	1,000,794	1,019,156
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At or for the year ended December 31,				
Net income (loss)	<b>\$ (121,824)</b>	\$ 41,642	\$ 37,380	\$ 53,685
Diluted earnings (loss) per share	<b>\$(2.16)</b>	\$0.74	\$0.63	\$0.87
Net interest margin	<b>3.06%</b>	3.11%	2.96%	3.23%
Average net interest rate spread	<b>2.82%</b>	2.78%	2.52%	2.80%
Non-performing loans to total loans	<b>1.93%</b>	1.31%	0.81%	0.20%
Allowance for loan losses to total loans	<b>1.39%</b>	1.05%	0.95%	0.86%
Number of branches	<b>82</b>	83	85	75

## DEAR FELLOW STOCKHOLDERS:



Christopher Martin  
President and  
Chief Executive Officer



Paul M. Pantozzi  
Chairman of the Board

The past year represented a significant period of transition, both within the broader spectrum of national economic policy and financial regulation, and within our own Company. At the beginning of 2009, a new administration arrived in Washington, D.C. to address the adverse economic conditions which had worsened in 2008, namely, a collapse in asset values, skyrocketing unemployment and a global recession. Coupled with this was an increasing public mistrust of the integrity and, in some instances, the viability of the financial services industry. Among the responses to this dilemma were the passage of a fiscal stimulus package on a scale not seen in generations, and a determination by the Federal Deposit Insurance Corporation (FDIC) to recapitalize the insurance fund by means of greatly increased assessments on the deposits of all financial institutions, regardless of their financial condition.

Against this backdrop, we at Provident continued to manage our franchise in the conservative, responsible and community-oriented manner we have maintained for over 170 years, while at the same time effecting

Regarding our financial performance for the past year, reported earnings were negatively impacted in the first quarter of 2009 when we determined that the carrying value of intangible goodwill on our balance sheet was impaired. This accounting adjustment of \$152.5 million, while recognized as an expense, had no impact on our cash flows, tangible capital or ongoing operations. Our subsequent discussion of comparative financial performance will focus solely on our core operating results, without consideration of the goodwill impairment charge. Our 2009 net operating income totaled \$30.7 million or \$0.55 per share, as compared to \$41.6 million or \$0.74 per share reported in 2008. Net interest income, our main source of revenue, increased to \$181 million from \$172 million earned in the prior year as average earning assets increased \$385.8 million, while interest expense on deposits and borrowings continued to decrease. Our provision for loan losses, however, doubled to \$30.3 million in 2009 as compared to \$15.1 million in 2008, primarily as a result of an increase in non-performing loans, as the impact of the prolonged economic downturn adversely impacted our commercial and individual borrowers.

The level of loan loss provisions reflects the careful and conservative manner in which we estimate the risks inherent in our loan portfolio. Although the overall economy has begun to show some signs of recovery, we are a New Jersey-based community bank, and as of this writing, the state's unemployment rate stands in excess of 10%, slightly above the national level. This has had a clear impact on rising delinquencies in our home mortgage and consumer loan portfolios, and, while property values within our market have not

*We continued to manage our franchise in the conservative, responsible and community-oriented manner we have maintained for over 170 years.*

a well-planned transition of executive leadership from Paul Pantozzi to Christopher Martin. Our goal was to achieve a thoughtful yet energizing transfer of leadership that would preserve Provident's longstanding reputation for stability, customer care and value-building. We believe that has been accomplished.

fallen nearly as far as in several other parts of the country, persistent and increasing joblessness remains the most significant factor behind the increase in our non-performing loans. In this environment, our immediate mission is twofold: to work as we always have with our borrowers to mitigate potential losses, and to manage our strong balance sheet, liquidity, capital position and service delivery expertise, with an eye toward sustainable earnings momentum and long-term stockholder value.

