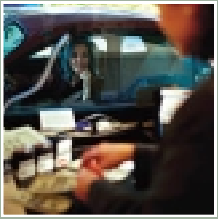
PROVIDENT FINANCIAL SERVICES, INC.

2003 Annual Report



"Hassle-Free Banking
for Busy People®."

PROVIDENT'S VALUES

By emphasizing a TEAM approach in all our activities, we strive for CONSTANT IMPROVEMENT in our financial performance while maintaining CONTINUITY in our business model. Our team is committed to QUALITY of delivery, RESPECT for customers and colleagues, INVOLVEMENT in our communities and ACCOUNTABILITY to our stockholders.

BRANCH LOCATIONS

- Bayonne (2)
- Belleville
- Berkeley Twp.
- Bloomfield (3)
- Brick Twp. (2)
- Bridgewater
- Clark
- Denville
- Dumont
- Dunellen
- East Brunswick
- East Windsor
- Freehold (2)
- Green Brook
- Hillsborough Twp.
- Hoboken
- Howell
- Jackson
- Jersey City (7)
- Kearny
- Keyport
- Leonia
- Manasquan
- Monroe Twp.
- Montgomery Twp.
- Morris Plains
- New Providence
- North Brunswick
- Ocean Grove
- Ocean Twp.
- Oradell
- Piscataway
- Point Pleasant Beach
- Rocky Hill
- Roseland
- South Orange
- Teaneck
- Toms River
- Union City
- Wall Twp.
- West New York (3)

PROVIDENT FINANCIAL SERVICES, INC.

Provident Financial Services, Inc., incorporated in 2002, is the holding company for The Provident Bank. With over $4 billion in assets, we emphasize personal service and customer convenience in attending to the financial needs of individuals, families and businesses in northern and central New Jersey.

Originally established in 1839, The Provident Bank continues to build on its strong reputation by offering a broad array of deposit, loan, trust and investment products.

PROVIDENT'S MISSION

Our mission is to consistently provide superior value

to our stockholders	by achieving strong financial performance
to our customers	by delivering high quality financial solutions that help improve and enrich their lives
to our employees	by maintaining a challenging and rewarding work environment
to our communities	by committing our personal energies and financial resources and by exemplifying outstanding leadership

In keeping with our Customer-Centric Strategy, we build and retain customer relationships through our network of 54 branches, 63 ATMs and our telephone and internet banking services by delivering on our brand promise—"Hassle-Free Banking for Busy People®."

PROVIDENT'S CUSTOMER-CENTRIC STRATEGY

Customers will choose The Provident Bank when their needs are understood and fulfilled, their value appreciated, and the quality of each contact is consistently outstanding.

2003 was a landmark year for our organization. It began with the completion of our conversion to a public stock company and a successful initial public offering which raised over $586 million in new capital. The remainder of the year was marked by numerous challenges but also by many significant accomplishments.

Net income for the year was $18.7 million resulting in basic and diluted earnings per share of $0.31. The results of operations for the year were impacted by the one time expense associated with the $15.6 million, net of tax, contribution to The Provident Bank Foundation. For the year, net interest income reached a record high of $130 million compared to $114 million in the prior year. Non-interest income for the year was flat and non-interest expenses, including the charitable foundation expense, increased 42.3%. Salary and benefit expense increased 16.7% over the prior year, primarily due to expenses related to new stock-based benefit plans.

We continued to expand our strong retail franchise. In the spring we opened our seventh branch in our home base of Jersey City, and in the summer we opened our fifth in the growing market of Middlesex county. Shortly after that we purchased three branches with deposits, all in central New Jersey, from another bank. This increased our franchise to 54 banking offices throughout our ten county market area.

Our continuing emphasis on attracting and retaining core deposit relationships allowed us to increase our core deposits by nearly 6% (excluding 2002's conversion escrow account) and to lift the proportion of core to total deposits to over 65% from 61% the prior year. This remains a key component of our strategy to create lasting customer relationships while managing interest expense.

Lending activity was robust throughout the year resulting in a 9% increase in total loans outstanding. The sustained low interest rate environment encouraged borrowers to refinance their debt in all loan categories, particularly one-to-four family mortgages, and our residential mortgage originations totalled a record $398 million. We also experienced growth in our commercial

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What distinguishes Provident from other banks?

We deliver quality service by focusing on the needs of our customers. For 165 years Provident has built its reputation on a simple, successful formula: Help the people and businesses in our communities find the right solutions to achieve their financial goals.

A

AS WE ACCOMPLISH OUR MISSION, WE WILL HOLD OURSELVES TO THE HIGHEST STANDARDS OF PERSONAL AND PROFESSIONAL INTEGRITY.

real estate, multi-family, construction, consumer and commercial (C&I) portfolios. Late in the year we de-emphasized the mortgage warehouse line of business by selling nearly all our outstanding credit lines to another bank. This has caused a shift away from our stated intention to maintain an equal balance between our retail and business loan portfolios. We are making concerted yet prudent efforts to redress the balance.

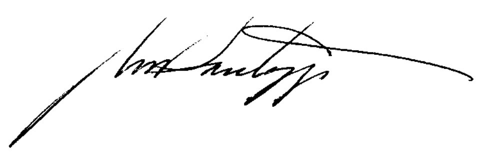
Our commitment to asset quality is unwavering. At year end the proportion of non-performing loans to total loans was 0.27% compared to 0.41% the prior year. We continue to compete aggressively for lending relationships in a crowded market place, but never at the expense of our commitment to quality.

Toward the end of the year we entered into a definitive agreement to acquire First Sentinel Bancorp, Inc. This well-established franchise in one of our most attractive markets will greatly enhance our retail presence within our existing footprint as well as adding further depth to our management team. It also affords tremendous opportunity to significantly penetrate this growing market with our full set of services for commercial customers. This transaction delivers on our stated commitment to strategically deploy capital for profitable growth and to build long-term stockholder value. It is expected to be accretive to earnings after closing, which is anticipated for second quarter 2004.

Capital management, as indicated in our original prospectus, is a priority for our company. After our first quarter of operation as a public entity, our Board of Directors declared payment of a cash dividend of four cents per share, raising it to five cents after the second quarter and then to six cents in the first quarter of 2004. Additional capital management tools, including a share repurchase program, will be implemented in future periods.

Among our most deeply held values is our commitment to our communities. At our conversion we created The Provident Bank Foundation and funded it with a one-time $24 million ($15.6 million net of tax) contribution. I am proud to report that in its first year the Foundation provided $1.9 million in grants, donations, scholarships and support to over 340 organizations throughout New Jersey.

Our tradition is rich, and our future is bright. Our dedication to increasing stockholder value, and our commitment to management integrity, are firm and constant. On behalf of our experienced Board of Directors, our talented management team and our focused and caring employees, I want to thank you for your support.

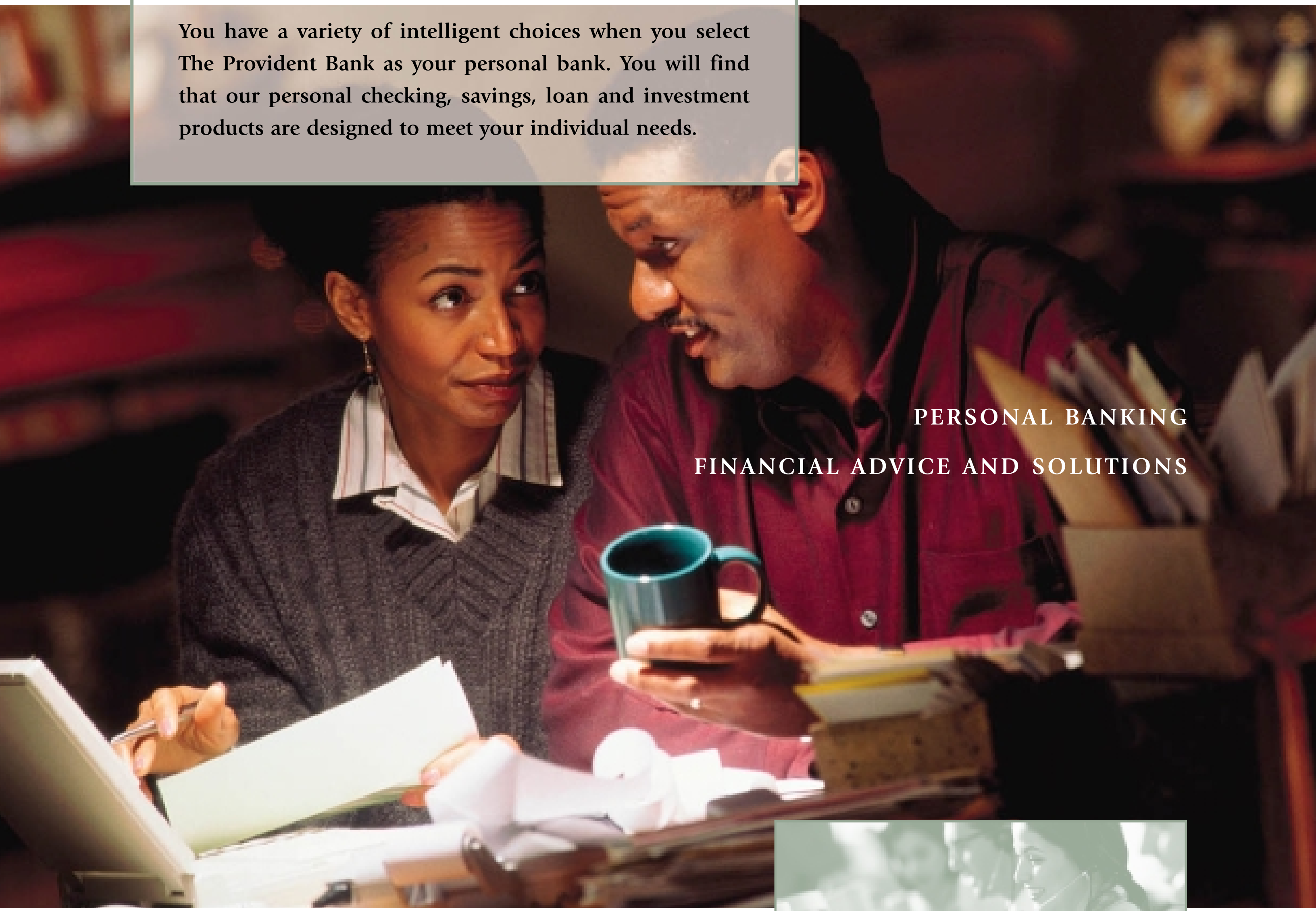


Paul M. Pantozzi

Chairman of the Board, Chief Executive Officer & President

PERSONAL SERVICES

You have a variety of intelligent choices when you select The Provident Bank as your personal bank. You will find that our personal checking, savings, loan and investment products are designed to meet your individual needs.



PERSONAL BANKING

FINANCIAL ADVICE AND SOLUTIONS

BANK ON YOUR TIME.

Q

Why should retail banking customers choose Provident?

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Our market place continues to see a consolidation trend toward bigger and less-personalized banks. We offer the alternative: full-service banking with a personal approach aimed at anticipating customer needs.

Gregory French,
Senior Vice President, Market Development and Delivery and Distribution

THE PROVIDENT BANK IS COMMITTED TO PROVIDING THE BEST SOLUTIONS FOR BOTH YOUR IMMEDIATE AND LONG-TERM BANKING NEEDS. OUR KNOWLEDGEABLE STAFF CAN ANSWER YOUR QUESTIONS AND ASSIST YOU IN ACHIEVING YOUR FINANCIAL GOALS.

CUSTOMER SERVICE; CUSTOMER CHOICES

Our total retail banking franchise is aligned around our customers. Through constant enhancements in information systems and staff training, we advance our understanding of customers' needs, expectations, behaviors and value. Our goal is to create enduring relationships, and our team is uniformly focused on customer satisfaction and retention. In 2003, we continued to increase our average number of services per customer, thereby laying the foundation for enhanced profitability.

We feel that our lines of lending and deposit products are robust and truly competitive. In 2003, both our residential mortgage and consumer loan areas achieved all-time highs in total originations, and our emphasis on core deposit gathering resulted in our seventh consecutive year of savings and checking deposit growth. We review and revamp our product sets to keep pace with customer preferences. Innovations in 2003 included "Easy Open Free Checking" and "Overdraft Privilege," both of which have met with high degrees of customer acceptance.

DELIVERING ON A PROMISE

Our brand promise is "Hassle-Free Banking for Busy People®," and building that brand is a non-stop process. Developing Provident's distribution channels is vital to our goal of being easily accessible to our customers. In 2003, we added five branches in line with a dual strategy of filling in geographic gaps to assure continuity and expanding into communities with high potential for market penetration and growth. We support this strategy with rigorous consistency in our branch merchandising and media advertising to help customers identify specific services. Regarding our sales efforts, we initiated the first phase of our Customer Relationship Management program that allows branch staff to follow up, when a customer visits, on offers that have been mailed specifically to them.

Our Call Center handled more than 2.8 million automated and personal customer interactions in 2003. This channel affords a huge opportunity for referring customers to additional product lines and financial solutions, and plans are underway to expand its capabilities. Finally, our on-line service, Providentnj.com, experienced in 2003 a 25% increase in registered users, who availed themselves of new features that facilitate account openings and loan applications, as well as providing content on a complete range of financial service topics.

Our business model is designed to create a unique brand and a distinctive customer experience that set us apart from many of our larger competitors. We believe retail banking customers will continue to seek out and appreciate ways to simplify their financial management choices. Simply put: Hassle-free banking for busy people®.

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What solutions does Provident provide for small-and-medium-sized business?

A

Our range of services and depth of expertise match those of much larger banks, but we are more nimble in responding to customer needs. We place highest value on creating relationships, not transactions.

Donald Blum,
Senior Vice President & Chief Lending Officer

WE HAVE BUILT A TEAM OF EXPERIENCED BANKERS WHO TRULY UNDERSTAND THE NEEDS OF BUSINESS OWNERS AND COMMERCIAL REAL ESTATE PROFESSIONALS IN OUR MARKET PLACE.

BUSINESS ADVANTAGE

This term describes our full suite of products and services for business customers. As a company, Provident is committed to profitable growth. We have the willingness and proven ability to help New Jersey's small and medium-sized businesses achieve the same goal. In addition to our diverse and competitive lending and deposit options, we offer on-line cash management, payroll origination, merchant processing, business debit and credit cards plus a variety of other services for business financial management. And, through partnerships with our Financial Management & Trust area and our affiliate, Provident Investment Services, we provide solutions for wealth management, retirement planning and key-person insurance as well.

LOANS AND CREDIT

We are a "major player" in commercial real estate lending in New Jersey, and we have achieved portfolio growth for each of the past three years. We have particular expertise in working with real estate developers to craft the right rates and terms for construction, bridge and permanent financing. We continually adapt to customer needs and have recently introduced new programs to address medical/healthcare lending requests as well as community real estate loans to finance mixed-use properties.

