PROVIDENT FINANCIAL SERVICES, INC.

04

Annual Report

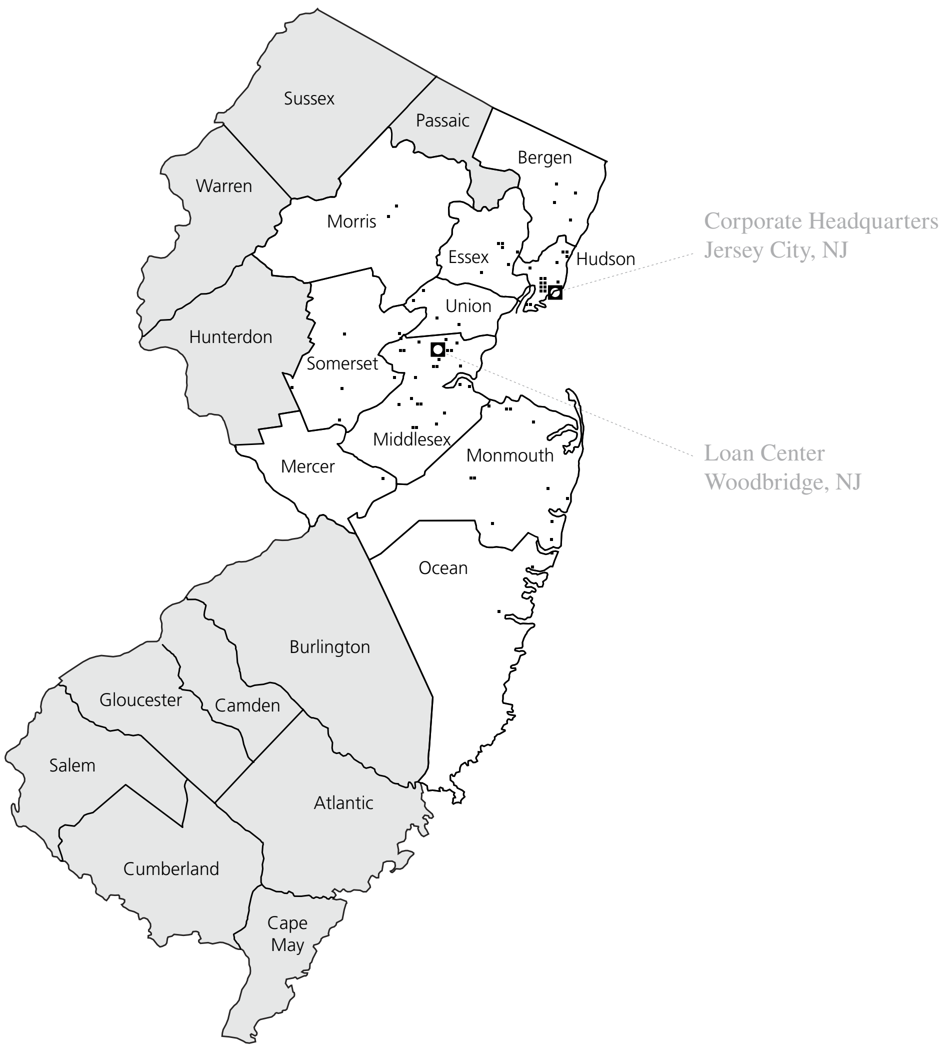
Focused on Performance

Positioned for Success

78

78 branch locations (24 more than last year) and a centralized Loan Center have increased our delivery capabilities to an expanded customer base.

branch locations



Bayonne (2), Belleville, Berkeley Twp., Bloomfield (3), Brick Twp. (2), Bridgewater, Clark, Denville, Dumont, Dunellen, East Brunswick (2), East Windsor, Edison (2), Fanwood, Fords, Freehold (2), Green Brook, Hazlet (2), Highland Park, Hillsborough Twp., Hoboken, Hopelawn, Howell, Iselin, Jackson, Jersey City (8), Kearny, Keyport, Leonia, Manasquan, Metuchen, Milltown, Middletown, Monroe Twp. (2), Montgomery Twp., Morris Plains, New Providence, North Brunswick, Ocean Grove, Ocean Twp., Old Bridge, Oradell, Perth Amboy, Piscataway (2), Point Pleasant Beach, Rocky Hill, Roseland, Somerset, South Amboy, South Orange, South River, Spotswood, Teaneck, Toms River, Union City, Wall Twp., West New York (3), Woodbridge (2) 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

As we accomplish our mission, we will hold ourselves to the highest standards of personal and professional integrity

6.4 b

For the year ended 2004, assets increased 50% to $6.43 billion, and total deposits also increased 50% to $4.05 billion.

3.7 b

Net loans outstanding at year-end 2004 were $3.67 billion, a nearly 66% increase above 2003.

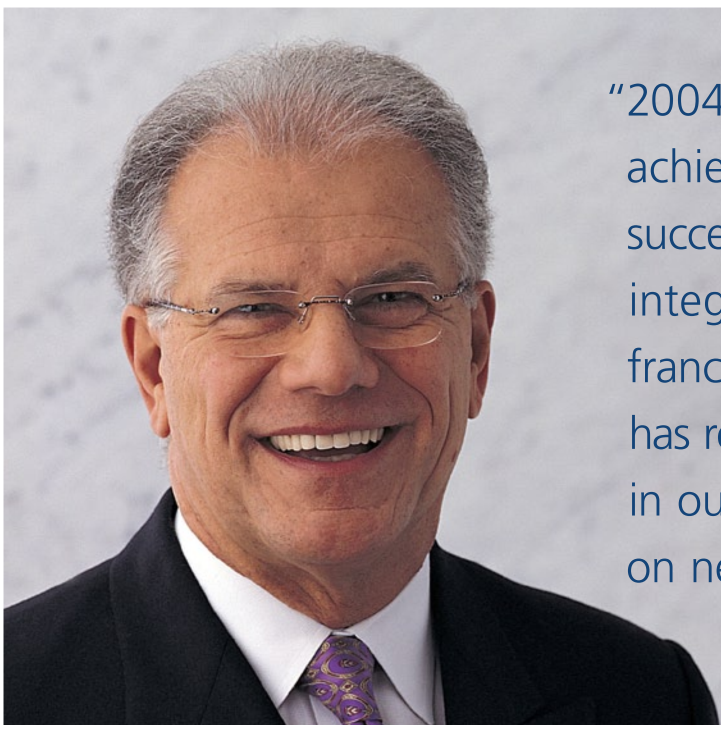
to our stockholders

We are proud to be your company, and I am pleased to report that 2004 was marked by several positive achievements for Provident Financial Services, Inc. Our second year as a public company witnessed significant growth in our asset size, market presence and earnings results.