Another significant adverse impact on 2009 operating income was the result of dramatically increased FDIC insurance premiums. Around mid-year, a special assessment was imposed proportionately on all FDIC-insured banks, and we recognized a \$3.1 million expense. Coupled with an increase in ongoing premium rates, this resulted in total FDIC expenses of \$11.8 million in 2009 as compared to \$634 thousand recognized in 2008. The necessity to recapitalize the nation's bank insurance fund can hardly be disputed, but we believe that appropriately managed and well-capitalized banks such as ours have never been at the root of the problem.

## *Looking ahead to the remainder of 2010, we are mindful of the uncertainties that accompany a distressed economy.*

Over the course of 2009, our total deposits grew 16%, with core demand and savings deposits growing nearly 26%, as businesses, municipalities and consumers in our market continued to seek a safe and reputable repository for their funds. Throughout the year, we continued to fine-tune our service delivery systems, both physical and technological. Since the beginning of 2009, we have discontinued operations at four branch locations that


failed to achieve their targets for market penetration and profitable growth, through consolidation with existing offices and divestiture. At the same time, we opened three branch facilities in markets that are new to us and in which we perceive strong potential for the success of our brand and our community-oriented service model. In addition, we enhanced the efficiency and competitiveness of our lending operations by opening two loan production offices, one in the northern sector of our market area and one in the south. Finally, we introduced our "Virtual Branch," ProvidentNJDirect, which offers our customers the ability to open deposit accounts and transact business in a convenient, on-line environment.

A major initiative undertaken in 2009 was to expand the capabilities of our Wealth Management Group. Although Provident has offered solid, competitive trust and investment services for decades, we recognized that a substantial portion of our demographically strong customer base was seeking a more personalized level of financial management expertise. To address this need and to help diversify the Company's revenue stream going forward, a strategic decision was implemented, and appropriate investments in personnel and facilities were made to bring this to fruition.

We have remained profoundly conscious of our role as a source of support within the communities we serve. Each year since its inception in 2003, The Provident Bank Foundation, which is managed separately from the Company's operations, has fulfilled its mission to enhance the quality of life in our communities. In 2009, the Foundation contributed over \$1.2 million towards the betterment of education, health and social well-being within our New Jersey market area, and we place a high priority on its continued ability to do so.

Looking ahead to the remainder of 2010, we are mindful of the uncertainties that accompany a distressed economy, and our





main task will be to work proactively with our customers to constrain deterioration in the quality of our assets while continuing to prudently meet their financial needs. We have confidence in our ability to succeed in this endeavor, and it bears repeating that we have continued to do so without participating in the government's Troubled Asset Relief Program, unlike many of our competitors.

Our Board of Directors has provided active and valuable guidance to assure the Company's ongoing stability and success. That value has been enhanced by the addition of Thomas B. Hogan Jr., whose acumen and expertise as a career accounting professional will add further depth of insight to their deliberations, and we welcome him. At the same time, we would be remiss if we did not take this opportunity to especially thank our two retiring directors, John G. Collins and John P. Mulkerin who have been at the forefront of the Company's growth since 2004. Their

steady guidance will be remembered by all who worked with them, and we wish them many years of good health and happiness, with our sincere thanks for a job well done.

As we continue to manage our enterprise with a clear focus on providing superior value to our stockholders and customers, we want to thank the Board, our management team and our staff members for their outstanding efforts, and we thank you for your support.

Sincerely,



Christopher Martin  
*President and Chief Executive Officer*



Paul M. Pantozzi  
*Chairman of the Board*

To Our Chairman and Colleague:

After spending his entire 46-year career with The Provident Bank, Paul M. Pantozzi will be retiring from the Board in April 2010. Working with Mr. Pantozzi has been an extremely rewarding experience for his fellow directors, officers and employees. Many of Provident's successes can be directly traced to his efforts and leadership. His vision for the Bank and the banking industry in New Jersey and nationally have been honored repeatedly. His strong conviction to continuing education for Provident's future leaders has been unwavering. All of this was accomplished with professionalism towards his co-workers at the Bank, and with compassion for the people of the communities it serves.