Our commercial & industrial loan portfolio continues to grow as our seasoned lenders work with borrowers to create customized solutions, whether those involve term loans, lines of credit or letters of credit. We have a streamlined small-business loan operation that provides response to requests within 24 hours, and we accept applications for most types of Small Business Administration loans.

CASH MANAGEMENT

We offer a full range of programs designed to help any business effectively manage its funds. Our checking products are customized to meet various levels of cash flow requirements, and they offer several options to keep the account free of service charges and to earn interest on excess funds. Our business savings, money market, CD and retirement planning products are competitively priced and easy to maintain. Our on-line cash management service provides a wealth of additional tools for business owners to track and deploy their cash.

The Provident team truly understands the banking needs of business. What ultimately distinguishes us is our responsiveness, our local decision-making capabilities and our commitment to develop a full banking relationship with our business customers.

BUSINESS SERVICES

Our business bankers are dedicated to providing hassle-free products and services. Our Business Advantage checking, savings, and loan programs have been created with the special needs of business owners in mind. They can provide the edge that leads to increased success in any business environment.

BUSINESS ADVANTAGE

FINANCIAL ADVICE AND SOLUTIONS

BANK ON YOUR TIME.

SELECTED FINANCIAL DATA

The summary information presented below at or for each of the periods presented is derived in part from and should be read in conjunction with the consolidated financial statements of Provident Financial Services, Inc. included elsewhere herein. On January 15, 2003, The Provident Bank completed its conversion from a mutual savings bank to a stock savings bank, and in connection therewith Provident Financial Services, Inc. sold 59,618,300 shares of common stock which resulted in $586.4 million of net proceeds of which $293.2 million was utilized to acquire all of the outstanding common stock of The Provident Bank. In addition, Provident Financial Services, Inc. contributed $4.8 million in cash and 1,920,000 shares of its common stock to The Provident Bank Foundation.

(In thousands) *At December 31,*	2003	2002	2001	2000	1999
Selected Financial Condition Data:					
Total assets	$4,284,878	$3,919,208	$2,869,717	$2,641,579	$2,578,249
Loans, net *(1)*	2,216,736	2,031,869	1,994,636	1,954,992	1,876,433
Investment securities *(2)*	517,789	216,119	112,951	124,059	162,680
Securities available for sale	1,151,829	1,242,118	494,716	335,039	361,832
Deposits	2,695,976	3,243,334	2,341,723	2,168,336	2,096,604
Borrowings	736,328	323,081	195,767	179,903	216,641
Equity	817,119	326,009	292,130	263,072	236,664

(In thousands) *For the Year Ended December 31,*	2003	2002	2001	2000	1999
Selected Operations Data:					
Interest income	$ 184,506	$ 177,307	$ 180,979	$ 179,520	$ 166,046
Interest expense	54,633	63,241	84,523	89,690	77,244
Net interest income	129,873	114,066	96,456	89,830	88,802
Provision for loan losses	1,160	12,800	1,900	2,060	2,100
Net interest income after provision for loan losses	128,713	101,266	94,556	87,770	86,702
Non-interest income	23,834	24,147	21,236	18,276	15,688
Non-interest expenses	126,779	89,087	80,629	75,865	71,853
Income before income tax expense and the cumulative effect of a change in accounting principle	25,768	36,326	35,163	30,181	30,537
Income tax expense	7,024	9,231	11,083	9,283	10,907
Income before the cumulative effect of a change in accounting principle	18,744	27,095	24,080	20,898	19,630
Cumulative effect of change in accounting principle (3)	—	(519)	—	—	—
Net income	$ 18,744	$ 26,576	$ 24,080	$ 20,898	$ 19,630

(1) Loans are shown net of allowance for loan losses, deferred fees and unearned discount.

(2) Investment securities are held to maturity.

(3) In accordance with FASB Statement No. 142, we performed a goodwill impairment test on the goodwill associated with the purchase of Provident Mortgage Company. It was determined that the goodwill was impaired and a charge of $519,000 was recorded as a cumulative effect of a change in accounting principle.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report are not based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which 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 wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

GENERAL

On January 15, 2003, Provident Financial Services, Inc. ("the Company"), became the holding company for The Provident Bank ("the Bank"), following the completion of the conversion of The Provident Bank to a stock chartered bank. The Company issued an aggregate of 59,618,300 shares of its common stock in a subscription offering to eligible depositors. Concurrent with the conversion, the Company contributed an additional 1,920,000 shares of its common stock and $4.8 million in cash to The Provident Bank Foundation, a charitable foundation established by The Provident Bank.

The Company conducts business through its subsidiary, The Provident Bank, a community oriented bank operating 54 full-service branches in ten counties in northern and central New Jersey.

On December 22, 2003, the Company entered into an agreement and plan of merger, under which First Sentinel Bancorp, Inc. will merge into Provident Financial Services, Inc. and First Savings Bank, the wholly-owned subsidiary of First Sentinel, will merge into The Provident Bank. Consideration will be paid to First Sentinel stockholders in a combination of stock and cash valued at approximately $642 million. The transaction is subject to regulatory and stockholder approvals.

STRATEGY

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

Our business strategy is to grow profitably by reducing interest rate risk, maintaining a commitment to credit quality and expanding market share by acquiring, retaining and expanding customer relationships.

The Bank has significantly increased commercial real estate, construction, multi-family and commercial loans as part of our strategy to diversify the loan portfolio and reduce interest rate risk. These types of loans generally have adjustable rates that initially are higher than residential loans and generally have a higher rate of risk. Our credit policy focuses on quality underwriting standards and close monitoring of the portfolio. At year-end 2003, retail loans accounted for 60.24% of the loan portfolio and commercial loans accounted for 39.76%. Our strategy is to achieve a balanced mix in the loan portfolio of 50% retail and 50% commercial loans.

Our customer relationship management strategy focuses on increasing core accounts and expanding customer relationships through our branch network, online banking and telephone banking touch points. In 2003, the Bank acquired three branch offices with deposits from another financial institution and opened two de novo branch offices. We continue to evaluate opportunities to increase our market share by expanding within our marketplace or in contiguous markets. Core deposits are generally a more stable, less expensive source of funds. At December 31, 2003, core deposits were 65.39% of total deposits.

A significant amount of capital was raised during the conversion, and capital levels exceeded 19% at year-end. Management has developed capital management strategies to effectively utilize the excess capital and improve return on equity and earnings per share growth. Our capital management strategy includes the following components: 1) payment of cash dividends, 2) stock repurchases, 3) acquisitions and 4) use of wholesale leverage. The Company declared and paid its first dividend in the second quarter of 2003. The Company is currently targeting a cash dividend payout of 35% to 40% of net income. In 2003, stock repurchases were limited to buying stock for stock-based compensation plans. Following the one-year anniversary of the conversion, the Board of Directors has authorized a corporate stock repurchase program, under which 5% or 3,039,630 shares of the Company's common stock may be repurchased.

Several wholesale leverage transactions were completed during the year. The Company used wholesale borrowings to purchase mortgage-backed investment securities and to a lesser extent, to fund commercial real estate loans. Leverage strategies generally increase the Company's interest rate risk exposure and leverage transactions are carefully monitored and measured as part of active balance sheet management.

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

CRITICAL ACCOUNTING POLICY

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 our evaluation of the probable incurred losses in our loan portfolio. We maintain 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 we determine that the collection of loan principal is unlikely. Recoveries made on loans that have been charged-off are credited to the allowance for loan losses.

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

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

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

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

Although we believe that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. 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.

ANALYSIS OF NET INTEREST INCOME

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

Average Balance Sheet

The following table sets forth certain information for the years ended December 31, 2003, 2002 and 2001. For the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, is expressed both in dollars and rates. No tax equivalent adjustments were made. Average balances are daily averages.

	For the Year Ended December 31,								
	2003			2002			2001		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
Interest-earning assets:									
Federal funds sold and short-term investments	**$ 157,854**	**$ 1,709**	**1.08%**	$ 93,572	$ 1,565	1.67%	$ 32,558	$ 1,114	3.42%
Investment securities[1]	**461,742**	**17,708**	**3.84**	114,878	5,323	4.63	112,659	5,784	5.13
Securities available for sale	**1,196,435**	**40,880**	**3.42**	707,629	35,910	5.07	437,147	24,536	5.61
Federal Home Loan Bank Stock	**26,030**	**759**	**2.92**	11,823	555	4.69	12,690	801	6.31
Net loans[2]	**2,014,861**	**123,450**	**6.13**	1,949,778	133,954	6.87	1,961,612	148,744	7.58
Total interest-earning assets	**3,856,922**	**184,506**	**4.78**	2,877,680	177,307	6.16	2,556,666	180,979	7.08
Non-interest earning assets	**260,205**			196,875			184,173		
Total assets	**$4,117,127**			$3,074,555			$2,740,839		

	For the Year Ended December 31,								
	2003			2002			2001		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
Interest-bearing liabilities:									
Savings deposits	**$ 952,776**	**$ 11,839**	**1.24%**	$ 823,752	$ 14,459	1.76%	$ 690,324	$ 15,966	2.31
Demand deposits	**413,582**	**3,590**	**0.87**	356,998	4,897	1.36	286,176	4,703	1.64
Time accounts	**988,789**	**23,742**	**2.40**	1,069,183	35,481	3.32	1,060,920	54,620	5.15
Borrowings	**567,732**	**15,462**	**2.72**	204,988	8,404	4.10	176,688	9,234	5.23
Total interest-bearing liabilities	**2,922,879**	**54,633**	**1.87**	2,454,921	63,241	2.57	2,214,108	84,523	3.82
Non-interest bearing liabilities	**381,796**			314,671			249,913		
Total liabilities	**3,304,675**			2,769,592			2,464,021		
Equity	**812,452**			304,963			276,818		
Total liabilities and equity	**$4,117,127**			$3,074,555			$2,740,839		
Net interest income		**$129,873**			$114,066			$ 96,456	
Net interest rate spread			**2.91%**			3.59%			3.26%
Net interest earning assets	**$ 934,043**			$ 422,759			$ 342,558		
Net interest margin[3]			**3.37%**			3.96%			3.97%
Ratio of interest-earning assets to total interest-bearing liabilities	**1.32x**			1.17x			1.15x		

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

Rate/Volume Analysis

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

	Year Ended December 31,					
	2003 vs. 2002			2002 vs. 2001		
	Increase/(Decrease) Due to			Increase/(Decrease) Due to		
(In thousands)	Volume	Rate	Total Increase/ (Decrease)	Volume	Rate	Total Increase/ (Decrease)
Interest-earning assets:						
Federal funds sold and short-term investments	**$ 824**	**$ (680)**	**$ 144**	$ 1,249	$ (798)	$ 451
Investment securities	**13,452**	**(1,067)**	**12,385**	112	(575)	(463)
Securities available for sale	**19,304**	**(14,334)**	**4,970**	14,205	(2,829)	11,376
Federal Home Loan Bank Stock	**475**	**(271)**	**204**	(52)	(194)	(246)
Loans	**4,357**	**(14,861)**	**(10,504)**	(892)	(13,898)	(14,790)
Total interest-earning assets	**38,412**	**(31,213)**	**7,199**	14,622	(18,294)	(3,672)
Interest-bearing liabilities:						
Savings deposits	**2,034**	**(4,654)**	**(2,620)**	2,755	(4,262)	(1,507)
Money market accounts	**221**	**(613)**	**(392)**	385	(309)	76
Interest-bearing checking	**463**	**(1,378)**	**(915)**	709	(591)	118
Time accounts	**(2,510)**	**(9,229)**	**(11,739)**	422	(19,561)	(19,139)
Borrowings	**10,675**	**(3,617)**	**7,058**	1,343	(2,173)	(830)
Total interest-bearing liabilities	**10,883**	**(19,491)**	**(8,608)**	5,614	(26,896)	(21,282)
Net interest income	**$27,529**	**$(11,722)**	**$ 15,807**	$ 9,008	$ 8,602	$ 17,610

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2003 AND DECEMBER 31, 2002

Total assets at December 31, 2003 increased $365.7 million or 9.33% to $4.3 billion compared to $3.9 billion at December 31, 2002.

Total loans at December 31, 2003 increased $184.5 million or 8.99% to $2.24 billion compared to $2.05 billion at December 31, 2002. Residential mortgage loans increased $345.3 million or 49.37% to $1.04 billion at December 31, 2003 compared to $699.5 million at December 31, 2002. Residential mortgage loan originations totaled $397.7 million and one-to-four family loans purchased totaled $352.2 million at December 31, 2003. Residential loan payoffs totaled $394.7 million, excluding scheduled amortization, and loans sold totaled $16.1 million for the year ended December 31, 2003. Commercial real estate loans increased $4.9 million or 1.10% to $449.1 million at December 31, 2003 compared to $444.2 million at December 31, 2002. Multi-family loans increased $13.5 million or 17.59% to $90.6 million at December 31, 2003 compared to $77.0 million at December 31, 2002. Construction loans increased $3.0 million or 3.17% to $99.1 million at December 31, 2003 compared to $96.0 million at December 31, 2002. Commercial loans increased $63.2 million or 34.46% to $246.6 million at December 31, 2003 compared to $183.4 million at December 31, 2002. Mortgage warehouse loans decreased $272.2 million or 98.50% to $4.1 million at December 31, 2003 compared to $276.4 million at December 31, 2002. After a strategic review of all business lines, management made a decision to de-emphasize mortgage warehouse lending. The sale of the majority of the mortgage warehouse loan portfolio to another financial institution was completed in November 2003. Consumer loans increased $23.5 million or 8.51% to $299.3 million at December 31, 2003 compared to $275.8 million at December 31, 2002. Retail loans, which consist of one to four family residential mortgages and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $1.3 billion and accounted for 60.24% of the loan portfolio at December 31, 2003 compared to $975.3 million or 47.53% of the portfolio at December 31, 2002. The increase in retail loans as a percentage of the total loan portfolio was the result of our decision to exit the mortgage warehouse business during the fourth quarter of 2003. Proceeds from the sale of the mortgage warehouse portfolio were reinvested primarily in residential mortgage loans. The Company intends to rebalance the loan portfolio, consistent with its strategy to maintain a 50% retail and 50% commercial mix. Commercial loans, consisting of commercial real estate, multi-family, construction, mortgage warehouse and commercial loans, totaled $889.5 million, accounting for 39.76% of the loan portfolio at December 31, 2003 compared to $1.1 billion or 52.47% at December 31, 2002.

Investment securities held to maturity increased $301.7 million or 139.59% to $517.8 million at December 31, 2003, compared to $216.1 million at December 31, 2002. The increase in investment securities held to maturity was the result of leverage strategies that were completed during 2003 and an increase of $118 million in the municipal bond portfolio. Securities available for sale decreased $90.3 million or 7.27% to $1.15 billion at December 31, 2003 compared to $1.24 billion at December 31, 2002.