In July, we completed our acquisition of the former First Sentinel Bancorp, Inc., a strategic combination that has given us a greatly enhanced presence in the vibrant, growing markets of central New Jersey. At year-end 2004, we reported assets of $6.43 billion, an increase of over 50% above year-end 2003, and our share of the New Jersey deposit market was the eighth largest of any non-brokerage-owned bank. The combination has added twenty-two former First Savings Bank locations to our branch network which, coupled with two new offices that were opened during the year, has brought The Provident Bank's total to seventy-eight branches throughout our ten-county market area. In addition, we successfully transformed First Sentinel's former headquarters into a dynamic and strategically located Loan Center providing greater convenience to our clients while facilitating effective deployment of our lending team. Of equal importance has been the enhancement to our pool of employee talent. Two organizations with a century-plus tradition of customer care and professional expertise have come together as a single team committed to maintaining and growing relationships with our customers.

focus on performance…

For the year ended December 31, 2004, Provident Financial Services, Inc. reported net income of $49.3 million, or $0.80 per basic and diluted common share, compared to net income of $18.7 million, or $0.31 per basic and diluted common share, for the year ended December 31, 2003. Net income for 2003 was impacted by a one-time $15.6 million net-of-tax contribution to establish The Provident Bank Foundation. We continually strive to optimize non-interest income, and in 2004 we realized a 22.3% increase in this category to $29.2 million compared to $23.8 million in 2003. Nevertheless, careful management of net interest income continues to provide our principal source of revenue. For 2004 we reported total net interest income, after provisions for loan



"2004 was a year of positive achievement for us. Our successful acquisition and integration of a strong franchise in great markets has resulted in major increases in our financial performance on nearly every front."

Paul M. Pantozzi
Chairman of the Board, CEO

49.3 m

Net income for 2004 was $49.3 million representing earnings per share of $0.80—over two-and-one-half times the results reported for 2003.

Net interest income after loan loss provisions increased over 23% to $158.8 million.

158.8 m

focus on performance…

losses, of $158.8 million which represents a 23.3% increase above the $128.7 million reported in 2003. Despite a challenging economic and competitive environment in 2004, our net interest margin for the full year increased to 3.40% as compared to 3.37% in 2003, and our efficiency ratio improved to 62.3% as compared to 66.9% (calculated without the effect of the one-time Foundation contribution) in 2003. Although rising interest rates and a flattening yield curve continue to put pressure on net interest margins, our entire team remains committed to running an ever-more-efficient operation, and we consider effective cost management a major contributor to our earnings momentum.

…focus on quality…

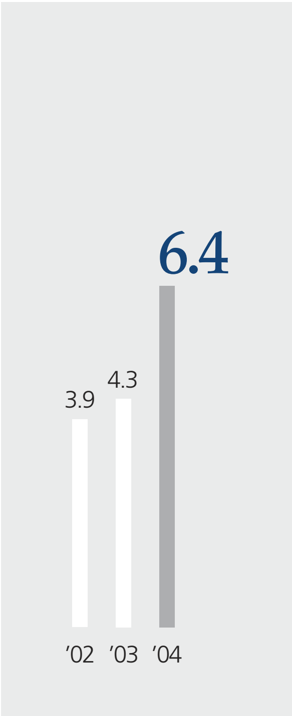
Our constant objective has been to help the individuals and businesses in our markets achieve their financial goals. Complementary to that objective is our unwavering commitment to prudent asset management. As of year-end 2004, net loans as a percentage of total assets increased to 57.1% as compared to 51.7% at the end of 2003. While the acquisition added over $1 billion in loan assets to our balance sheet, our emphasis on originating business and commercial real estate loans has resulted in continued portfolio growth, and our standards of credit quality have remained high. At year-end 2004, our percentage of non-performing loans to total loans stood at 0.17% as compared to 0.27% at year-end 2003.

…and focus on people…

We have continued to invest in the talent and technology needed to expand core deposit relationships, and at the end of 2004, the proportion of core checking and savings deposits to total deposits was in excess of 65%, as it was at the prior year's end. Given the fact that the valued relationships we acquired from First Sentinel had a greater relative proportion of non-core time deposits, and especially in light of the intense competition for core deposits in our market area, we view this as a significant accomplishment. Our marketing efforts and sales training are focused on assuring customers that we are about more than just transactions and services. Our people take a proactive role in helping customers choose the right financial solutions, and they remain our most valuable resource.

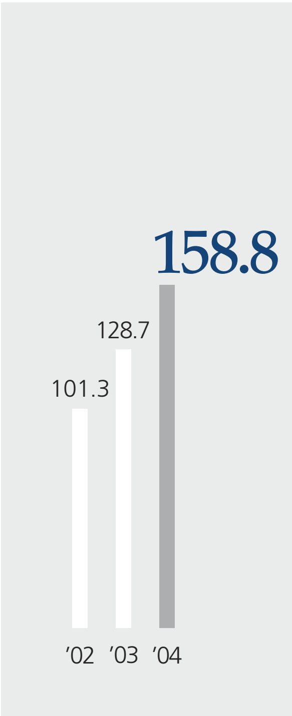
strategic growth in assets and revenues

"Our constant objective is to help the individuals and businesses in our markets achieve their financial goals. We continue to invest in the talent and technology needed to expand customer relationships."



Total Assets

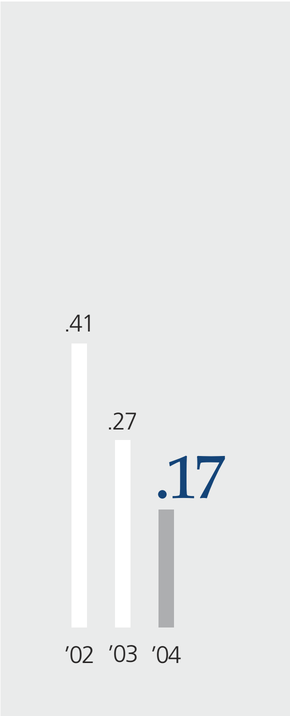
(dollars in billions)



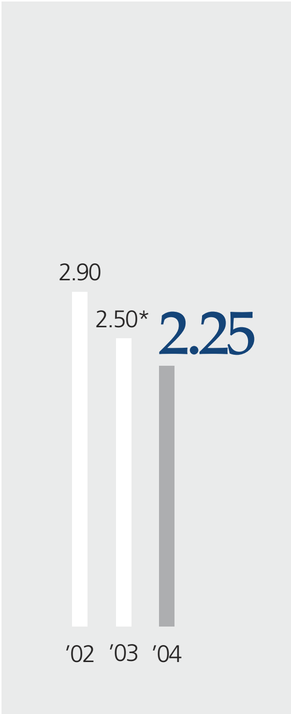
Net Interest Income
(After Loan Loss Provisions)

(dollars in millions)

▷ a continuing focus on quality and an ever-sharpening focus on efficiency



Non-Performing Loans to Total Loans
(percentage)



Operating Expense to Average Assets
(percentage)

**2003 ratio excludes effect of one-time contribution to The Provident Bank Foundation.*

"We have positioned ourselves well to benefit from our acquisition as we continue to realize synergies and reduce costs. Most of all, we are enthused about our prospects for expanding current customer relationships and continuing to acquire new ones within our enhanced market presence."