The Board of Directors and management wish to thank Paul for his tireless dedication in building such a strong base from which to grow and prosper, one that will not just survive, but thrive in the future. His devotion and allegiance have certainly earned him a happy and healthy retirement.

# BOARD OF DIRECTORS AND CORPORATE MANAGEMENT

## CORPORATE INFORMATION

### ANNUAL MEETING

The annual meeting of stockholders will be held on April 22, 2010 at 10:00 a.m. at the Sheraton Newark Airport Hotel, 128 Frontage Road, Newark, New Jersey. Notice of the meeting and a proxy statement are included with this mailing to stockholders of record as of March 2, 2010.

### STOCK LISTING

Provident Financial Services, Inc. is listed on the New York Stock Exchange (NYSE) and trades under the ticker symbol PFS.

### TRANSFER AGENT

Stockholders wishing to change address or transfer ownership of stock certificates, report lost certificates or inquire regarding other stock registration matters are instructed to contact:

Registrar and Transfer Company  
Investor Relations Department  
10 Commerce Drive  
Cranford, NJ 07016-3572  
1 (800) 368-5948  
www.rtco.com  
info@rtco.com

### CONTACT INFORMATION

Information regarding The Provident Bank and Provident Financial Services, Inc. is available on our web site: [www.providentnj.com](http://www.providentnj.com)

Those seeking additional information regarding PFS should contact:

Investor Relations Department  
830 Bergen Avenue  
Jersey City, NJ 07306  
1 (201) 915-5344  
[investorrelations@providentnj.com](mailto:investorrelations@providentnj.com)

### INDEPENDENT PUBLIC ACCOUNTANTS

KPMG LLP  
150 JFK Parkway  
Short Hills, NJ 07078

## DIRECTORS

Paul M. Pantozzi  
*Chairman of the Board*

Thomas W. Berry  
*Former Partner, Goldman, Sachs & Co.*

Laura L. Brooks  
*Vice President—Risk Management  
and Chief Risk Officer, PSEG*

John G. Collins  
*Former President, Fleet NJ*

Geoffrey M. Connor  
*Retired Partner, Reed Smith LLP*

Frank L. Fekete  
*Managing Partner,  
Mandel, Fekete & Bloom, CPAs*

Carlos Hernandez  
*President, New Jersey City University*

Thomas B. Hogan Jr.  
*Retired Partner,  
Deloitte & Touche*

William T. Jackson  
*Former Executive Director,  
Bayview/New York Cemetery*

Katharine Laud  
*Chief Financial Officer,  
Homeless Solutions, Inc.*

Christopher Martin  
*President and  
Chief Executive Officer*

Arthur McConnell  
*President, McConnell Realty*

John P. Mulkerin  
*Retired President and  
Chief Executive Officer,  
First Sentinel Bancorp, Inc.*

Edward O'Donnell  
*President, Tradelinks Transport, Inc.*

Jeffries Shein  
*Principal, JGT Management Co., LLC*

## MANAGEMENT

### PROVIDENT FINANCIAL SERVICES, INC.

Christopher Martin  
*President and  
Chief Executive Officer*

John F. Kuntz  
*General Counsel and  
Corporate Secretary*

Thomas M. Lyons  
*Senior Vice President and  
Chief Financial Officer*

Leonard G. Gleason  
*Investor Relations Officer*

### MANAGEMENT THE PROVIDENT BANK

Christopher Martin  
*President and  
Chief Executive Officer*

Donald Blum  
*Executive Vice President and  
Chief Lending Officer*

John F. Kuntz  
*Executive Vice President and  
General Counsel*

Brian Giovinazzi  
*Executive Vice President and  
Chief Credit Officer*

Giacamo Novielli  
*Executive Vice President and  
Chief Information Officer*

Thomas M. Lyons  
*Senior Vice President and  
Chief Financial Officer*

Michael A. Raimonde  
*Senior Vice President and  
Director of Retail Banking*

Janet D. Krasowski  
*Senior Vice President and  
Chief Human Resources Officer*

James D. Nesci  
*Senior Vice President and  
Chief Wealth Management Officer*



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