Bank-owned life insurance increased $23.8 million or 50.04% to $71.5 million at December 31, 2003 compared to $47.7 million at December 31, 2002. This increase was due primarily to an additional $20.0 million purchase of bank-owned life insurance in the first quarter of 2003 and increases in the cash surrender value.

Total non-performing loans totaled $6.1 million at December 31, 2003 compared to $8.5 million at December 31, 2002. Total non-performing loans as a percentage of total loans were 0.27% at December 31, 2003 and 0.41% at December 31, 2002. The allowance for loan losses as a percentage of non-performing loans was 336.67% at December 31, 2003 and 246.55% at December 31, 2002. The allowance for loan losses as a percentage of total loans was 0.92% at December 31, 2003 and 1.02% at December 31, 2002.

Total deposits decreased $547.4 million or 16.88% to $2.7 billion at December 31, 2003 from $3.2 billion at December 31, 2002. The largest decrease was in demand deposit accounts, which decreased $494.4 million to $775.0 million at December 31, 2003 from $1.3 billion at December 31, 2002. This decrease is primarily attributable to the funds in the conversion escrow account totaling $526.0 million at December 31, 2002 that were held for the purchase of shares of Provident Financial Services, Inc. common stock. Savings deposits increased $65.5 million or 6.63% to $987.9 million at December 31, 2003 compared to $922.4 million at December 31, 2002. At December 31, 2003, core deposits, which consist of all savings and demand deposit accounts, represented 65.39% of total deposits. Time deposits decreased $118.4 million or 11.26% to $933.1 million at December 31, 2003 from $1.05 billion at December 31, 2002.

Total borrowed funds increased $413.2 million or 127.91% to $736.3 million at December 31, 2003 from $323.1 million at December 31, 2002. Federal Home Loan Bank borrowings increased $424.6 million or 158.94% to $691.7 million at December 31, 2003 compared to $267.1 million at December 31, 2002. The increase in borrowed funds was due primarily to leverage strategies that were implemented during the course of the year.

Total stockholders' equity increased $491.1 million or 150.64% to $817.1 million at December 31, 2003 from $326.0 million at December 31, 2002. This increase is due primarily to a $606.5 million increase in additional paid in capital, due to the sale of common stock on January 15, 2003, partially offset by a reduction in stockholders' equity of $78.8 million and $41.9 million as a result of the purchase of stock for the Employee Stock Ownership Plan and Stock Award Plan, respectively.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002

General

Net income for the year ended December 31, 2003 was $18.7 million, a decrease of $7.8 million or 29.47% compared to net income of $26.6 million for the year ended December 31, 2002. Return on average assets for the year ended December 31, 2003 was 0.46% compared to 0.86% for the year ended December 31, 2002. Return on average equity was 2.31% for the year ended December 31, 2003 compared to 8.71% for the year ended December 31, 2002. Basic and diluted earnings per share were $0.31 for year the year ended December 31, 2003, which includes the results of operations from the January 15, 2003 conversion and sale of common stock.

Net Interest Income

Net interest income increased $15.8 million or 13.86% to $129.9 million at December 31, 2003 from $114.1 million at December 31, 2002. Average interest rate spread decreased 68 basis points to 2.91% at December 31, 2003 from 3.59% for the year ended December 31, 2002. The net interest margin decreased 59 basis points to 3.37% at December 31, 2003 compared to 3.96% for the year ended December 31, 2002. The decrease in net interest margin was due primarily to a decrease in the yield on earnings assets of 138 basis points, as cash flows from loans and securities were reinvested at significantly lower interest rates.

Interest income increased $7.2 million or 4.06% to $184.5 million at December 31, 2003 compared to $177.3 million at December 31, 2002. Average interest earning assets increased $979.2 million or 34.03% to $3.86 billion in 2003 compared to $2.88 billion in 2002. Average outstanding loan balances increased $65.1 million or 3.34% to $2.01 billion at December 31, 2003 from $1.95 billion at December 31, 2002. The average balance of investment securities increased $346.9 million or 301.94% to $461.7 million in 2003 compared to $114.9 million in 2002. The average balance of securities available for sale increased $488.8 million or 69.08% to $1.2 billion at December 31, 2003 compared to $707.6 million at December 31, 2002. Average federal funds sold and short-term investment balances increased $64.3 million or 68.70% to $157.9 million in 2003 from $93.6 million in 2002. The yield on interest earning assets decreased 138 basis points to 4.78% in 2003 from 6.16% in 2002. Interest expense decreased $8.6 million or 13.61% to $54.6 million at December 31, 2003 from $63.2 million at December 31, 2002. The reduction in interest expense is attributable to the continued decline in short-term interest rates. The average balance of interest bearing liabilities increased $468.0 million or 19.06% to $2.9 billion at December 31, 2003 compared to $2.5 billion at December 31, 2002. The average balance of non-interest bearing liabilities increased $67.1 million or 21.33% to $381.8 million in 2003 compared to $314.7 million in 2002. Rates paid on interest bearing liabilities decreased 71 basis points to 1.87% in 2003 from 2.58% in 2002. Average outstanding borrowings increased $362.7 million or 176.96% to $567.7 million for the year ended December 31, 2003 compared to $205.0 million for the year ended December 31, 2002. The average rate paid on borrowings decreased to 2.72% for the year ended December 31, 2003 from 4.10% for the year ended December 31, 2002.

Provision for Loan Losses

Provisions for loan losses are charged to operations in order to maintain the allowance for loan losses at a level management considers necessary to absorb probable incurred 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 the 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 in order to maintain the adequacy of the allowance. Our emphasis on continued diversification of our loan portfolio through the origination of construction loans, commercial mortgage loans and commercial loans has been one of the more significant factors we take into account in evaluating our allowance for loan losses and provision for loan losses. In the event we were to further increase the amount of such types of loans in our portfolio, we may determine to make additional or increased provisions for loan losses, which could adversely affect our earnings.

The provision for loan losses was $1.2 million in 2003 compared to $12.8 million in 2002. The increase in the 2002 provision for loan losses was primarily attributable to an $11.8 million charge-off in the third quarter related to a mortgage warehouse loan. The allowance for loan losses at December 31, 2003 was $20.6 million or 0.92% of total loans compared to $21.0 million or 1.02% of total loans at December 31, 2002. At December 31, 2003 the allowance for loan losses as a percentage of non-performing loans was 336.67% compared to 246.55% at December 31, 2002.

Net charge-offs for 2003 were $1.5 million compared to $13.7 million for 2002. Total charge-offs for the year ended December 31, 2003 were $4.4 million compared to $14.9 million for the year ended December 31, 2002. During 2002, the Bank charged off $12.5 million related to a $20.6 million warehouse loan, resulting from an alleged fraud involving one of our mortgage warehouse borrowers. Recoveries for the year ended December 31, 2003 were $2.9 million compared to $1.2 million for the year ended December 31, 2002.

At December 31, 2003, non-performing loans as a percentage of total loans was 0.27% compared to 0.41% at December 31, 2002. Non-performing assets as a percentage of total assets declined 8 basis points to 0.14% at December 31, 2003 compared to 0.22% at December 31, 2002. At December 31, 2003, non-performing loans were $6.1 million compared to $8.5 million at December 31, 2002, and non-performing assets were $6.2 million at December 31, 2003, compared to $8.5 million at December 31, 2002.

Non-Interest Income

Total non-interest income decreased $313,000 or 1.30% to $23.8 million at December 31, 2003 compared to $24.1 million at December 31, 2002. Fee income from deposit accounts increased $1.2 million or 7.80% to $16.3 million at December 31, 2003 from $15.1 million at December 31, 2002. This increase is attributable to our ongoing strategy to attract and retain core deposit accounts. Other income decreased $1.7 million or 42.97% to $2.3 million in 2003 compared to $4.0 million in 2002. Other income consists of net gain on the sale of loans, net gain on sales of other assets and other non-recurring income. The net gain on the sale of fixed-rate mortgages decreased $997,000 or 44.67% to $1.2 million in 2003 from $2.2 million in 2002 and the net gain on other assets decreased $710,000 or 40.78% to $1.0 million in 2003 from $1.7 million in 2002.

Non-Interest Expense

For the year ended December 31, 2003, non-interest expenses increased $37.7 million or 42.31% to $126.8 million at December 31, 2003 compared to $89.1 million at December 31, 2002. The increase in non-interest expense for the year ended December 31, 2003, is primarily due to the one-time expense associated with the $24 million contribution to The Provident Bank Foundation that was recorded in the first quarter of 2003 and benefit expenses related to stock-based plans. Salary and benefit expense increased $7.8 million or 16.67% in 2003 to $54.7 million from $46.9 million in 2002. The increase in salaries and benefits expense for the year ended December 31, 2003, is primarily attributable to expenses related to new stock-based benefit plans: the employee stock ownership plan in the amount of $2.7 million, the stock award plan in the amount of $1.9 million and stock option plan in the amount of $1.7 million. In 2003, the Bank adopted the fair value based method, SFAS No. 123, "Accounting for Stock-Based Compensation," to recognize compensation expense on all outstanding stock option awards from the time of grant. For the year ended December 31, 2003 other operating expenses increased $3.6 million or 22.64% to $19.4 million compared to $15.8 million on December 31, 2002. This increase is primarily due to an increase of $1.5 million or 201.85% in corporate insurance expense, $775,000 or 25.81% in advertising and promotions and $940,000 or 7.11% in occupancy expense.

As of December 31, 2003, the Bank had unamortized goodwill in the amount of $20.0 million as a result of the acquisition of financial institutions for which the amortization ceased upon the adoption of SFAS No. 142. During 2002, the Bank determined that the carrying amount of the $519,000 of goodwill related to the acquisition of the mortgage company was impaired, and recognized the impairment as a cumulative effect of a change in accounting principle in accordance with the transitional provisions of SFAS No. 142.

Income Tax Expense

Income tax expense decreased $2.2 million or 23.91% to $7.0 million on net income before taxes of $25.8 million resulting in an effective tax rate of 27.26% in 2003 compared to income tax expense of $9.2 million on net income before taxes of $36.3 million in 2002 resulting in an effective tax rate of 25.41%. The decrease in income tax expense is primarily attributable to an increase of $118.0 million or 125.2% in tax exempt securities and an increase of $978,000 or 34.1% increase in the cash surrender value of bank-owned life insurance.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

General

Net income for the year ended December 31, 2002 was $26.6 million, an increase of $2.5 million or 10.4% compared to net income of $24.1 million for the year ended December 31, 2001. Return on average assets for the year ended December 31, 2002 was 0.86% compared to 0.88% for the year ended December 31, 2001. Return on average equity was 8.71% for the year ended December 31, 2002 compared to 8.70% for the year ended December 31, 2001.

Net Interest Income

Net interest income increased $17.7 million or 18.3% to $114.1 million at December 31, 2002 from $96.5 million at December 31, 2001. Our average interest rate spread improved 32 basis points to 3.61% at December 31, 2002 from 3.29% at December 31, 2001. Net interest margin improved 19 basis points to 3.98% at December 31, 2002 from 3.79% at December 31, 2001. The improvement in net interest margin was due primarily to a 25.2% reduction in interest expense.

Interest income decreased $3.6 million or 2.0% to $177.4 million at December 31, 2002 compared to $181.0 million at December 31, 2001. Average interest-earning assets increased $321.9 million or 12.65% to $2.87 billion in 2002 compared to $2.54 billion in 2001. Average outstanding loan balances decreased $11.8 million or 0.60% to $1.95 billion at December 31, 2002 from $1.96 billion at December 31, 2001. The average balance of investment securities increased $2.2 million or 1.97% to $114.9 million in 2002 compared to $112.7 million in 2001. The average balance of securities available for sale increased $270.5 million or 61.87% to $707.6 million at December 31, 2002 compared to $437.1 million at

December 31, 2001. Average federal funds sold and short-term investment balances increased $61.0 million or 187.4% to $93.6 million in 2002 from $32.6 million in 2001. The yield on interest earning assets decreased 92 basis points to 6.19% in 2002 from 7.11% in 2001. Interest expense decreased $21.3 million or 25.2% to $63.2 million at December 31, 2002 from $84.5 million at December 31, 2001. The reduction in interest expense is attributable to the continued decline in short-term interest rates. The balance of interest-bearing liabilities increased $243.0 million or 11.02% to $2.46 billion at December 31, 2002 compared to $2.21 billion at December 31, 2001. The balance of average non-interest bearing liabilities increased $61.6 million or 24.6% to $311.5 million in 2002 compared to $249.9 million in 2001. Rates paid on interest-bearing liabilities decreased 124 basis points to 2.58% in 2002 from 3.82% in 2001. Average outstanding borrowings increased $28.3 million or 16.02% to $205.0 million for the year ended December 31, 2002 compared to $176.7 million for the year ended December 31, 2001. The average rate paid on borrowings decreased to 4.10% for the year ended December 31, 2002 from 5.23% for the year ended December 31, 2001.

Provision for Loan Losses

Provisions for loan losses are charged to operations in order to maintain the allowance for loan losses at a level management considers necessary to absorb probable incurred 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 the 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 in order to maintain the adequacy of the allowance. Our emphasis on continued diversification of our loan portfolio through the origination of construction loans, commercial mortgage loans, mortgage warehouse loans and commercial loans has been one of the more significant factors we have taken into account in evaluating our allowance for loan losses and provision for loan losses. In the event we were to further increase the amount of such types of loans in our portfolio, we may determine to make additional or increased provisions for loan losses, which could adversely affect our earnings. During 2002, we charged off $12.5 million related to a $20.6 million warehouse loan, resulting from an alleged fraud involving one of our mortgage warehouse borrowers. In addition, we sold loans totaling $1.4 million to investors and have placed the remaining loans in our portfolio, established contact with the borrowers and subsequently moved these loans into performing status as payment histories were established.

The provision for loan losses was $12.8 million in 2002 compared to $1.9 million in 2001. This increase in our provision for loan losses was primarily attributable to an $11.8 million charge-off in the third quarter related to a mortgage warehouse loan. The allowance for loan losses at December 31, 2002 was $21.0 million or 1.02% of total loans compared to $21.9 million or 1.09% of total loans at December 31, 2001. At December 31, 2002 the allowance for loan losses as a percentage of non-performing loans was 246.55% compared to 271.02% at December 31, 2001.

Net charge-offs for 2002 were $13.7 million compared to $189,000 for 2001. Total charge-offs for the year ended December 31, 2002 were $14.7 million compared to $962,000 for the year ended December 31, 2001. Recoveries for the year ended December 31, 2002 were $1.0 million compared to $773,000 for the year ended December 31, 2001.

At December 31, 2002, non-performing loans as a percentage of total loans was 0.41% compared to 0.40% at December 31, 2001. Non-performing assets as a percentage of total assets declined 6 basis points to 0.22% at December 31, 2002 compared to 0.28% at December 31, 2002. At December 31, 2002, non-performing loans were $8.5 million compared to $8.1 at December 31, 2001.