.17%

At year-end 2004, the proportion of non-performing loans to total loans was 0.17% compared to 0.27% the prior year.

Throughout our history we have remained passionately involved in our communities and committed to improving their quality of life. As a function of our stock conversion in 2003, The Provident Bank Foundation was established as a financially independent entity to further these ends. In 2004, the Foundation contributed over $2.3 million to 394 organizations dedicated to enhancing the education, wellness, culture and social fabric of New Jersey.

…create consistent value.

In addition to strategic growth and earnings enhancement, we view capital management as fundamental to the delivery of stockholder value. In 2004, we completed our first stock repurchase program of just under 4 million common shares, and in January 2005 our Board of Directors authorized our second repurchase program of 5% or approximately 3.7 million shares. Simultaneously, the Board authorized a 16.7% increase in the cash dividend to be paid for the first quarter of 2005 to the level of seven cents per common share.

As we move forward into 2005, I am encouraged by our opportunities for improved financial performance. We have positioned ourselves well to benefit from our acquisition as we continue to realize synergies and reduce costs. We have embraced a "back-to-basics" philosophy to stay focused solely on the business practices that return value to customers and stockholders. Most of all, we are enthused about our prospects for expanding current customer relationships and continuing to acquire new ones within our enhanced market presence.

On behalf of your Board of Directors, I want to commend our management and staff for their exceptional efforts and to thank you for your continued support.

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

▷ Provident's leadership team

Our Dedicated Team of Professionals:

The members of Provident's executive leadership team are distinguished by the energy, intelligence, experience and integrity they bring in fulfilling our corporate mission, in delivering on our brand promise of "Hassle-free banking for busy people®" and in executing our customer-centric strategy.

Photo: (from left to right)

Kevin J. Ward, *Vice Chairman and Chief Operating Officer;* Donald Blum, *Executive VP and Chief Lending Officer;* Paul M. Pantozzi, *Chairman of the Board and Chief Executive Officer;* John F. Kuntz, *General Counsel and Corporate Secretary;* Christopher Martin, *President;* Gregory French, *Senior VP—Market Development and Delivery;* Linda A. Niro, *Senior VP and Chief Financial Officer.*

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. 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 $567.2 of net proceeds of which $293.2 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.

At December 31, (In thousands)	**2004**	2003	2002	2001	2000
Selected Financial Condition Data:					
Total assets	**$6,433,322**	$4,284,878	$3,919,208	$2,869,717	$2,641,579
Loans, net (1)	**3,673,445**	2,216,736	2,031,869	1,994,636	1,954,992
Investment securities (2)	**445,633**	517,789	216,119	112,951	124,059
Securities available for sale	**1,406,340**	1,151,829	1,242,118	494,716	335,039
Deposits	**4,050,473**	2,695,976	3,243,334	2,341,723	2,168,336
Borrowings	**1,166,064**	736,328	323,081	195,767	179,903
Stockholders' equity	**1,136,776**	817,119	326,009	292,130	263,072

For the Year Ended December 31, (In thousands)	**2004**	2003	2002	2001	2000
Selected Operations Data:					
Interest income	**$ 229,543**	$ 184,506	$ 177,307	$ 180,979	$ 179,520
Interest expense	**67,185**	54,633	63,241	84,523	89,690
Net interest income	**162,358**	129,873	114,066	96,456	89,830
Provision for loan losses	**3,600**	1,160	12,800	1,900	2,060
Net interest income after provision for loan losses	**158,758**	128,713	101,266	94,556	87,770
Non-interest income	**29,151**	23,834	24,147	21,236	18,276
Non-interest expense	**119,334**	126,779	89,087	80,629	75,865
Income before income tax expense and the cumulative effect of a change in accounting principle	**68,575**	25,768	36,326	35,163	30,181
Income tax expense	**19,274**	7,024	9,231	11,083	9,283
Income before the cumulative effect of a change in accounting principle	**49,301**	18,744	27,095	24,080	20,898
Cumulative effect of change in accounting principle (3)	**—**	—	(519)	—	—
Net income	**$ 49,301**	$ 18,744	$ 26,576	$ 24,080	$ 20,898
Earnings Per Share:					
Basic earnings per share (4)	**$ 0.80**	$ 0.31	$ —	$ —	$ —
Diluted earnings per share (4)	**$ 0.80**	$ 0.31	$ —	$ —	$ —

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

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.

NYSE Disclosures Under Section 303A

In accordance with the New York Stock Exchange ("NYSE") corporate governance requirements for listed companies, the Company filed its Chief Executive Officer Certification with the NYSE in 2004.

The Chief Executive Officer and Chief Financial Officer certifications made pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed as exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

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 Bank to a stock-chartered bank. The Company issued an aggregate of 59,618,300 shares of its common stock in a subscription offering to eligible depositors. Concurrent with the conversion, the Company contributed an additional 1,920,000 shares of its common stock and $4.8 million in cash to The Provident Bank Foundation, a charitable foundation established by the Bank.

The Company conducts business through its subsidiary, the Bank, a community-oriented bank operating 78 full-service branches in ten counties throughout northern and central New Jersey.

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

Strategy

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

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

In recent years, the Bank has focused on commercial real estate, construction, multi-family and commercial loans as part of its strategy to diversify the loan portfolio and reduce interest rate risk. These types of loans generally have adjustable rates that initially are higher than residential loans and generally have a higher rate of risk. The Bank's credit policy focuses on quality underwriting standards and close monitoring of the portfolio. The First Sentinel acquisition has increased the residential mortgage component of the loan portfolio. At year-end 2004, retail loans accounted for 64.4% of the loan portfolio and commercial loans accounted for 35.6%. The Company's strategy is to continue to diversify the loan portfolio and to focus on commercial real estate and commercial and industrial lending relationships.