Non-Interest Income

Total non-interest income increased $2.8 million or 13.4% to $24.1 million at December 31, 2002 compared to $21.2 million at December 31, 2001. Fee income from deposit accounts increased $912,000 or 6.41% to $15.1 million at December 31, 2002 from $14.2 million at December 31, 2001. This increase is attributable to our ongoing strategy to attract and retain core deposit accounts. Other income increased $832,000 or 26.49% to $4.0 million in 2002 compared to $3.1 million in 2001. Other income consists of net gain on the sale of loans, net gain on sales of other assets and other non-recurring income. The net gain on the sale of fixed-rate mortgages increased $513,000 or 28.84% to $2.2 million in 2002 from $1.7 million in 2001 and the net gain on other assets increased $449,000 or 105.4% to $1.7 million in 2002 from $1.4 million in 2001.

Non-Interest Expense

For the year ended December 31, 2002, non-interest expenses increased $8.5 million or 10.49% to $89.1 million at December 31, 2002 compared to $80.6 million at December 31, 2001. Salary and benefit expense increased $6.5 million or 15.97% in 2002 to $46.9 million from $40.4 million in 2001. This increase is attributable to the addition of experienced senior lending officers and staff at the end of 2001 and during 2002 as part of our business strategy to build and expand commercial relationships. We have also added experienced market development professionals to implement our Customer Relationship Management strategy. Other operating expenses increased $2.6 million or 19.84% to $15.8 million in 2002 from $13.2 million in 2001.

As of December 31, 2002, the Bank had unamortized goodwill in the amount of $20.0 million as a result of the acquisition of financial institutions for which the amortization ceased upon the adoption of Statement of Financial Accounting Standards No. 142 and $0.5 million resulting from the acquisition of a mortgage banking company in 2001. During 2002, the Bank determined that the carrying amount of the $519,000 of goodwill related to the acquisition of the mortgage company was impaired, and recognized the impairment as a cumulative effect of a change in accounting principle in accordance with the transitional provisions of SFAS No. 142.

If SFAS No. 142 had been adopted on January 1, 2000, net income would have increased as a result of ceasing the amortization of goodwill by $1,171,000 in each of the years ended December 31, 2001 and 2000.

Income Tax Expense

Income tax expense decreased $1.9 million or 16.71% to $9.2 million on net income before taxes of $36.3 million resulting in an effective tax rate of 25.4% in 2002 compared to income tax expense of $11.1 million on net income before taxes of $35.2 million in 2001 resulting in an effective tax rate of 31.5%. The decline in the effective tax rate for the year ended December 31, 2002 is attributable to lower taxable income as a result of the charge-off of $11.8 million in the third quarter related to a mortgage warehouse borrower that ceased doing business under allegations of fraud and an adjustment to deferred tax assets for state taxes to reflect the current New Jersey corporate business tax rate of 9% from the previous tax rate of 3% which gave rise to the reduction in the effective tax rate.

Change in Accounting Principle

In accordance with SFAS No. 142, we performed a goodwill impairment test on the goodwill associated with the purchase of Provident Mortgage Company. It was determined that the goodwill was impaired and we recorded a charge of $519,000 as a cumulative effect of a change in accounting principle.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to our ability to generate adequate amounts of cash to meet financial obligations to our depositors, to fund loans and securities purchases, deposit outflows and operating expenses. Sources of funds include scheduled amortization of loans, loan prepayments, scheduled maturities of investments, cash flows from mortgage-backed securities and the ability to borrow funds from the Federal Home Loan Bank of New York and approved broker dealers. We have a $50.0 million overnight line of credit and a $50.0 million one month overnight repricing line of credit with the Federal Home Loan Bank of New York. As of December 31, 2003, we had $65.0 million outstanding borrowings against the line of credit.

Cash flows from loan payments and maturing investment securities are fairly predictable sources of funds. Changes in interest rates, local economic conditions and the competitive marketplace can influence loan prepayments, prepayments on mortgaged-backed securities and deposit flows. As of December 31, 2003, loan prepayments, excluding mortgage warehouse activity, totaled $835.6 million compared to $787.1 million for the year ended December 31, 2002 due to the high rate of loan prepayment and refinance activity resulting from the low interest rate environment.

One-to-four family residential loans, consumer loans, commercial real estate loans, multi-family loans and commercial and small-business loans are the primary investments of the bank. Purchasing securities for the investment portfolio is a secondary use of funds, and the investment portfolio is structured to complement and facilitate our lending activities and ensure adequate liquidity. Loan originations and purchases, excluding mortgage warehouse loans, totaled $1.3 billion for the year ended December 31, 2003 compared to $724.4 million for the year ended December 31, 2002. Purchases for the investment portfolio totaled $1.7 billion for the year ended December 31, 2003 compared to $1.0 billion for the year ended December 31, 2002.

At December 31, 2003, the Bank had outstanding loan commitments to borrowers of $396.9 million. Undisbursed home equity lines and personal credit lines were $74.1 million at December 31, 2003. Total deposits decreased $547.4 million or 16.88% to $2.7 billion at December 31, 2003 from $3.24 billion at December 31, 2002. Excluding funds that were held in a conversion escrow account in the amount of $526.0 million, total deposits decreased $21.4 million or 10.79% in 2003. Deposit inflows are affected by changes in interest rates, competitive pricing and product offerings in our marketplace, local economic conditions and other factors such as stock market volatility. Certificate of deposit accounts that are scheduled to mature within one year totaled $709.1 million at December 31, 2003. Based on current pricing strategy and customer retention experience we expect to retain a significant share of these accounts. The Bank manages liquidity on a daily basis and expects to have sufficient funds to meet all of our funding requirements.

As of December 31, 2003, the Bank exceeded all regulatory capital requirements. At December 31, 2003, our leverage (Tier 1) capital ratio was 13.27%. FDIC regulations currently require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.0%. At December 31, 2003, our total risk based capital ratio was 22.36%. Under current regulations the minimum required ratio of total capital to risk-weighted assets is 8.0%. A bank is considered to be well capitalized if it has a leverage (Tier 1) capital ratio of at least 5.0% and a risk-based capital ratio of at least 10.0%. As of December 31, 2003, The Provident Bank exceeded the well-capitalized capital requirements.

OFF-BALANCE-SHEET AND CONTRACTUAL OBLIGATIONS

Off-balance-sheet and contractual obligations as of December 31, 2003, are summarized below:

Off-Balance-Sheet and Contractual Obligations	Payments Due by Period				
(In thousands)	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Off-Balance-Sheet:					
Long-term commitments	$ 386,326	$ 386,326	$ —	$ —	$ —
Letters of Credit	10,544	10,544	—	—	—
Total Off-Balance-Sheet	396,870	396,870	—	—	—
Contractual Obligations:					
Operating leases	34,031	2,182	4,353	4,341	23,155
Securities purchase obligations	2,440	2,440	—	—	—
Certificates of deposit	933,111	709,087	145,097	75,022	3,905
Total Obligations	969,582	713,709	149,450	79,363	27,060
Total	$1,366,452	$1,105,579	$149,450	$79,363	$27,060

Off-balance-sheet commitments consist of unused commitments to borrowers for term loans, unused lines of credit and outstanding letters of credit. Total off-balance-sheet obligations were $396.9 million at December 31, 2003, an increase of $28.7 million or 7.78% from $368.2 million at December 31, 2002.

Contractual obligations consist of operating leases, securities purchase obligations and certificate of deposit liabilities. Operating leases summarize the renewal time periods for each of our leased branch locations. Securities purchase obligations represents purchase transactions that were entered into in December 2003 and settled in January 2004. The schedule of certificates of deposit summarizes total certificate of deposits accounts and December 31, 2003 and the maturity schedule for those deposits. Total contractual obligations at December 31, 2003 were $969.6 million, a decrease of $111.8 million or 10.34% compared to $1.08 billion at December 31, 2002. Operating leases increased $4.2 million or 12.3% at December 31, 2003 compared to $29.8 million at December 31, 2002 and certificates of deposit accounts decreased $118.4 million or 11.25% to $933.1 million at December 31, 2003 from $1.05 billion at December 31, 2002. There were no securities purchase obligations at December 31, 2002.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," which requires that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS No. 141 requires that the purchase method be used for business combinations initiated after June 30, 2001.

On July 20, 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Bank adopted SFAS No. 142 effective January 1, 2002. As of December 31, 2001, the Bank had goodwill in the amount of $20.0 million as a result of the acquisition of financial institutions for which the amortization ceased upon the adoption of SFAS No. 142 and $519,000 resulting from the acquisition of a mortgage banking company in 2001. At June 30, 2002, the Bank determined that the carrying amount of $519,000 of goodwill related to the acquisition of the mortgage company was impaired and recognized the impairment charge as a cumulative effect of a change in accounting principle in accordance with SFAS No. 142. In addition, at December 31, 2003, the Bank had $3.0 million in intangible assets with definite useful lives that continued to be amortized upon the adoption of SFAS No. 142.

SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," was issued on April 30, 2003. The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this Statement did not have a significant effect on the Company's consolidated financial statements.

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," was issued in May 2003. SFAS No. 150 requires instruments within its scope to be classified as a liability (or, in some cases, as an asset). SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 (i.e., July 1, 2003 for calendar year entities). For financial instruments created before June 1, 2003 and still existing at the beginning of the interim period of adoption, transition generally should be applied by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instruments at fair value or other measurement attributes of the Statement. The adoption of SFAS No. 150 did not have a significant effect on the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, (FIN 45) "Guarantor's Accounting and Disclosure Requirement of Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 addresses disclosures to be made by a guarantor in its financial statements about its obligations under guarantees. The interpretation also requires the recognition, at estimated fair value, of a liability by the guarantor at the inception of certain guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 were effective for financial statements of interim or annual periods ending after December 15, 2002. The recognition and measurement provisions are applicable prospectively to guarantees issued or modified after December 31, 2002. The adoption of this interpretation did not have a material impact on the Company's consolidated financial statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) was issued in January 2003 and was reissued as FASB Interpretation No. 46 (revised December 2003) (FIN 46R). For public entities, FIN 46R is applicable to all special-purpose entities (SPEs) in which the entity holds a variable interest no later than the end of the first reporting period ending after December 15, 2003. FIN 46R may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. FIN 46 and FIN 46R provide guidance on the identification of entities controlled through means other than voting rights. FIN 46 and FIN 46R specify how a business enterprise should evaluate its interest in a variable interest entity to determine whether to consolidate that entity. A variable interest entity must be consolidated by its primary beneficiary if the entity does not effectively disperse risks among the parties involved. The Company adopted FIN 46 and FIN 46R as of December 31, 2003. The adoption of FIN 46 and FIN 46R did not have a significant effect on the Company's consolidated financial statement.

Provident Financial Services, Inc. and Subsidiary

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Provident Financial Services, Inc. common stock trades on the New York Stock Exchange (NYSE) under the symbol "PFS." Trading in the Company's common stock commenced on January 16, 2003.

As of December 31, 2003, there were 61,538,300 shares of Provident Financial Services, Inc. common stock issued and 60,600,100 shares outstanding and approximately 5,174 stockholders of record.

The table below shows the high and low closing prices reported on the NYSE for Provident Financial Services, Inc. common stock, as well as the cash dividends paid per common share during the periods indicated in 2003. Shares of common stock of Provident Financial Services, Inc., were sold in a subscription offering at $10.00 per share in connection with the conversion of The Provident Bank from a mutual savings bank to a stock savings bank completed on January 15, 2003.

	High	Low	Dividend
First Quarter	$15.85	$15.00	$N/A
Second Quarter	19.11	15.80	0.04
Third Quarter	20.74	18.32	0.05
Fourth Quarter	21.36	18.90	0.05

On January 22, 2004, the Board of Directors of Provident Financial Services, Inc. declared a quarterly cash dividend of $0.06 per common share, which was paid on February 27, 2004, to common stockholders of record as of the close of business on February 13, 2004. The Company's Board of Directors intends to review the payment of dividends quarterly and plans to continue to maintain a regular quarterly dividend in the future, subject to financial condition, results of operations, tax considerations, industry standards, economic conditions, regulatory restrictions that affect the payment of dividends by The Provident Bank to Provident Financial Services, Inc. and other relevant factors.

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

Provident Financial Services, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands, except per share data)	December 31, 2003	December 31, 2002
ASSETS		
Cash and due from banks	**$ 106,228**	$ 101,352
Federal funds sold	**—**	73,000
Short-term investments	**69,624**	90,503
Total cash and cash equivalents	**175,852**	264,855
Investment securities (market value of $524,429 and $221,435 at December 31, 2003 and December 31, 2002, respectively)	**517,789**	216,119
Securities available for sale, at fair value	**1,151,829**	1,242,118
Federal Home Loan Bank Stock	**34,585**	13,356
Loans	**2,237,367**	2,052,855
Less allowance for loan losses	**20,631**	20,986
Net loans	**2,216,736**	2,031,869
Other Real Estate Owned, net	**41**	—
Banking premises and equipment, net	**46,741**	44,005
Accrued interest receivable	**16,842**	15,842
Intangible assets	**23,938**	25,405
Bank-owned life insurance	**71,506**	47,659
Other assets	**29,019**	17,980
Total assets	**$4,284,878**	$3,919,208
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	**$ 774,988**	$1,269,421
Savings deposits	**987,877**	922,404
Certificates of deposit of $100,000 or more	**148,306**	160,867
Other time deposits	**784,805**	890,642
Total deposits	**2,695,976**	3,243,334
Mortgage escrow deposits	**11,061**	9,582
Borrowed funds	**736,328**	323,081
Other liabilities	**24,394**	17,202
Total liabilities	**3,467,759**	3,593,199
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, 61,538,300 shares issued and 60,600,100 shares outstanding at December 31, 2003 and 0 shares issued and outstanding at December 31, 2002, respectively	**615**	—
Additional paid-in capital	**606,541**	—
Retained earnings	**324,250**	314,111
Accumulated other comprehensive income	**6,416**	11,898
Less: Unallocated common stock held by Employee Stock Ownership Plan	**(78,816)**	—
Less: Common stock acquired by the Stock Award Plan	**(41,887)**	—
Total stockholders' equity	**817,119**	326,009
Total liabilities and stockholders' equity	**$4,284,878**	$3,919,208

See accompanying notes to consolidated financial statements.