The Company's customer relationship management strategy focuses on increasing core accounts and expanding relationships through its branch network, online banking and telephone banking touch points. The First Sentinel acquisition added 22 full-service branches with $1.36 billion in deposits, including core deposits totaling $862.7 million as of the July 14, 2004 acquisition date. Also in 2004, the Company opened two *de novo* branch locations. In 2003, the Bank acquired three branch offices with deposits from another financial institution and opened two *de novo* branch offices. The Company continues to evaluate opportunities to increase market share by expanding within existing and contiguous markets. Core deposits, consisting of all savings and demand deposit accounts, are generally a stable, relatively inexpensive source of funds. At December 31, 2004, core deposits were 65.6% of total deposits.

A significant amount of capital was raised in the conversion of the Bank to a stock-chartered bank in 2003. Management has developed capital management strategies to effectively utilize excess capital and improve return on equity and earnings per share growth. The Company's capital management strategy includes the following components: payment of cash dividends; stock repurchases; acquisitions; and use of wholesale leverage. The Company declared and paid its first cash dividend in the second quarter of 2003, and has since increased the quarterly cash dividend per share three times for a total of 75.0%. The Company's Board of Directors approved the most recent 16.7% increase in the quarterly cash dividend rate on January 26, 2005. The Company's range of cash dividend payout is approximately 30% to 45% of net income.

In 2004, the Company repurchased 4.0 million shares of its common stock at an average cost of $17.88 per share. Also in 2004, the Company repurchased 187,000 shares of common stock at an average cost of $19.11 per share for The Provident Financial Services, Inc. 2003 Stock Award Plan. On January 26, 2005, the Company's Board of Directors authorized a new corporate stock repurchase program under which 5%, or approximately 3.7 million shares of the Company's common stock may be repurchased.

The Company has used wholesale leverage strategies in the past and may do so in the future as market conditions and interest rate risk management concerns dictate. In a leverage transaction, wholesale borrowings are used 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 are carefully monitored and measured as part of active balance sheet management. No leverage transactions were implemented in 2004.

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

Critical Accounting Policies

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

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

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

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

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

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

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. The Company engages an independent third party to perform an annual analysis to test the aggregate balance of goodwill for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." For purposes of goodwill impairment evaluation, The Provident Bank is identified as the reporting unit. Fair value of goodwill is determined in the same manner as goodwill recognized in a business combination and uses standard valuation methodologies including a review of comparable transactions and discounted cash flow analysis. If the carrying amount of goodwill pursuant to this analysis were to exceed the implied fair value of goodwill, an impairment loss would be recognized. No impairment loss was required to be recognized for the years ended December 31, 2004 or 2003. During 2002, in connection with the implementation of SFAS No. 142, the Company determined that $519,000 of goodwill related to the acquisition of a mortgage company was impaired, and recognized the impairment as a cumulative effect of a change in accounting principle.

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

The determination of whether deferred tax assets will be realizable is predicated on estimates of future taxable income. Such estimates are subject to management's judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. In 2004, the Company recorded a $1.9 million reduction of the valuation allowance pertaining to charitable contribution carry-forwards created in connection with the formation of The Provident Bank Foundation in early 2003. The reduction was a result of projected improvement in the Company's ability to generate sufficient future taxable income to realize the deferred tax asset.

▷ Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the 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, 2004, 2003 and 2002. 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,								
	2004			2003			2002		
(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	**$ 87,635**	**$ 1,001**	**1.14%**	$ 157,854	$ 1,709	1.08%	$ 93,572	$ 1,565	1.67%
Investment securities (1)	**484,583**	**19,183**	**3.96**	461,742	17,708	3.84	114,878	5,323	4.63
Securities available for sale	**1,253,570**	**45,968**	**3.67**	1,196,435	40,880	3.42	707,629	35,910	5.07
Federal Home Loan Bank Stock	**41,261**	**707**	**1.71**	26,030	759	2.92	11,823	555	4.69
Net loans (2)	**2,906,982**	**162,684**	**5.60**	2,014,861	123,450	6.13	1,949,778	133,954	6.87
Total interest-earning assets	**4,774,031**	**229,543**	**4.81**	3,856,922	184,506	4.78	2,877,680	177,307	6.16
Non-interest earning assets	**541,829**			260,205			196,875		
Total assets	**$5,315,860**			$4,117,127			$3,074,555		
Interest-bearing liabilities:									
Savings deposits	**$1,254,758**	**11,011**	**0.88%**	$ 952,776	11,839	1.24%	$ 823,752	14,459	1.76%
Demand deposits	**541,120**	**4,274**	**0.79**	413,582	3,590	0.87	356,998	4,897	1.36
Time deposits	**1,156,388**	**24,221**	**2.09**	988,789	23,742	2.40	1,069,183	35,481	3.32
Borrowings	**956,922**	**27,679**	**2.89**	567,732	15,462	2.72	204,988	8,404	4.10
Total interest-bearing liabilities	**3,909,188**	**67,185**	**1.72**	2,922,879	54,633	1.87	2,454,921	63,241	2.57
Non-interest-bearing liabilities	**431,709**			381,796			314,671		
Total liabilities	**4,340,897**			3,304,675			2,769,592		
Stockholders' equity	**974,963**			812,452			304,963		
Total liabilities and stockholders' equity	**$5,315,860**			$4,117,127			$3,074,555		
Net interest income		**$162,358**			$129,873			$114,066	
Net interest rate spread			**3.09%**			2.91%			3.59%
Net interest earning assets	**$ 864,843**			$ 934,043			$ 422,759		
Net interest margin (3)			**3.40%**			3.37%			3.96%
Ratio of interest-earning assets to total interest-bearing liabilities	**1.22x**			1.32x			1.17x		

(1) Average outstanding balance amounts shown are 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,					
	2004 vs. 2003			2003 vs. 2002		
	Increase/(Decrease) Due to		Total Increase/ (Decrease)	Increase/(Decrease) Due to		Total Increase/ (Decrease)
(In thousands)	Volume	Rate		Volume	Rate	
Interest-earning assets:						
Federal funds sold and short-term investments	**$ (797)**	**$ 89**	**$ (708)**	$ 824	$ (680)	$ 144
Investment securities	**893**	**582**	**1,475**	13,452	(1,067)	12,385
Securities available for sale	**2,009**	**3,079**	**5,088**	19,304	(14,334)	4,970
Federal Home Loan Bank Stock	**337**	**(389)**	**(52)**	475	(271)	204
Loans	**50,700**	**(11,466)**	**39,234**	4,357	(14,861)	(10,504)
Total interest-earning assets	**53,142**	**(8,105)**	**45,037**	38,412	(31,213)	7,199
Interest-bearing liabilities:						
Savings deposits	**3,180**	**(4,008)**	**(828)**	2,034	(4,654)	(2,620)
Money market deposits	**289**	**334**	**623**	221	(613)	(392)
Interest-bearing checking deposits	**680**	**(619)**	**61**	463	(1,378)	(915)
Time deposits	**3,731**	**(3,252)**	**479**	(2,510)	(9,229)	(11,739)
Borrowings	**11,203**	**1,014**	**12,217**	10,675	(3,617)	7,058
Total interest-bearing liabilities	**19,083**	**(6,531)**	**12,552**	10,883	(19,491)	(8,608)
Net interest income	**$34,059**	**$ (1,574)**	**$ 32,485**	$27,529	$(11,722)	$ 15,807

▷ Comparison of Financial Condition at December 31, 2004 and December 31, 2003

Total assets grew to $6.43 billion at December 31, 2004, compared to $4.28 billion at December 31, 2003, with the increase primarily due to the First Sentinel acquisition and internal growth in the Company's loan portfolio. The fair value of assets acquired in the First Sentinel transaction totaled $2.58 billion at July 14, 2004, the date of the acquisition, while deposits and borrowings assumed totaled $1.36 billion and $566.5 million, respectively.