Provident Financial Services, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	Years Ended December 31, 2003	2002	2001
Interest income:			
Real estate secured loans	**$ 84,307**	$ 93,893	$105,659
Commercial loans	**20,711**	18,894	18,771
Consumer loans	**18,432**	21,167	24,314
Investment securities	**17,708**	5,323	5,784
Securities available for sale	**41,639**	36,465	25,337
Other short-term investments	**463**	281	174
Federal funds	**1,246**	1,284	940
Total interest income	**184,506**	177,307	180,979
Interest expense:			
Deposits	**39,171**	54,837	75,289
Borrowed funds	**15,462**	8,404	9,234
Total interest expense	**54,633**	63,241	84,523
Net interest income	**129,873**	114,066	96,456
Provision for loan losses	**1,160**	12,800	1,900
Net interest income after provision for loan losses	**128,713**	101,266	94,556
Non-interest income:			
Fees	**16,325**	15,144	14,234
Net gain on securities transactions	**1,116**	960	94
Commissions	**280**	1,201	1,011
Bank-owned life insurance	**3,847**	2,869	2,756
Other income	**2,266**	3,973	3,141
Total non-interest income	**23,834**	24,147	21,236
Non-interest expense:			
Salaries and employee benefits	**54,683**	46,862	40,407
Net occupancy expense	**14,157**	13,220	12,109
Federal deposit insurance	**440**	417	413
Data processing expense	**6,618**	6,080	6,496
Advertising and promotion expense	**3,770**	3,003	3,620
Amortization of intangibles	**3,699**	3,677	4,376
Other operating expenses	**19,412**	15,828	13,208
Contribution to The Provident Bank Foundation	**24,000**	—	—
Total non-interest expenses	**126,779**	89,087	80,629
Income before income tax expense and the cumulative effect of a change in accounting principle	**$ 25,768**	$ 36,326	$ 35,163
Income tax expense	**7,024**	9,231	11,083
Income before the cumulative effect of a change in accounting principle	**18,744**	27,095	24,080
Cumulative effect of a change in accounting principle, net of tax	**—**	(519)	—
Net income	**$ 18,744**	$ 26,576	$ 24,080
Basic earnings per share	**$ 0.31**		
Average basic shares outstanding (from date of conversion) (note 1)	**57,835,726**		
Diluted earnings per share	**$ 0.31**		
Average diluted shares outstanding (from date of conversion) (note 1)	**57,965,640**		

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2003, 2002 and 2001

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Unallocated ESOP Shares	Common Stock Awards Under SAP	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2000	$ —	$ —	$ —	$ —	$263,455	$ (383)	$263,072
Comprehensive Income:							
Net Income					24,080		24,080
Other comprehensive income:							
Unrealized holding gains on securities arising during the period (net of tax of $3,087)						5,036	5,036
Reclassification adjustment for losses included in net income (net of tax of $36)						(58)	(58)
Total Comprehensive Income							29,058
Balance at December 31, 2001	$ —	$ —	$ —	$ —	$287,535	$ 4,595	$292,130
Comprehensive Income:							
Net Income					26,576		26,576
Other comprehensive income:							
Unrealized holding gains on securities arising during the period (net of tax of $5,401)						7,828	7,828
Reclassification adjustment for losses included in net income (net of tax of $362)						(525)	(525)
Total Comprehensive Income							33,879
Balance at December 31, 2002	$ —	$ —	$ —	$ —	$314,111	$11,898	$326,009
Comprehensive Income:							
Net Income					18,744		18,744
Other comprehensive income:							
Unrealized holding loss on securities arising during the period (net of tax of $3,330)						(4,822)	(4,822)
Reclassification adjustment for gains included in net income (net of tax of $456)						(660)	(660)
Total Comprehensive Income							13,262
Sale of Common Stock @ $0.01 par	615	604,752					605,367
Cash Dividends Paid					(8,605)		(8,605)
Purchases of Treasury Stock							
Purchase of ESOP shares			(81,489)				(81,489)
Allocation of ESOP shares		63	2,673				2,736
Purchase of Stock Awards Plan shares				(43,768)			(43,768)
Allocation of Stock Awards Plan shares		37		1,881			1,918
Allocation of stock options		1,689					1,689
Balance at December 31, 2003	**$615**	**$606,541**	**$(78,816)**	**$(41,887)**	**$324,250**	**$ 6,416**	**$817,119**

See accompanying notes to consolidated financial statements.

Provident Financial Services, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended December 31, **2003**	2002	2001
Cash flows from operating activities:			
Net income	$ **18,744**	$ 26,576	$ 24,080
Adjustments to reconcile net income to net cash provided by operating activities:			
Cash contributed to The Provident Bank Foundation	**4,800**	—	—
Depreciation and amortization of intangibles	**9,735**	9,225	9,579
Provision for loan losses	**1,160**	12,800	1,900
Deferred tax benefit	**(9,176)**	(1,537)	(3,302)
Increase in cash surrender value of Bank-Owned Life Insurance	**(3,847)**	(2,869)	(2,756)
Net amortization (accretion) of premiums and discount on securities	**13,614**	(380)	(385)
Accretion of net deferred loan fees	**(859)**	(713)	(1,538)
Amortization of premiums on purchased loans	**924**	905	1,386
Proceeds from sales of other real estate owned, net	**1,793**	299	204
Allocation of ESOP shares	**2,736**	—	—
Allocation of stock award plan shares	**1,918**	—	—
Net gain on sale of loans	**(1,235)**	(2,232)	(1,719)
Proceeds from sale of loans	**92,579**	79,129	80,652
Net gain on securities available for sale	**(1,116)**	(887)	(77)
(Increase) decrease in accrued interest receivable	**(1,000)**	(511)	3,816
Increase in other assets	**(12,601)**	(7,859)	(559)
Increase (decrease) in mortgage escrow deposits	**1,479**	(4,170)	2,176
Increase (decrease) in other liabilities	**7,192**	(9,142)	7,653
Net cash provided by operating activities	**126,840**	98,634	121,110
Cash flows from investing activities:			
Proceeds from maturities, calls and paydown of investment securities	**134,636**	31,635	59,014
Purchases of investment securities	**(438,196)**	(134,909)	(47,951)
Proceeds from sales of securities available for sale	**86,809**	1,041	248
Proceeds from maturities and paydowns of securities available for sale	**1,252,893**	137,295	123,026
Purchases of securities available for sale	**(1,262,421)**	(871,822)	(275,225)
Purchase of Bank-Owned Life Insurance	**(20,000)**	—	—
Net increase in loans	**(279,236)**	(127,421)	(121,416)
Purchases of premises and equipment, net	**(8,770)**	(5,926)	(7,956)
Net cash used in investing activities	**(534,285)**	(970,107)	(270,260)
Cash flows from financing activities:			
Net (decrease) increase in deposits	$ **(547,358)**	$ 901,611	$ 173,387
Proceeds from sale of stock, net	**586,414**	—	—
Purchase of ESOP shares, net	**(81,489)**	—	—
Purchase of Stock Award shares, net	**(43,768)**	—	—
Cash dividends paid to stockholders	**(8,605)**	—	—
Proceeds from FHLB Advances	**499,800**	166,150	77,240
Payments on FHLB Advances	**(75,249)**	(43,700)	(64,816)
Net (decrease) increase in Retail Repurchase Agreements	**(11,303)**	4,864	3,440
Net cash provided by financing activities	**318,442**	1,028,925	189,251
Net (decrease) increase in cash and cash equivalents	**(89,003)**	157,452	40,101
Cash and cash equivalents at beginning of period	**264,855**	107,403	67,302
Cash and cash equivalents at end of period	$ **175,852**	$ 264,855	$ 107,403
Cash paid during the period for:			
Interest on deposits and borrowings	$ **54,633**	$ 63,242	$ 84,988
Income taxes	$ **15,779**	$ 11,650	$ 12,100
Non-cash investing activities:			
Transfer of loans receivable to other real estate owned	$ **1,834**	$ 299	$ —
Common stock contributed to the Provident Bank Foundation	$ **19,200**	$ —	$ —

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Provident Financial Services, Inc. (the "Company"), The Provident Bank (the "Bank") and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Business

The Company, through its subsidiary, provides a full range of banking services to individual and corporate customers through branch offices in New Jersey. The Bank is subject to competition from other financial institutions and to the regulations of certain federal and state agencies, and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation

The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the 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 consolidated balance sheets and revenues and expenses for the periods then ended. Actual results could differ from those estimates.

A material estimate that is particularly susceptible to change in the near term relates to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties.

Federal Home Loan Bank of New York Stock

The Bank, as a member of the Federal Home Loan Bank of New York (FHLB), is required to hold shares of capital stock of the FHLB at cost based on a specified formula. The Bank carries this investment at cost which approximates market value.

Securities

Securities include investment securities and securities available for sale. Securities that an entity has the positive intent and ability to hold to maturity are classified as "investment securities" and reported at amortized cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as "securities available for sale" and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of equity, net of deferred taxes. Gains or losses on the sale of securities are based upon the specific identification method.

Loans

Mortgages on real estate and other loans are stated at the face amount of the loans. Unearned income on discounted loans, principally lease financing loans, is generally included in income based on the rule of seventy-eights method, which approximates the level yield method. Accrued interest on loans that are contractually 90 days or more past due or when collection of interest appears doubtful is reversed and charged against interest income. Income is subsequently recognized only to the extent cash payments are received and the principal balance is expected to be recovered. Such loans are restored to an accrual status only if the loan is brought contractually current and the borrower has demonstrated the ability to make future payments of principal and interest.

An impaired loan is defined as a loan for which it is probable, based on current information, that the lender will not collect amounts due under the contractual terms of the loan agreement. The Bank has identified the population of impaired loans, as defined, to be all commercial loans as well as residential mortgage loans greater than $500,000. Impaired loans are individually assessed to determine that each loan's carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows.

Loan Origination and Commitment Fees and Related Costs

Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized in interest income over the estimated lives of the specifically identified loans adjusted for prepayments.

Allowance for Loan Losses

Losses on loans are charged to the allowance for loan losses. Additions to this allowance are made by recoveries of loans previously charged off and by a provision charged to expense. The determination of the balance of the allowance for loan losses is based on an analysis of the loan portfolio, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate allowance.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans and real estate, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the Bank's market area.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank 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.

Banking Premises and Equipment

Land is carried at cost. Banking premises, furniture, fixtures and equipment are carried at cost, less accumulated depreciation, computed using the straight-line method based on their estimated useful lives (generally 25 to 40 years for buildings and 3 to 5 years for furniture and equipment). Leasehold improvements, carried at cost, net of accumulated amortization, are amortized over the terms of the leases or the estimated useful lives of the assets, whichever are shorter, using the straight-line method. Maintenance and repairs are charged to expense as incurred.

Other Real Estate Owned

Other real estate owned is property acquired through foreclosure or deed in lieu of foreclosure. These properties are carried at fair value, less estimated costs to sell. Fair market value is generally based on recent appraisals. When a property 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 real estate owned has been established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Real estate owned is 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.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Trust Department

Trust assets consisting of securities and other property (other than cash on deposit held by the Bank in fiduciary or agency capacities for customers of the Trust Department) are not included in the accompanying consolidated statements of condition because such properties are not assets of the Bank.

Intangible Assets

Intangible assets of the Bank consist of goodwill, core deposit premiums, and mortgage servicing rights. Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired through purchase acquisitions. The amortization of goodwill was on a straight-line basis over a period of 20 years and was included in other operating expenses prior to the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002. After adoption of SFAS No. 142, the amortization of goodwill with an indefinite useful life has ceased, and the remaining balance is evaluated for impairment on an annual basis.

Core deposit premiums represent the intangible value of depositor relationships assumed in purchase acquisitions and are amortized on a straight-line basis over a period of ten years. Mortgage servicing rights are recorded when purchased or originated mortgage loans are sold, with servicing rights retained. The amortization of the mortgage servicing rights is on an accelerated basis, adjusted for prepayments. Mortgage servicing rights are carried at fair value. The amortization of the core deposit premiums and mortgage servicing rights is recorded in other operating expenses.

Employee Benefit Plans

The Bank maintains a pension plan which covers substantially all employees. The Bank's policy is to fund at least the minimum contribution required by the Employee Retirement Income Security Act of 1974. On April 1, 2003, The Provident Bank pension plan was frozen.

The Bank has a savings incentive plan covering substantially all employees of the Bank. For the first quarter of 2003, the Bank matched 100% of the total amount contributed by the participants, and for the remainder of the year, the Bank matched 75% of the first 6% contributed by the participants.

The employee stock ownership plan (ESOP) is accounted for in accordance with the provisions of Statement of Position 93-6, "Employer Accounting for Employee Stock Ownership Plans." The funds borrowed by the ESOP from the Company to purchase Provident Financial Services, Inc. common stock are being repaid from the Bank's contributions and dividends paid on unallocated ESOP shares over a period of up to 30 years. Provident Financial Services, Inc. common stock not allocated to participants is recorded as a reduction of stockholders' equity at cost. Compensation expense for the ESOP is based on the average price of our stock during each quarter.

The Company's stock option plan is accounted for in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." The Stock Award Plan (SAP) is accounted for in accordance with the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related Interpretations. Accordingly, compensation expense has been recognized for the stock option plans. Expense for the SAP in the amount of the fair value of the common stock at the date of grant is recognized ratably over the vesting period. Unvested and unallocated SAP shares are recorded as a reduction of stockholders' equity at cost.

Post-retirement Benefits Other Than Pensions

The Bank provides post-retirement health care and life insurance plans to its employees. The life insurance coverage is noncontributory to the participant. Participants contribute to the cost of medical coverage based on the employee's length of service with the Bank.

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. On December 31, 2002, the Bank eliminated the post-retirement benefits for employees with less than 10 years of service.

Comprehensive Income

Comprehensive income is divided into net income and other comprehensive income. Other comprehensive income includes items previously recorded directly to equity, such as unrealized gains and losses on securities available for sale. Comprehensive income is presented in the statements of changes in equity.

Segment Reporting

The Company's operations are solely in the financial services industry and include providing to its customers traditional banking and other financial services. The Company operates primarily in the geographical regions of Northern and Central New Jersey. Management makes operating decisions and assesses performance based on an ongoing review of the Bank's consolidated financial results. Therefore, the Company has a single operating segment for financial reporting purposes.

Recent Accounting Pronouncements

On July 20, 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies the criteria acquired intangible assets must meet to be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets."

The Bank adopted the provisions of SFAS No. 141 upon issuance. The initial adoption of SFAS No. 141 had no impact on the Bank's consolidated financial statements. The Bank adopted SFAS No. 142 effective January 1, 2002. In accordance with SFAS No. 142, the Bank tests its intangible assets with indefinite useful lives for impairment annually on June 30. In accordance with the transitional provisions of SFAS No. 142, impairment is recognized as a cumulative effect of a change in accounting principle.

SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," was issued on April 30, 2003. The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. This Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this Statement did not have a significant effect on the Company's consolidated financial statements.

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," was issued in May 2003. SFAS No. 150 requires instruments within its scope to be classified as a liability (or, in some cases, as an asset). SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 (i.e., July 1, 2003 for calendar year entities). For financial instruments created before June 1, 2003 and still existing at the beginning of the interim period of adoption, transition generally should be applied by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instruments at fair value or other measurement attributes of the Statement. The adoption of SFAS No. 150 did not have a significant effect on the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirement of Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 addresses disclosures to be made by a guarantor in its financial statements about its obligations under guarantees. The interpretation also requires the recognition, at estimated fair value, of a liability by the guarantor at the inception of certain guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 were effective for financial statements of interim or annual periods ending after December 15, 2002. The recognition and measurement provisions are applicable prospectively to guarantees issued or modified after December 31, 2002. The adoption of this interpretation did not have a material impact on the Company's consolidated financial statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) was issued in January 2003 and was reissued as FASB Interpretation No. 46 (revised December 2003) (FIN 46R). For public entities, FIN 46R is applicable to all special-purpose entities (SPEs) in which the entity holds a variable interest no later than the end of the first reporting period ending after December 15, 2003. FIN 46R may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. FIN 46 and FIN 46R provide guidance on the identification of entities controlled through means other than voting rights. FIN 46 and FIN 46R specify how a business enterprise should evaluate its interest in a variable interest entity to determine whether to consolidate that entity. A variable interest entity must be consolidated by its primary beneficiary if the entity does not effectively disperse risks among the parties involved. The Company adopted FIN 46R as of December 31, 2003. The adoption of FIN 46 and FIN 46R did not have a significant effect on the Company's consolidated financial statement.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, federal funds sold and commercial paper.

Bank-Owned Life Insurance

Bank-owned life insurance (BOLI) is accounted for using the cash surrender value method and is recorded at its realizable value. The change in the net asset value is included in other assets and other non-interest income.

Reclassifications

Certain reclassifications have been made to the 2002 and 2001 consolidated financial statements to conform to the presentation adopted in 2003.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or resulted in the issuance of common stock. These potentially dilutive shares would then be included in the weighted average number of shares outstanding for the period using the treasury stock method. Shares issued and shares reacquired during the period are weighted for the portion of the period that they were outstanding.

(2) STOCKHOLDERS' EQUITY AND PENDING ACQUISITIONS

Stockholders' Equity

On April 26, 2002, the Board of Managers of the Bank approved a Plan of Conversion ("the Plan"), which provided for the conversion of the Bank from a New Jersey-chartered mutual savings bank to a New Jersey-chartered stock savings bank, pursuant to the rules and regulations of the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. As part of the conversion, the Plan provided for the formation of the Company, which would own 100% of the common stock of the Bank following the conversion. The Bank received approval of the Plan from the New Jersey Commissioner of Banking and Insurance and the Federal Deposit Insurance Corporation. The Federal Reserve Board approved the establishment of the Company as the holding company for the Bank. The Plan was approved at a Special Meeting of Depositors on January 7, 2003.

On January 15, 2003, the Bank completed the Plan, and the Bank became a wholly-owned subsidiary of the Company. The Company sold 59.6 million shares of common stock (par value $0.01 per share) at $10.00 per share. The Company received proceeds in the amount $586.4 million, net of $10.0 million of direct costs incurred during the offering. The Company's common stock commenced trading on January 16, 2003 on the New York Stock Exchange under the symbol PFS. At December 31, 2002, the Company had no assets or liabilities and had no business operations. Currently, the Company's activities consist solely of managing the Bank and investing its portion of the net proceeds received in the subscription offering.

In connection with the Bank's commitment to its community, the Plan provided for the establishment of a charitable foundation as part of the conversion. Provident donated to the foundation $4.8 million in cash and 1.92 million of authorized but unissued shares of common stock, which amounted to $24 million in aggregate. The Company recognized an expense, net of income tax benefit, equal to the cash and fair value of the stock during 2003.

Conversion costs were deferred and deducted from the proceeds of the shares sold in the offering.

Upon completion of the Plan, a "liquidation account" was established in an amount equal to the total equity of the Bank as of the latest practicable date prior to the conversion. The liquidation account was established to provide a limited priority claim to the assets of the Bank to "eligible account holders" and "supplemental eligible account holders," as defined in the Plan, who continue to maintain deposits in the Bank after the conversion. In the unlikely event of a complete liquidation of the Bank, and only in such event, each eligible account holder and supplemental eligible account holder would receive a liquidation distribution, prior to any payment to the holder of the Bank's common stock. This distribution would be based upon each eligible account holder's and supplemental eligible account holder's proportionate share of the then total remaining qualifying deposits. At December 31, 2003, the liquidation account, which is an off-balance-sheet memorandum account, amounted to $302.6 million.

Pending Acquisitions

On December 22, 2003, the Company entered into an agreement under which First Sentinel Bancorp, Inc. will merge into Provident Financial Services, Inc. and First Savings Bank, the wholly-owned subsidiary of First Sentinel, will merge into The Provident Bank. Consideration will be paid to First Sentinel stockholders in a combination of stock and cash valued at approximately $642.0 million. The transaction is subject to regulatory and shareholder approvals.

(3) CASH AND DUE FROM BANKS

Included in cash on hand and due from banks at December 31, 2003 and 2002 is $2,882,000 and $5,158,000, respectively, representing reserves required by banking regulations.

(4) INVESTMENT SECURITIES HELD TO MATURITY

Investment securities held to maturity at December 31, 2003 and 2002 are summarized as follows (in thousands):

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government Agency Collateralized mortgage obligations	**$207,897**	**$2,177**	**$ (267)**	**$209,807**
State and municipal	**212,293**	**5,434**	**(1,664)**	**216,063**
Corporate and other	**97,599**	**966**	**(6)**	**98,559**
	$517,789	**$8,577**	**$(1,937)**	**$524,429**

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government Agency Collateralized mortgage obligations	$ 85,833	$ 952	$ —	$ 86,785
State and municipal	94,267	4,356	(41)	98,582
Corporate and other	36,019	90	(41)	36,068
	$216,119	$5,398	$ (82)	$221,435

The Bank generally purchases securities for long-term investment purposes, and differences between carrying and market values may fluctuate during the investment period. In the opinion of management, the Bank expects to recover carrying values by retaining investment securities until their maturity or until such recovery has taken place.

Investment securities having a carrying value of $-0- and $6,001,000 at December 31, 2003 and 2002, respectively, are pledged to qualify for fiduciary powers to secure deposits as required by law.

The amortized cost and market value of investment securities at December 31, 2003 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.

	2003	
	Amortized Cost	Market Value
Due in one year or less	$169,587	$171,228
Due after one year through five years	157,029	159,421
Due after five years through ten years	94,172	96,750
Due after ten years	97,001	97,030
	$517,789	$524,429

The following table represents the Company's disclosure on investments in debt securities that are accounted under FAS 115, "Accounting for Certain Investments in Debt and Equity Securities," with temporary impairment (in thousands).

	December 31, 2003 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
U.S. Government Agency Collateralized mortgage obligations	$ 25,262	$ (267)	$—	$—	$ 25,262	$ (267)
State and municipal	77,450	(1,664)	—	—	77,450	(1,664)
Corporate and other	13,052	(6)	—	—	13,052	(6)
	$115,764	$(1,937)	$—	$—	$115,764	$(1,937)

Securities with unrealized loss positions listed in this disclosure do not represent impairments that are other than temporary. The credit ratings of all securities represented in the above table comply with the standards set in the Investment Policies of the Company and the Bank. The temporary loss position is the result of changes in interest rates relative to the coupon of the individual security.

(5) SECURITIES AVAILABLE FOR SALE

Securities available for sale at December 31, 2003, and 2002 are summarized as follows (in thousands):

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government and agency obligations	**$ 125,913**	**$ 707**	**$ (4)**	**$ 126,616**
U.S. Government agency MBS	**837,113**	**3,908**	**(4,567)**	**836,454**
Corporate and other	**177,908**	**11,117**	**(266)**	**188,759**
	$1,140,934	**$15,732**	**$(4,837)**	**$1,151,829**

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government and agency obligations	$ 515,193	$ 2,045	$ (9)	$ 517,229
U.S Government agency MBS	561,452	10,504	(156)	571,800
Corporate and other	145,358	7,731	0	153,089
	$1,222,003	$20,280	$ (165)	$1,242,118

Securities available for sale having a carrying value of $331,157,000 and $95,188,000 at December 31, 2003 and 2002, respectively, are pledged to secure other borrowings and securities sold under repurchase agreements.

The amortized cost and market value of securities available for sale at December 31, 2003, 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.

	2003	
	Amortized Cost	Market Value
Due in one year or less	$ 374,908	$ 375,802
Due after one year through five years	512,095	516,843
Due after five years through ten years	151,682	151,271
Due after ten years	102,249	107,913
	$1,140,934	$1,151,829

Proceeds from the sale of securities available for sale during 2003 were $86,809,000, resulting in gross gains and gross losses of $1,294,000 and $178,000, respectively. Proceeds from the sale of securities available for sale during 2002 were $1,041,000, resulting in gross gains and gross losses of $960,000 and $0, respectively. During 2001, proceeds from the sale of securities available for sale were $248,000, resulting in gross gains and gross losses of $121,000 and $27,000, respectively.

The following table represents the Company's disclosure on investments in debt and marketable equity securities that are accounted under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," with temporary impairment (in thousands).

	December 31, 2003 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
U.S. Government Agency Collateralized mortgage obligations	$430,657	$(4,571)	$—	$—	$430,657	$(4,571)
Corporate and other	14,906	(266)	—	—	14,906	(266)
	$445,563	$(4,837)	$—	$—	$445,563	$(4,837)

Securities with unrealized loss positions listed in this disclosure do not represent impairments that are other than temporary. The credit ratings of all securities represented in the above table comply with the standards set in the Investment Policies of the Company and the Bank. The temporary loss position is the result of changes in interest rates relative to the coupon of the individual security.

(6) LOANS

Loans receivable at December 31, 2003 and 2002 are summarized as follows (in thousands):

	2003	2002
Mortgage loans:		
Residential	**$1,044,788**	$ 699,469
Commercial	**449,092**	444,249
Multifamily	**90,552**	77,006
Commercial construction	**99,072**	96,028
Total mortgage loans	**1,683,504**	1,316,752
Mortgage warehouse loans	**4,148**	276,383
Commercial loans	**246,606**	183,410
Consumer loans	**300,825**	275,812
	551,579	735,605
Premium on purchased loans	**5,411**	2,123
Less unearned discount	**1,547**	—
Less net deferred fees	**1,580**	1,625
	$2,237,367	$2,052,855

The premium on purchased loans is amortized using the effective interest method as payments are received. Required reductions due to loan prepayments are charged against interest income. For the years ended December 31, 2003, 2002 and 2001, $924,000, $905,000 and $1,386,000, respectively, was charged to interest income as a result of prepayments and normal amortization.

Included in loans are loans for which the accrual of interest income has been discontinued due to a deterioration in the financial condition of the borrowers. The principal amount of these nonaccrual loans is $6,128,000 and $8,512,000 at, December 31, 2003, and 2002, respectively.

If the nonaccrual loans had performed in accordance with their original terms, interest income would have increased by $589,000, $651,000 and $653,000, for years 2003, 2002 and 2001, respectively. At December 31, 2003, there are no commitments to lend additional funds to borrowers whose loans are in nonaccrual status.

At December 31, 2003 and 2002, the impaired loan portfolio is primarily collateral dependent and totals $-0- and $1,366,000, respectively, for which general and specific allocations to the allowance for loan losses of $-0- and $32,000, respectively, are identified. The average balance of impaired loans during the years ended December 31, 2003, 2002 and 2001 was $-0- and $1,382,000, and $1,417,000 respectively. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2003 and 2002 was insignificant for the respective periods.

Loans serviced for others are not included in the accompanying consolidated statements of condition. The unpaid principal balances of loans serviced for others was approximately $183,545,000 and $334,342,000, at December 31, 2003 and 2002, respectively.

The Bank, in the normal course of conducting its business, extends credit to meet the financing needs of its customers through commitments. Commitments and contingent liabilities, such as commitments to extend credit (including loan commitments of $396,870,000 and $368,211,000, at December 31, 2003 and 2002, respectively, and undisbursed home equity and personal credit lines of $74,071,000 and $51,721,000, December 31, 2003 and 2002, respectively), exist which are not reflected in the accompanying consolidated financial statements. These instruments involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. The Bank uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet loans. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the borrower.

The Bank grants residential real estate loans on single and multifamily dwellings to borrowers throughout New Jersey. Its borrowers' abilities to repay their obligations are dependent upon various factors, including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral, and priority of the Bank's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Bank's control; the Bank is therefore subject to risk of loss. The Bank believes that its lending policies and procedures adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks. Collateral and/or guarantees are required for virtually all loans.

(7) ALLOWANCE FOR LOAN LOSSES

The activity in the allowance for loan losses for the years ended December 31, 2003, 2002 and 2001 is as follows (in thousands):

	Years Ended December 31		
	2003	2002	2001
Balance at beginning of period	**$20,986**	$ 21,909	$20,198
Provision charged to operations	**1,160**	12,800	1,900
Recoveries of loans previously charged off	**2,871**	1,197	773
Loans charged off	**(4,386)**	(14,920)	(962)
Balance at end of period	**$20,631**	$ 20,986	$21,909

During 2002, the Bank charged off $12.5 million related to a $20.6 million warehouse loan, resulting from an alleged fraud involving a mortgage warehouse borrower.

(8) BANKING PREMISES AND EQUIPMENT

A summary of banking premises and equipment at December 31, 2003 and 2002 is as follows (in thousands):

	2003	2002
Land	$ 6,394	$ 6,394
Banking premises	42,033	38,632
Furniture, fixtures and equipment	28,224	23,911
Leasehold improvements	11,473	8,925
Construction in progress	1,787	3,300
	89,911	81,162
Less accumulated depreciation and amortization	43,170	37,157
	$46,741	$44,005

Depreciation expense for the years ended December 31, 2003, 2002 and 2001 amounted to $6,036,000, $5,548,000 and $5,203,000, respectively.

(9) INTANGIBLE ASSETS

Intangible assets at December 31, 2003 and 2002 are summarized as follows (in thousands):

	2003	2002
Goodwill	$19,908	$19,908
Core deposit premiums	2,982	2,702
Mortgage servicing rights	1,048	2,795
	$23,938	$25,405

Amortization expense of intangible assets, for the years ended December 31, 2003, 2002 and 2001 is as follows (in thousands):

	2003	2002	2001
Goodwill amortization	$ —	$ 55	$1,340
Core deposit premiums	1,149	1,046	1,030
Mortgage servicing rights	2,550	2,576	2,006
	$3,699	$3,677	$4,376

As of December 31, 2001, the Bank had unamortized goodwill in the amount of $20.0 million as a result of the acquisition of financial institutions for which the amortization ceased upon the adoption of Statement No. 142 and $0.5 million resulting from the acquisition of a mortgage banking company in 2001. During 2002, in connection with the implementation of the provision of SFAS No. 142, the Bank determined that the carrying amount of the $519,000 of goodwill related to the acquisition of the mortgage company was impaired, and recognized the impairment as a cumulative effect of a change in accounting principle.