Total loans at December 31, 2004 were $3.71 billion, compared to $2.24 billion at December 31, 2003. The increase in loans was attributable to loans acquired from First Sentinel totaling $1.20 billion, as well as internal loan growth of $266.7 million. Residential mortgage loans increased $821.8 million to $1.87 billion at December 31, 2004, compared to $1.04 billion at December 31, 2003. Residential mortgage loan originations totaled $141.3 million and one- to four-family loans purchased totaled $322.0 million for the year ended December 31, 2004. Principal repayments on residential mortgage loans totaled $276.4 million, and loans sold totaled $86.7 million for the year ended December 31, 2004. Commercial real estate loans increased $236.2 million to $685.3 million at December 31, 2004, compared to $449.1 million at December 31, 2003. Multi-family loans decreased $4.3 million to $86.3 million at December 31, 2004, compared to $90.6 million at December 31, 2003. Construction loans increased $89.8 million to $188.9 million at December 31, 2004, compared to $99.1 million at December 31, 2003. Commercial loans increased $107.0 million to $353.6 million at December 31, 2004, compared to $246.6 million at December 31, 2003. The Company had no mortgage warehouse loans at December 31, 2004, compared to $4.1 million at December 31, 2003. Consumer loans increased $213.5 million to $514.3 million at December 31, 2004, compared to $300.8 million at December 31, 2003. Retail loans, which consist of one- to four-family residential mortgages and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $2.38 billion and accounted for 64.4% of the loan portfolio at December 31, 2004, compared to $1.35 billion, or 60.2%, of the portfolio at December 31, 2003. The increase in retail loans as a percentage of the total loan portfolio was largely the result of the acquisition of First Sentinel's more heavily retail-weighted loan portfolio. The Company intends to rebalance the loan portfolio over time, consistent with its strategy towards a more commercial mix. Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $1.31 billion, accounting for 35.6% of the loan portfolio at December 31, 2004, compared to $889.5 million, or 39.8%, at December 31, 2003.

The allowance for loan losses increased $13.1 million at December 31, 2004, as a result of the addition of $12.9 million from the First Sentinel acquisition and provisions for loan losses of $3.6 million, partially offset by net charge-offs of $3.4 million. Non-performing loans totaled $6.2 million at December 31, 2004, compared to $6.1 million at December 31, 2003. Non-performing loans as a percentage of total loans were 0.17% at December 31, 2004 and 0.27% at December 31, 2003. The allowance for loan losses as a percentage of non-performing loans was 545.1% at December 31, 2004, and 336.7% at December 31, 2003. The allowance for loan losses as a percentage of total loans was 0.91% at December 31, 2004, and 0.92% at December 31, 2003.

Intangible assets grew $419.2 million to $443.1 million at December 31, 2004, from $23.9 million at December 31, 2003, as a result of the goodwill and core deposit intangible recorded in connection with the First Sentinel acquisition. At December 31, 2004, the goodwill and the core deposit intangible related to the First Sentinel acquisition totaled $390.2 million and $29.8 million, respectively. The core deposit intangible is being amortized on an accelerated basis over 8.8 years. The Company performs periodic impairment testing of intangible assets. There was no impairment recognized in 2004.

Excluding $739.8 million of investments acquired through the First Sentinel acquisition, total investments decreased $557.5 million, or 33.4%, during the year ended December 31, 2004. Proceeds from investment sales, maturities and scheduled cash flows were used to fund loan growth and the cash portion of the First Sentinel acquisition consideration.

Bank-owned life insurance ("BOLI") increased $34.4 million to $105.9 million at December 31, 2004, compared to $71.5 million at December 31, 2003. The increase was due to the acquisition of First Sentinel's BOLI totaling $29.9 million and appreciation in the cash surrender value.

Other assets increased $29.2 million to $58.2 million at December 31, 2004, from $29.0 million at December 31, 2003. The increase was primarily due to the First Sentinel acquisition and related current and deferred income tax balances.

Banking premises and equipment increased $17.9 million to $64.6 million at December 31, 2004, from $46.7 million at December 31, 2003. The increase was primarily due to the addition of 22 full-service branch offices from the First Sentinel acquisition.

Total deposits increased $1.35 billion to $4.05 billion at December 31, 2004, from $2.70 billion at December 31, 2003. Deposit liabilities assumed through the First Sentinel acquisition totaled $1.36 billion. At December 31, 2004, core deposits represented 65.6% of total deposits, compared with 65.4% at December 31, 2003.

Total borrowed funds increased $456.8 million to $1.19 billion at December 31, 2004, from $736.3 million at December 31, 2003. The increase was a result of liabilities assumed through the First Sentinel acquisition totaling $566.5 million, partially offset by net payments of $109.7 million. In addition, the Company assumed subordinated debentures that were issued by First Sentinel in connection with the issuance of preferred capital securities in 2001. These debentures totaled $27.1 million at December 31, 2004.

Total stockholders' equity increased $319.7 million to $1.14 billion at December 31, 2004, from $817.1 million at December 31, 2003. This increase was a result of the net issuance of $350.5 million of common stock in connection with the First Sentinel acquisition, comprehensive income of $46.7 million and amortization of stock-based compensation plans of $11.8 million, partially offset by common stock repurchases of $74.5 million and cash dividends of $14.9 million.

▷ Comparison of Operating Results for the Years Ended December 31, 2004 and December 31, 2003

General

Net income for the year ended December 31, 2004 was $49.3 million, compared to net income of $18.7 million for the year ended December 31, 2003. Return on average assets for the year ended December 31, 2004 was 0.93%, compared to 0.46% for 2003. Return on average equity was 5.06% for the year ended December 31, 2004, compared to 2.31% for 2003. Basic and diluted earnings per share were $0.80 for the year ended December 31, 2004, compared to $0.31 for 2003, which included the results of operations from January 15, 2003, the date of the Bank's stock conversion. Earnings and per share data for 2004 reflected the impact of the Company's acquisition of First Sentinel from July 14, 2004, the date the acquisition was completed. One-time expenses totaling $1.2 million, net of tax, related to the merger and integration of First Sentinel's operations were recognized in 2004. Net income for 2003 was impacted by the one-time expense associated with the $15.6 million contribution, net of tax, to The Provident Bank Foundation.

Net Interest Income

Net interest income increased $32.5 million, or 25.0%, to $162.4 million for 2004, from $129.9 million for 2003. The average interest rate spread increased 18 basis points to 3.09% for 2004, from 2.91% for 2003. The net interest margin increased three basis points to 3.40% for 2004, compared to 3.37% for 2003.

Interest income increased $45.0 million, or 24.4%, to $229.5 million for 2004, compared to $184.5 million for 2003. The increase in interest income was primarily attributable to increased earning asset volume as a result of the First Sentinel acquisition. Average interest-earning assets increased $917.1 million, or 23.8%, to $4.77 billion for 2004, compared to $3.86 billion for 2003. Average outstanding loan balances increased $892.1 million, or 44.3%, to $2.91 billion for 2004, from $2.01 billion for 2003. The average balance of investment securities increased $22.8 million, or 4.9%, to $484.6 million for 2004, compared to $461.7 million for 2003. The average balance of securities available for sale increased $57.1 million, or 4.8%, to $1.25 billion for 2004, compared to $1.20 billion for 2003. Partially offsetting these increases, average federal funds sold and short-term investment balances decreased $70.2 million, or 44.5%, to $87.6 million for 2004, from $157.9 million for 2003. The yield on interest-earning assets increased three basis points to 4.81% for 2004, from 4.78% for 2003.

Interest expense increased $12.6 million, or 23.0%, to $67.2 million for 2004, from $54.6 million for 2003. The increase in interest expense was attributable to increased interest-bearing liability volume as a result of the First Sentinel acquisition, partially offset by reductions in the average cost of interest-bearing liabilities for 2004 compared with 2003. The average balance of interest-bearing liabilities increased $986.3 million, or 33.7%, to $3.91 billion for 2004, compared to $2.92 billion for 2003. Rates paid on interest-bearing liabilities decreased 15 basis points to 1.72% for 2004, from 1.87% for 2003. Average interest-bearing deposits increased $597.1 million, or 25.4%, to $2.95 billion for 2004, from $2.36 billion for 2003. The average rate paid on interest-bearing deposits declined 32 basis points to 1.34% for 2004, from 1.66% for 2003. Average interest-bearing core deposits increased $429.5 million, or 31.4%, for 2004, compared with 2003, while average time deposits increased $167.6 million, or 16.9%, for 2004, compared with 2003. Average outstanding borrowings, including subordinated debentures, increased $389.2 million, or 68.6%, to $956.2 million for 2004, compared with $567.7 million for 2003. The average rate paid on borrowings increased to 2.89% for 2004, from 2.72% for 2003.

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 credit losses inherent in the loan portfolio. In determining the level of the allowance for loan losses, management considers past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect 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. The Company's emphasis on continued diversification of the loan portfolio through the origination of construction loans, commercial mortgage loans and commercial loans has been one of the more significant factors management takes into account in evaluating the allowance for loan losses and provision for loan losses. In the event the Company further increases the amount of such types of loans in the portfolio, it may be determined that additional or increased provisions for loan losses are necessary, which could adversely affect earnings.

The provision for loan losses was $3.6 million in 2004, compared to $1.2 million in 2003. The increase in the provision for loan losses was attributable to loan growth and an increase in net charge-offs compared with 2003. Net charge-offs for 2004 were $3.4 million compared to $1.5 million for 2003. Total charge-offs for the year ended December 31, 2004 were $6.4 million, compared to $4.4 million for the year ended December 31, 2003. Recoveries for the year ended December 31, 2004 were $3.0 million, compared to $2.9 million for the year ended December 31, 2003. The allowance for loan losses at December 31, 2004 was $33.8 million, or 0.91% of total loans compared to $20.6 million, or 0.92% of total loans at December 31, 2003. At December 31, 2004, the allowance for loan losses as a percentage of non-performing loans was 545.1%, compared to 336.7% at December 31, 2003.

At December 31, 2004, non-performing loans as a percentage of total loans were 0.17%, compared to 0.27% at December 31, 2003. Non-performing assets as a percentage of total assets were 0.10% at December 31, 2004, compared to 0.14% at December 31, 2003. At December 31, 2004, non-performing loans were $6.2 million, compared to $6.1 at December 31, 2003, and non-performing assets were $6.3 million at December 31, 2004, compared to $6.2 million at December 31, 2003.

Non-Interest Income

Total non-interest income increased $5.3 million, or 22.3%, to $29.2 million for 2004, compared to $23.8 million for 2003. Fee income from deposit accounts increased $4.1 million, or 25.0%, to $20.4 million for 2004, from $16.3 million for 2003. This increase was primarily attributable to fees earned on an overdraft privilege service introduced in late 2003 and growth in core deposit accounts. Income from the appreciation in the cash surrender value of BOLI increased $630,000, or 16.4%, as a result of $29.9 million of BOLI added through the First Sentinel acquisition and an additional $20.0 million of BOLI purchased by the Company in the first quarter of 2003. Gains on the sales of securities totaled $1.3 million for 2004, compared with $1.1 million in 2003. Securities sales are dependent upon interest rate risk and cash flow requirements, market conditions, and projections of future price performance and interest rate movements. Commissions on sales of mutual funds and annuities increased $170,000, or 60.7%, to $450,000 for 2004, from $280,000 for 2003. In late 2003, the Company outsourced the sales and operations of its non-deposit investment subsidiary to its third-party provider. Other income increased $239,000, or 10.5% to $2.5 million in 2004, compared to $2.3 million in 2003. Other income consisted of net gains on the sale of loans, net gains on sales of other assets and other non-recurring income.