If SFAS No. 142 had been adopted on January 1, 2001, net income would have increased as a result of ceasing the amortization of goodwill by $1,171,000 for the year ended December 31, 2001.

(10) DEPOSITS

Deposits at December 31, 2003 and 2002 are summarized as follows (in thousands):

	2003	Weighted Average Interest Rate	2002	Weighted Average Interest Rate
Savings deposits	$ 987,877	1.24%	$ 922,404	1.76%
Money market accounts	116,176	1.60	101,489	1.83
NOW accounts	329,997	1.04	309,281	1.20
Non-interest bearing deposits	328,815	—	858,651	—
Certificates of deposit	933,111	2.40	1,051,509	3.32
	$2,695,976		$3,243,334	

Scheduled maturities of certificates of deposit accounts at December 31, 2003 and 2002 are as follows (in thousands):

	2003	2002
Within one year	$709,087	$ 870,285
One to three years	145,097	131,523
Three to five years	75,022	47,294
Five years and thereafter	3,905	2,407
	$933,111	$1,051,509

Interest expense on deposits for the years ended December 31, 2003, 2002 and 2001 is summarized as follows (in thousands):

	Years Ended December 31		
	2003	2002	2001
Savings deposits	$11,839	$14,459	$15,966
NOW and money market accounts	3,590	4,897	4,703
Certificates of deposits	23,742	35,481	54,620
	$39,171	$54,837	$75,289

(11) BORROWED FUNDS

Borrowed funds at, December 31, 2003 and 2002 is summarized as follows (in thousands):

	2003	2002
Securities sold under repurchase agreements	$ 44,663	$ 55,967
FHLB line of credit	65,000	—
FHLB advances	626,665	267,114
	$736,328	$323,081

FHLB advances are at fixed rates and mature between January 30, 2004 and November 13, 2018. These advances are secured by investment securities and loans receivable under a blanket collateral agreement.

Scheduled maturities of FHLB advances at December 31, 2003 are as follows (in thousands):

	2003
Within one year	$139,467
Within two years	144,536
Within three years	119,369
Within four years	98,457
Within five years	124,333
Thereafter	503
	$626,665

The following tables set forth certain information as to borrowed funds for the period ended December 31, 2003 and 2002 (in thousands):

	Maximum Balance	Average Balance	Weighted Average Interest Rate
2003:			
Securities sold under repurchase agreements	**$ 54,580**	**$ 49,216**	**0.84%**
FHLB line of credit	**65,000**	**3,602**	**1.11%**
FHLB advances	**$626,665**	**$514,914**	**2.91%**
2002:			
Securities sold under repurchase agreements	$ 55,967	$ 47,600	1.50%
FHLB line of credit	—	—	—
FHLB advances	$267,114	$157,300	3.88%

Securities sold under repurchase agreements are arrangements with deposit customers of the Bank to sweep funds into short-term borrowings. The Bank uses securities available for sale to pledge as collateral for the repurchase agreements. These securities are held at and under the control of the Bank. The securities sold under repurchase agreements have maturity dates within 30 days. At December 31, 2003 and 2002, the Bank had an unused line of credit with the FHLB of $35,000,000 and $100,000,000, respectively.

(12) BENEFIT PLANS

The Bank has a noncontributory defined benefit pension plan covering all of its employees who have attained age 21 with at least one year of service. The plan was frozen on April 1, 2003. The plan provides for 100% vesting after five years of service. The plan's assets are invested in group annuity contracts and investment funds managed by the Prudential Insurance Company and Allmerica Financial.

In addition to pension benefits, certain health care and life insurance benefits are made available to 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.

The following table shows the change in benefit obligation, the change in plan assets and the funded status for the pension plan and post-retirement health care plan and the accumulated benefit obligation at the measurement dates, December 31, 2003, 2002 and 2001 (in thousands):

	Pension			Post-Retirement		
	2003	2002	2001	**2003**	2002	2001
Change in benefit obligation:						
Benefit obligation at beginning of year	**$ 31,148**	$ 25,690	$19,035	**$ 19,962**	$ 17,934	$ 14,361
Plan amendment	**(11,915)**	625	—	**(3,062)**	—	—
Service cost	**415**	1,479	1,077	**397**	1,125	803
Interest cost	**1,579**	1,929	1,620	**1,051**	1,192	1,105
Actuarial loss (gain)	**3,824**	1,470	1,452	**(1,099)**	(652)	(325)
Benefits paid	**(3,018)**	(1,171)	(845)	**(327)**	(359)	(349)
Change in actuarial assumptions	**—**	1,126	3,351	**1,269**	722	2,339
Benefit obligation at end of year	**$ 22,033**	$ 31,148	$25,690	**$ 18,191**	$ 19,962	$ 17,934
Change in plan assets:						
Fair value of plan assets at beginning of year	**$ 20,510**	$ 16,714	$17,707	**$ —**	$ —	$ —
Actual return on plan assets	**4,842**	(1,707)	(1,116)	**—**	—	—
Employer contributions	**400**	6,674	968	**327**	359	349
Benefits paid	**(3,018)**	(1,171)	(845)	**(327)**	(359)	(349)
Fair value of plan assets at end of year	**$ 22,734**	$ 20,510	$16,714	**$ —**	$ —	$ —
Funded status	**$ 701**	$(10,638)	$ (8,976)	**$(18,191)**	$(19,962)	$(17,934)
Unrecognized transition asset	**—**	—	—	**4,219**	5,024	5,443
Unrecognized prior service cost	**—**	533	(18)	**—**	—	—
Unrecognized net actuarial (gain) loss	**202**	11,881	6,631	**1,049**	879	810
Accrued benefit cost	**$ 903**	$ 1,776	$ (2,363)	**$(12,923)**	$(14,059)	$(11,681)
Accumulated benefit obligation	**22,033**	20,431	16,310	**—**	—	—

Net periodic benefit cost for the years ending December 31, 2003, 2002 and 2001, included the following components (in thousands):

	Pension			Post-Retirement		
	2003	2002	2001	**2003**	2002	2001
Service cost	**$ 415**	$ 1,480	$ 1,077	**$ 397**	$1,125	$ 803
Interest cost	**1,579**	1,929	1,620	**1,051**	1,192	1,105
Expected return on plan assets	**(4,734)**	1,707	1,117	—	—	—
Amortization of:						
Net (loss) gain	**3,480**	(2,655)	(2,543)	—	—	—
Unrecognized prior service cost	**533**	74	27	—	—	—
Unrecognized remaining assets	—	—	(61)	**384**	419	410
Net periodic pension cost	**$ 1,273**	$ 2,535	$ 1,237	**$1,832**	$2,736	$2,318

The weighted average actuarial assumptions used in the plan determinations at December 31, 2003, 2002 and 2001 were as follows:

	Pension			Post-Retirement		
	2003	2002	2001	**2003**	2002	2001
Discount rate	**6.25%**	6.75%	7.00%	**6.25%**	6.75%	7.00%
Rate of compensation increase	**5.50**	5.50	5.50	**5.50**	5.50	5.50
Expected return on plan assets	**8.00**	8.00	8.00	—	—	—
Medical and life insurance benefits cost rate of increase	—	—	—	**8.00**	8.50	9.00

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A 1% change in the assumed health care cost trend rate would have the following effects on post-retirement benefits (in thousands):

	1% increase	1% decrease
Effect on total service cost and interest cost	$ 245	$ (210)
Effect on post-retirement benefits obligation	2,575	(2,250)

The weighted average asset allocation of pension benefit plan assets at December 31 were:

	2003	2002
Asset Category		
Domestic equities	**68%**	66%
Foreign equities	**10%**	10%
U.S. bonds	**10%**	15%
International bonds	**4%**	0%
Real estate	**5%**	6%
Cash	**3%**	3%
Total	**100%**	100%

The Company's expected return on plan assets assumption is based on historical experience and by evaluating input from the trustee managing the plan's assets. The expected return on plan assets is also impacted by the target allocation of assets, which is based on the Company's goal of earning the highest rate of return while maintaining risk at acceptable levels.

The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio. The target allocation of assets and acceptable ranges around the targets are as follows:

	Target	Allowable Range
Asset Category		
Domestic equities	60%	50–70%
Foreign equities	10%	5–17%
U.S. bonds	25%	10–30%
International bonds	0%	0– 5%
Real estate	5%	0–10%
Cash	0%	0–35%
Total	100%	

The Company anticipates that the long-term asset allocation on average will approximate the targeted allocation. Actual asset allocations are the result of investment decisions by a hired investment manager bound by the allowable ranges.

The Provident Bank pension plan was frozen as of April 1, 2003. Based on the measurement date of December 31, 2003, we have determined that no contributions will be made to the pension plan in 2004.

The Bank has a savings incentive plan covering substantially all employees of the Bank. For the first quarter of 2003, the Bank matched 100% of the total amount contributed by the participants, and for the remainder of the year the Bank matched 75% of the first 6% contributed by the participants. The contribution percentage is determined quarterly by the Board of Directors. The Bank's contributions for the years of 2003, 2002, and 2001 were $1,033,000, $1,265,000 and $1,379,000, respectively.

The Bank also maintains a nonqualified supplemental retirement plan for certain senior officers of the Bank. The plan, which is unfunded, provides benefits in excess of that permitted to be paid by the pension plan under provisions of the tax law. Amounts expensed under this supplemental retirement plan amounted to $100,000, $279,000 and $122,000 for the years 2003, 2002 and 2001, respectively. At December 31, 2003, 2002 and 2001, $1,242,000, $1,142,000 and $901,000, respectively, is recorded in other liabilities on the consolidated statements of condition for this supplemental retirement plan.

Employee Stock Ownership Plan

The ESOP is a tax-qualified plan designed to invest primarily in Provident Financial Services, Inc. common stock that provides employees with the opportunity to receive a funded retirement benefit from the Bank, based primarily on the value of the Company's common stock. The ESOP was authorized to purchase, and did purchase, 4,769,464 shares of the Company's common stock at an average price of $17.09 per share with the proceeds of a loan from the Company to the ESOP. The outstanding loan principal at December 31, 2003, was $79.0 million. Those shares are pledged as collateral for the loan and are released from the pledge for allocation to participants as loan payments are made.

For the plan year ending December 31, 2003, there were 148,811 shares that are committed to be released and that will be allocated to participants at the end of the plan year. Unallocated ESOP shares held in suspense totaled 4,620,653 at December 31, 2003, and had a fair market value of $87.3million. ESOP compensation expense for the year ended December 31, 2003, was $2,734,000.

The Supplemental Employee Stock Ownership Plan

This is a non-qualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the employee stock ownership plan's benefit formula. The supplemental payments consist of payments representing shares that cannot be allocated to participants under the ESOP due to legal limitations imposed on tax-qualified plans and, in the case of participants who retire before the repayment in full of the ESOP's loan, payments representing the shares that would have been allocated if employment had continued through the full term of the loan.

The Supplemental Executive Savings Plan

This is a non-qualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the Employee Savings Incentive Plan's formula and the Employee Stock Ownership Plan's formula. The supplemental payments for the Savings Incentive Plan portion of the Supplemental Executive Savings Plan consist of payments representing employee and employer contributions that cannot be allocated to participants under the Savings Incentive Plan due to the limitations imposed on tax-qualified plans. The supplemental payments for the Employee Stock Ownership Plan portion of the Supplemental Executive Savings Plan consist of payments representing shares that cannot be allocated to participants under the ESOP due to legal limitations imposed on tax-qualified plans. The Supplemental Executive Savings Plan was frozen effective on December 31, 2003.

Stock Award Plan

The purpose of the Stock Award Plan (SAP) is to promote the growth and profitability of the Company by providing directors and key employees with an equity interest in the Company as an incentive to achieve corporate goals. The SAP was approved by the Company's stockholders on July 17, 2003. Under the SAP 2,384,732 shares of the Company's common stock are available for awards. The Company has purchased 2,198,200 shares to fund the SAP on the open market at an average price of $19.86 per share as of December 31, 2003.

As a general rule, restricted stock grants granted under the SAP are held in escrow for the benefit of the award recipient until vested. Awards outstanding generally vest in five annual installments commencing one year from the date of the award. As of December 31, 2003, common stock that had not been awarded totaled 1,124,732 shares. Expense attributable to the SAP amounted to $1,918,000 for the year ended December 31, 2003.

A summary status of the granted but unvested shares under the SAP as of December 31, and changes during the year, is presented below:

	Restricted Stock Awards
	2003
Outstanding at beginning of year	—
Granted	1,260,000
Vested	—
Outstanding at the end of year	1,260,000

Stock Option Plan

Each stock option granted entitles the holder to purchase one share of Provident Financial Services, Inc.'s common stock at an exercise price not less than the fair market value of a share of common stock at the date of grant. Options generally vest over a five year period from the date of grant and will expire no later than 10 years following the grant date. Under the Company's stock option plan 5,961,830 shares of Provident Financial Services, Inc. common stock have been reserved for issuance. Directors and employees have been granted 4,953,800 stock options as of December 31, 2003.

A summary of the status of the granted, but unexercised stock options as of December 31, and changes during the year is presented below:

	2003	
	Number of Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	—	—
Granted	4,953,800	$18.57
Exercised	—	—
Forfeited	(10,000)	18.57
Outstanding at the end of year	4,943,800	$18.57

The following table summarizes information about our stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$18.57	4,943,800	9.5 years	$18.57	0	$18.57

The Company applies SFAS No. 123 and related Interpretations in accounting for the stock option plan. Compensation expense for the Company's stock option plan had been determined based on the fair value at the grant date for our stock options consistent with the method of SFAS No. 123. Compensation expense amounting to $1,689,000 had been realized during 2003, related to our stock option plan.

The fair value of the option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the Year Ended December 31,
	2003
Expected dividend yield	1.00%
Expected volatility	15.00%
Risk-free interest rate	2.40%
Expected option life	8 years

(13) INCOME TAXES

The current and deferred amounts of income tax expense (benefit) for the years ended December 31, 2003, 2002 and 2001 are as follows (in thousands):

	Years Ended December 31		
	2003	2002	2001
Current:			
Federal	**$14,048**	$10,168	$14,362
State	**2,152**	600	23
Total current	**16,200**	10,768	14,385
Deferred:			
Federal	**(8,286)**	517	(3,302)
State	**(890)**	(1,023)	—
Change in state deferred tax rate, net	—	(1,031)	—
Total deferred	**(9,176)**	(1,537)	(3,302)
	$ 7,024	$ 9,231	$11,083

The Bank recalculated its deferred tax assets during the third quarter of 2002 as a result of an increase in the statutory tax rate for New Jersey thrifts from 3% to 9% retroactive to January 1, 2002. The new legislation was signed into law during the third quarter of 2002.