Non-Interest Expense

For the year ended December 31, 2004, non-interest expense decreased $7.4 million, or 5.9%, to $119.3 million, compared to $126.8 million for 2003. The decrease in non-interest expense for the year ended December 31, 2004 was due to the one-time expense associated with the $24.0 million contribution to The Provident Bank Foundation that was recorded in the first quarter of 2003, partially offset by increases in other non-interest expense categories. Compensation and benefits expense increased $6.4 million, or 11.7%, to $61.1 million for 2004, from $54.7 million for 2003. The increase in compensation and benefits expense for 2004 was primarily attributable an increase in salaries, incentives and related payroll taxes of $7.3 million, which included merger-related charges of $182,000 and other executive severance of $1.6 million. The remaining increase in salaries and incentives was primarily attributable to increased staffing levels during the acquisition integration period and in support of the additional 22 branch locations acquired from First Sentinel. Expenses related to stock-based compensation and benefit plans increased $5.4 million for 2004, compared with 2003, as those plans were implemented in mid-2003. Expenses related to other employee benefits, consisting of the Company's defined benefit pension plan and post-retirement health care plan, decreased $3.6 million for 2004, compared with 2003. The pension plan was frozen as of April 1, 2003. Commissions decreased $1.5 million for 2004, compared with 2003, largely as a result of historically high mortgage origination volume in 2003. In addition, salaries and commissions related to the Company's mortgage banking subsidiary decreased $827,000 in 2004 compared with 2003. The Company discontinued the operations of its mortgage banking subsidiary in February 2004.

Net occupancy expense increased $2.9 million, or 20.1% for 2004, compared with 2003, primarily as a result of the additional 22 branch locations added through the First Sentinel acquisition, as well as two *de novo* branches opened in each of the years 2004 and 2003, and the acquisition of three branches with deposits from another depository institution in 2003.

Advertising and promotions expense increased $2.2 million, or 58.3% for 2004, compared with 2003, as a result of customer communications associated with the integration of First Sentinel, as well as increased marketing efforts in support of the Company's focus on loan and core deposit generation.

Data processing expense increased $1.6 million, or 24.4% for 2004, compared with 2003, reflecting the First Sentinel acquisition and related growth in customer relationships.

Amortization of intangibles increased $1.6 million, or 42.4% for 2004, compared with 2003, mainly as a result of the amortization of the core deposit intangible recorded in connection with the First Sentinel acquisition.

Other operating expenses increased $1.8 million, or 9.5% for 2004, compared with 2003. This increase was primarily due to increases in printing and supplies expense, regulatory examination and audit fees, ATM card maintenance costs, consulting fees and corporate insurance expense. The increases in other operating expenses were largely attributable to the First Sentinel acquisition and integration and resulting growth in customer relationships. In addition, compliance with the Sarbanes-Oxley Act of 2002 added approximately $623,000 to the Company's audit and consulting expenses.

Income Tax Expense

Income tax expense increased $12.3 million, to $19.3 million, on net income before taxes of $68.6 million resulting in an effective tax rate of 28.1% in 2004, compared to income tax expense of $7.0 million on net income before taxes of $25.8 million in 2003 resulting in an effective tax rate of 27.3%. In 2004, the Company reduced a valuation allowance pertaining to charitable contribution carryforwards created in connection with the formation of The Provident Bank Foundation in early 2003. The reduction in valuation allowance resulted in a decrease in 2004 income tax expense of $1.9 million. The reduction in the valuation allowance was attributable to projected improvement in the Company's ability to generate sufficient future taxable income to realize the deferred tax asset. This improvement in the Company's future earnings outlook was largely due to the successful acquisition and integration of First Sentinel.

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 29.5%, 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 the year ended December 31, 2003, which included the results of operations from January 15, 2003, the date of the Bank's stock conversion.

Net Interest Income

Net interest income increased $15.8 million, or 13.9%, to $129.9 million for the year ended December 31, 2003, from $114.1 million for 2002. Average interest rate spread decreased 68 basis points to 2.91% for the year ended December 31, 2003, from 3.59% for 2002. The net interest margin decreased 59 basis points to 3.37% for the year ended December 31, 2003, compared to 3.96% for 2002. The decrease in net interest margin was primarily due 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 4.1%, to $184.5 million for the year ended December 31, 2003, compared to $177.3 million for 2002. Average interest earning assets increased $979.2 million, or 34.0%, to $3.86 billion in 2003, compared to $2.88 billion in 2002. Average outstanding loan balances increased $65.1 million, or 3.3%, to $2.01 billion for the year ended December 31, 2003, from $1.95 billion for 2002. The average balance of investment securities increased $346.9 million, or 301.9%, 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 69.1%, to $1.20 billion for the year ended December 31, 2003, compared to $707.6 million for 2002. Average federal funds sold and short-term investment balances increased $64.3 million, or 68.7%, 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 13.6%, to $54.6 million for the year ended December 31, 2003, from $63.2 million for 2002. The reduction in interest expense was attributable to the continued decline in short-term interest rates. The average balance of interest-bearing liabilities increased $468.0 million, or 19.1%, to $2.92 billion for the year ended December 31, 2003, compared to $2.45 billion for 2002. The average balance of non-interest-bearing liabilities increased $67.1 million, or 21.3%, 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 177.0%, to $567.7 million for the year ended December 31, 2003, compared to $205.0 million for 2002. The average rate paid on borrowings decreased to 2.72% for the year ended December 31, 2003, from 4.10% for 2002.

Provision for Loan Losses

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 336.7%, compared to 246.6% 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 its 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 were 0.27%, compared to 0.41% at December 31, 2002. Non-performing assets as a percentage of total assets declined eight 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 1.3%, 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 7.8%, to $16.3 million at December 31, 2003, from $15.1 million at December 31, 2002. This increase was attributable to the Bank's ongoing strategy to attract and retain core deposit accounts. Other income decreased $1.7 million, or 43.0%, 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 44.7%, to $1.2 million in 2003, from $2.2 million in 2002, and the net gain on other assets decreased $710,000, or 40.8%, to $1.0 million in 2003, from $1.7 million in 2002.

Non-Interest Expense

For the year ended December 31, 2003, non-interest expense increased $37.7 million, or 42.3%, 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, was primarily due to the one-time expense associated with the $24.0 million contribution to The Provident Bank Foundation that was recorded in the first quarter of 2003 and benefit expenses related to stock-based plans. Compensation and benefits expense increased $7.8 million, or 16.7%, in 2003 to $54.7 million, from $46.9 million in 2002. The increase in compensation and benefits expense for the year ended December 31, 2003, was primarily attributable to expenses related to new stock-based benefit plans: the ESOP in the amount of $2.7 million, the stock award plan in the amount of $1.9 million and the stock option plan in the amount of $1.7 million. For the year ended December 31, 2003, other non-interest expenses increased $3.6 million, or 22.6%, to $19.4 million, compared to $15.8 million for 2002. This increase was primarily due to an increase of $1.5 million, or 201.9%, in corporate insurance expense, $775,000, or 25.8%, in advertising and promotions and $940,000, or 7.1%, 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 23.9%, to $7.0 million on net income before taxes of $25.8 million, resulting in an effective tax rate of 27.3% 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 25.4%. The decrease in income tax expense was 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%, in the cash surrender value of BOLI.