The Bank also recorded, in accumulated other comprehensive income, deferred expense (benefit) amounts of ($4,082,000), $5,401,000 and, $3,051,000 during the years 2003, 2002 and 2001, respectively, to reflect the tax effect of the unrealized (loss) gain on securities available for sale.

Reconciliation between the amount of reported total income tax expense and the amount computed by multiplying the applicable statutory income tax rate is as follows (in thousands):

	Years Ended December 31		
	2003	2002	2001
Tax expense at statutory rate of 35%	**$ 9,016**	$12,534	$12,308
Increase (decrease) in taxes resulting from:			
State tax, net of federal income tax benefit	**820**	(945)	15
Tax-exempt income	**(1,968)**	(1,180)	(1,005)
Goodwill	—	—	410
Bank-owned life insurance	**(1,346)**	(1,004)	(965)
Other, net	**502**	(174)	320
	$ 7,024	$ 9,231	$11,083

The net deferred tax asset is included in other assets in the 2003, and 2002 consolidated statements of condition. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are as follows (in thousands):

	2003	2002
Deferred tax assets:		
Deferred fee income	$ 505	$ 407
Allowance for loan losses	8,355	8,487
Post-retirement benefit	6,518	5,799
Deferred compensation	341	343
Pension expense	108	—
Intangibles	2,347	2,053
Depreciation	1,589	2,119
SERP	508	467
Deferred gain	200	267
Contribution carryforward	7,544	—
Stock compensation	1,433	—
Other	739	833
Total gross deferred tax assets	30,187	20,775
Valuation reserve	756	—
Deferred tax liabilities:		
Tax reserves for loan losses	$ —	$ 165
Unrealized gain on securities	4,135	8,217
Investment securities, principally due to accretion of discounts	158	476
Prepaid pension	—	626
Originated mortgage servicing rights	189	486
Other	1,137	251
Total gross deferred tax liabilities	5,619	10,221
Net deferred tax asset	$23,812	$10,554

Legislation was enacted in August 1996 which repealed for tax purposes the reserve method for bad debts. As a result, the Bank must instead use the direct charge-off method to compute its bad debt deduction. The legislation requires the Bank to recapture its post-1987 net additions to its tax bad debt reserves. The Bank has previously provided for this liability in the consolidated financial statements.

Equity at December 31, 2003 includes approximately $33,700,000 for which no provision for income tax has been made. This amount represents an allocation of income to bad debt deductions for tax purposes only. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to shareholders. At December 31, 2003, the Bank has an unrecognized tax liability of $13,800,000 with respect to this reserve.

Management has determined that it is more likely than not that it will realize the deferred tax assets based upon the nature and timing of the items listed above. In order to fully realize the net deferred tax asset, the Bank will need to generate future taxable income. Management has projected that the Bank will generate sufficient taxable income to utilize the net deferred tax asset; however, there can be no assurance as to such levels of taxable income generated.

(14) LEASE COMMITMENTS

On December 28, 2001, the Bank simultaneously sold its office building at 895 Bergen Avenue, Jersey City, New Jersey and agreed in separate lease contracts to lease back office space in this building. The Bank recorded a deferred gain of $818,000 on the sale of this building. This gain is recognized as a reduction of rent expense over the remaining lives of these lease contracts which have a term of five years.

The approximate future minimum rental commitments for all significant noncancellable operating leases at December 31, 2003 are summarized as follows (in thousands):

Year Ending December 31, 2003:	
2004	$ 2,182
2005	2,162
2006	2,191
2007	2,201
Thereafter	25,295
	$34,031

Rental expense was $2,411,000, $$2,269,000 and $1,812,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

(15) COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated financial statements. In the opinion of management, the consolidated financial position of the Company will not be materially affected by the outcome of such commitments or contingent liabilities.

The Bank previously entered into a long-term data processing contract. In exchange for certain data processing services, the Bank paid a fee of $6,191,000, $5,849,000 and $6,257,000 the years ended December 31, 2003, 2002 and 2001, respectively.

A substantial portion of the Bank's loans are one- to four-family residential first mortgage loans secured by real estate located in New Jersey. Accordingly, the collectibility of a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes in real estate market conditions.

The Company entered into employment agreements with three executives upon completion of the conversion. Each of these agreements has a term of thirty-six months. The agreements renew for an additional year beginning on the first anniversary date of the agreement, and on each anniversary date thereafter, so that the remaining term is thirty-six months. In the event the executive's employment is terminated for reasons other than for cause, for retirement or for disability or following a change in control, the executive would be entitled to a lump sum payment equivalent to the greater of: the payments due for the remaining term of the employment agreement, or three times the sum of (i) the highest annual rate of base salary and (ii) the greater of the average bonus paid over the last three years or the cash bonus paid in the last year, as well as continuation of life, medical, dental and disability insurance coverage for three years. The agreements generally provide that following a change in control (as defined in the agreement), the executive will receive the severance payments and insurance benefits described above if he resigns during the one-year period following the change in control or if the executive is terminated during the remaining term of the employment agreement following the change in control. The executives would receive an aggregate of $4.6 million pursuant to the employment agreements upon a change of control of the Company based upon current levels of compensation.

(16) REGULATORY CAPITAL REQUIREMENTS

FDIC regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2003 and 2002, the Bank is required to maintain (i) a minimum leverage ratio of Tier 1 capital to total adjusted assets of 4.0%, and (ii) minimum ratios of Tier 1 and total capital to risk-weighted assets of 4.0% and 8.0%, respectively.

Under its prompt corrective action regulations, the FDIC is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on the institution's financial statements. The regulations establish a framework for the classification of savings institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally, an institution is considered well capitalized if it has a leverage (Tier 1) capital ratio of at least 5.0%; a Tier 1 risk-based capital ratio of at least 6.0%; and a total risk-based capital ratio of at least 10.0%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the FDIC about capital components, risk weightings and other factors.

As of December 31, 2003 and 2002, the Bank meets all capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2003 and 2002, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution. The Bank's actual capital amounts and ratios are also presented in the following table (in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2003:						
Leverage (Tier 1)	**$530,985**	**13.27%**	**$160,015**	**4.0%**	**$200,019**	**5.0%**
Risk-based capital:						
Tier 1	**530,985**	**21.52**	**98,717**	**4.0**	**148,075**	**6.0**
Total	**551,766**	**22.36**	**197,434**	**8.0**	**246,792**	**10.0**

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002 :						
Leverage (Tier 1)	$291,294	8.98%	$129,755	4.0%	$162,194	5.0%
Risk-based capital:						
Tier 1	291,294	12.42	93,799	4.0	140,698	6.0
Total	312,459	13.32	187,598	8.0	234,497	10.0

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Bank disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Bank'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 based on bid quotations received from securities dealers, if available. If a quoted market price is not available, fair value is estimated using quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and nonperforming 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 nonperforming loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows.

Deposits

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

Borrowed Funds

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

Commitments to Extend Credit and Letters of Credit

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

The estimated fair values of the Company's financial instruments as of December 31, 2003, 2002 and 2001 are presented in the following table (in thousands). Since the fair value of off-balance-sheet commitments approximates book value, these disclosures are not included.

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 175,852**	**$ 175,852**	$ 264,855	$ 264,855
Securities available for sale	**1,151,829**	**1,151,829**	1,242,118	1,242,118
Investment securities	**517,789**	**524,429**	216,119	221,435
FHLB stock	**34,585**	**34,585**	13,356	13,356
Loans	**2,216,736**	**2,287,323**	2,031,869	2,135,585
Financial liabilities:				
Deposits	**2,695,976**	**2,699,484**	3,243,334	3,250,663
Borrowed funds	**736,328**	**739,017**	323,081	328,664

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 the mortgage banking operation, 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.

(18) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2003 and 2002. Basic and diluted earnings per share for the year ended December 31, 2003 includes the result of operations from January 15, 2003, the date we completed our conversion.

	2003 Quarter Ended			
(In thousands)	March 31	June 30	September 30	December 31
Interest income	$ 47,178	$47,045	$43,854	$46,429
Interest expense	14,919	14,063	13,117	12,534
Net interest income	32,259	32,982	30,737	33,895
Provision for loan losses	600	300	160	100
Net interest income after provision for loan losses	31,659	32,682	30,577	33,795
Non-interest income	5,477	5,129	6,751	6,477
Non-interest expense	47,529	24,697	25,728	28,825
Income before income tax expense (benefit)	(10,393)	13,114	11,600	11,447
Income tax expense (benefit)	(3,950)	4,276	3,462	3,236
Net income (loss)	$ (6,443)	$ 8,838	$ 8,138	$ 8,211
Basic earnings (loss) per share	(0.12)	0.15	0.14	0.15
Diluted earnings (loss) per share	(0.12)	0.15	0.14	0.15

	2002 Quarter Ended			
(In thousands)	March 31	June 30	September 30	December 31
Interest income	$ 43,718	$44,592	$44,999	$43,998
Interest expense	16,252	15,841	16,039	15,109
Net interest income	27,466	28,751	28,960	28,889
Provision for loan losses	600	600	11,050	550
Net interest income after provision for loan losses	26,866	28,151	17,910	28,339
Non-interest income	6,010	5,930	5,751	6,456
Non-interest expense	22,051	22,575	20,993	23,468
Income before income tax expense (benefit) and the cumulative effect of a change in accounting principle	10,825	11,506	2,668	11,327
Income tax expense (benefit)	3,382	3,404	(983)	3,428
Income before the cumulative effect of a change in accounting principle	7,443	8,102	3,651	7,899
Cumulative effect of a change in accounting principle, net of tax of $0	(519)	—	—	—
Net income	$ 6,924	$ 8,102	$ 3,651	$ 7,899

(19) EARNINGS PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

	For the Year Ended December 31, 2003		
(In thousands, except per share data)	Income	Shares	Per Share Amount
Net income	$17,755	$ —	$ —
Basic earnings per share:			
Income available to common stockholders	$17,755	57,836	$0.31
Effect of dilutive common stock equivalents	—	130	—
Diluted earnings per share:			
Income available to common stockholders	$17,755	$57,966	$0.31

Basic and diluted earnings per share for the year ended December 31, 2003 includes the result of operations from January 15, 2003, the date we completed our conversion.

(20) PARENT-ONLY FINANCIAL INFORMATION

The following condensed Statement of Financial Condition, Statement of Operations, Statement of Changes in Stockholder's Equity and Statement of Cash Flows for the year ended December 31, 2003 are for Provident Financial Services, Inc. (parent company only), and reflects the Company's investment in its wholly-owned subsidiary, the Bank, using the equity method of accounting.

Provident Financial Services, Inc.
Condensed Statement of Financial Condition

(Dollars in thousands, except per share data)	December 31, 2003
ASSETS	
Cash and due from banks	$ 5,356
Federal funds sold	—
Short-term investments	68,966
Total cash and cash equivalents	74,322
Investment securities	—
Securities available for sale, at fair value	100,456
Investment in Subsidiaries	564,973
ESOP Loan	78,990
Accrued interest receivable	200
Other assets	63
Total assets	$819,004
LIABILITIES AND STOCKHOLDERS' EQUITY	
Other liabilities	1,886
Total stockholders' equity	817,118
Total liabilities and stockholders' equity	$819,004

Provident Financial Services, Inc.
Condensed Statement of Income

(Dollars in thousands, except per share data)	January 15, to December 31, 2003
Income:	
Interest Income	$ 2,484
Investment Income	2,917
Total income	5,401
Total non-interest expenses	28,410
(Loss) before income tax expense	(23,009)
Income tax expense	89
(Loss) before equity in undistributed net income of subsidiary	(23,098)
Equity in undistributed net income of subsidiary	41,842
Net income	$ 18,744

Provident Financial Services, Inc.
Condensed Statement of Cash Flows

(Dollars in thousands)	January 15, to December 31, 2003
Cash flows from operating activities:	
Net income	$ 18,744
Adjustments to reconcile net income to equity in undistributed earnings of subsidiary Bank	(41,842)
Cash contributed to The Provident Bank Foundation	4,800
Increase in other assets	(263)
Increase in other liabilities	1,886
Net cash used in operating activities	(16,675)
Cash flows from investing activities:	
Purchases of available for sale securities	(376,616)
Proceeds from sales of available for sale securities	29,257
Proceeds from maturities and paydowns of securities available for sale	243,903
Net increase in ESOP loan	(78,990)
Investment in subsidiary	(304,366)
Net cash used in investing activities	(486,812)
Cash flows from financing activities:	
Proceeds from sale of stock, net	$ 586,414
Cash dividends paid	(8,605)
Net cash provided by financing activities	577,809
Net increase in cash and cash equivalents	74,322
Cash and cash equivalents at beginning of period	—
Cash and cash equivalents at end of period	$ 74,322

See accompanying notes to consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

The Audit Committee of the
Board of Directors
Provident Financial Services, Inc.:

We have audited the accompanying consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Provident Financial Services, Inc. and subsidiary as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 of the Notes to the Consolidated Financial Statements, The Provident Bank adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002.

KPMG LLP

Short Hills, New Jersey
February 25, 2004

BOARD OF DIRECTORS & CORPORATE MANAGEMENT

MANAGEMENT—
Provident Financial Services, Inc.

Paul M. Pantozzi
Chairman of the Board, Chief Executive Officer and President

Kevin J. Ward
Executive Vice President and Chief Operating Officer

Linda A. Niro
Senior Vice President and Chief Financial Officer

John F. Kuntz
General Counsel and Corporate Secretary

Kenneth J. Wagner
Senior Vice President—Investor Relations

MANAGEMENT—
The Provident Bank

Paul M. Pantozzi
Chairman of the Board, Chief Executive Officer and President

Kevin J. Ward
Executive Vice President and Chief Operating Officer

Glenn H. Shell
Executive Vice President

Gregory French
Senior Vice President—Market Development and Delivery and Distribution

C. Gabriel Haagensen
Executive Vice President—Human Capital Management

Linda A. Niro
Senior Vice President and Chief Financial Officer

Donald Blum
Senior Vice President and Chief Lending Officer

John F. Kuntz
Senior Vice President and General Counsel

CORPORATE INFORMATION

Annual Meeting
The annual meeting of stockholders will be held on June 23, 2004 at 10:00 a.m. at the Hilton Newark Airport, 1170 Spring Street, Elizabeth, New Jersey, 07201. Notice of the meeting and a joint proxy statement/ prospectus are included with this mailing to stockholders of record as of April 30, 2004.

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
email: info@rtco.com

Contact Information
Information regarding The Provident Bank and Provident Financial Services, Inc. is available on our web site: www.providentnj.com

Those seeking additional information regarding PFS should contact:
Kenneth J. Wagner
Senior Vice President—Investor Relations
830 Bergen Avenue, Jersey City, NJ 07306
1 (201) 915-5344
email: ken.wagner@providentnj.com

Independent Public Accountants
KPMG LLP
150 JFK Parkway
Short Hills, NJ 07078

Designed by Curran & Connors, Inc. / www.curran-connors.com

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