▷ Liquidity and Capital Resources

Liquidity refers to the Company's ability to generate adequate amounts of cash to meet financial obligations to its depositors, to fund loans and securities purchases, deposit outflows and operating expenses. Sources of funds include scheduled amortization of loans, loan prepayments, scheduled maturities of investments, cash flows from mortgage-backed securities and the ability to borrow funds from the Federal Home Loan Bank of New York and approved broker dealers. The Bank has 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, 2004, there were no outstanding borrowings against these lines of credit.

Cash flows from loan payments and maturing investment securities are a fairly predictable source of funds. Changes in interest rates, local economic conditions and the competitive marketplace can influence loan prepayments, prepayments on mortgage-backed securities and deposit flows. For the year ended December 31, 2004, loan repayments, excluding mortgage warehouse activity, totaled $937.9 million compared to $835.6 million for the year ended December 31, 2003.

One- to four-family residential loans, consumer loans, commercial real estate loans, multi-family loans and commercial and small business loans are the primary investments of the Company. Purchasing securities for the investment portfolio is a secondary use of funds and the investment portfolio is structured to complement and facilitate the Company's lending activities and ensure adequate liquidity. Loan originations and purchases, excluding mortgage warehouse loans, totaled $1.29 billion for the year ended December 31, 2004, compared to $1.31 billion for the year ended December 31, 2003. Purchases for the investment portfolio totaled $301.3 million for the year ended December 31, 2004, compared to $1.70 billion for the year ended December 31, 2003. The large volume of securities purchases in 2003 was primarily attributable to the need to invest proceeds from the Company's common stock offering and rapid turnover in the Company's securities portfolio resulting from the historically low interest rate environment.

At December 31, 2004, the Bank had outstanding loan commitments to borrowers of $424.8 million. Undisbursed home equity lines and personal credit lines were $174.5 million at December 31, 2004. Excluding deposits assumed through the First Sentinel acquisition, total deposits decreased $4.7 million for the year ended December 31, 2004. 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 $960.0 million at December 31, 2004. Based on current pricing strategy and customer retention experience, the Bank expects to retain a significant share of these accounts. The Bank manages liquidity on a daily basis and expects to have sufficient funds to meet all of its funding requirements.

As of December 31, 2004, the Bank exceeded all regulatory capital requirements. At December 31, 2004, the Bank's leverage (Tier 1) capital ratio was 8.33%. FDIC regulations currently require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2004, the Bank's total risk-based capital ratio was 14.21%. Under current regulations, the minimum required ratio of total capital to risk-weighted assets is 8.00%. A bank is considered to be well-capitalized if it has a leverage (Tier 1) capital ratio of at least 5.00% and a risk-based capital ratio of at least 10.00%. As of December 31, 2004, the Bank exceeded the well-capitalized capital requirements.

▷ Off-Balance Sheet and Contractual Obligations

Off-balance sheet and contractual obligations as of December 31, 2004, are summarized below:

Off-Balance Sheet and Contractual Obligations

(In thousands)	Payments Due by Period Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Off-Balance Sheet:					
Long-term commitments	$ 591,429	$ 591,429	$ —	$ —	$ —
Letters of credit	7,897	7,897	—	—	—
Total Off-Balance Sheet	599,326	599,326	—	—	—
Contractual Obligations:					
Operating leases	47,728	2,931	5,984	5,771	33,042
Certificate of deposits	1,395,195	959,962	263,496	135,932	35,805
Total Contractual Obligations	1,442,923	962,893	269,480	141,703	68,847
Total	$2,042,249	$1,562,219	$269,480	$141,703	$68,847

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 $599.3 million at December 31, 2004, an increase of $202.5 million or 51.0% from $396.9 million at December 31, 2003. The increase in off-balance sheet commitments was primarily due to the First Sentinel acquisition.

Contractual obligations consist of operating leases and certificate of deposit liabilities at December 31, 2004. There were no securities purchases that were entered into in December 2004 that would have settled in January 2005. At December 31, 2003, there were $2.4 million in securities purchase obligations. Total contractual obligations at December 31, 2004 were $1.44 billion, an increase of $473.3 million, or 48.8%, compared to $969.6 million at December 31, 2003. Operating leases increased $4.2 million, or 40.3%, to $47.7 at December 31, 2004, compared to $34.0 million at December 31, 2003, and certificate of deposit accounts increased $462.1 million, or 49.5%, to $1.40 billion at December 31, 2004, from $933.1 million at December 31, 2003. The increases in operating leases and increases in certificate of deposit accounts were primarily due to the additional branches and deposits that were included in the First Sentinel acquisition.

▷ consolidated statements of financial condition

(Dollars in thousands, except share data)	December 31, 2004	2003
ASSETS		
Cash and due from banks	**$ 121,187**	$ 106,228
Federal funds sold	**16,000**	—
Short-term investments	**26,507**	69,624
Total cash and cash equivalents	**163,694**	175,852
Investment securities (market value of $450,071 and $524,429 at December 31, 2004 and December 31, 2003, respectively)	**445,633**	517,789
Securities available for sale, at fair value	**1,406,340**	1,151,829
Federal Home Loan Bank Stock	**48,283**	34,585
Loans	**3,707,211**	2,237,367
Less allowance for loan losses	**33,766**	20,631
Net loans	**3,673,445**	2,216,736
Foreclosed assets, net	**140**	41
Banking premises and equipment, net	**64,605**	46,741
Accrued interest receivable	**23,865**	16,842
Intangible assets	**443,148**	23,938
Bank-owned life insurance	**105,932**	71,506
Other assets	**58,237**	29,019
Total assets	**$6,433,322**	$4,284,878
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	**$1,116,812**	$ 774,988
Savings deposits	**1,538,466**	987,877
Certificates of deposit of $100,000 or more	**253,024**	148,306
Other time deposits	**1,142,171**	784,805
Total deposits	**4,050,473**	2,695,976
Mortgage escrow deposits	**15,389**	11,061
Borrowed funds	**1,166,064**	736,328
Subordinated debentures	**27,113**	—
Other liabilities	**37,507**	24,394
Total liabilities	**5,296,546**	3,467,759
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued	**—**	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 79,879,017 shares issued and 74,078,784 shares outstanding at December 31, 2004 and 61,538,300 shares issued and 60,600,100 shares outstanding at December 31, 2003, respectively	**799**	615
Additional paid-in capital	**960,792**	606,541
Retained earnings	**358,678**	324,250
Accumulated other comprehensive income	**3,767**	6,416
Treasury stock	**(70,810)**	—
Unallocated common stock held by the Employee Stock Ownership Plan	**(76,101)**	(78,816)
Common stock acquired by the Stock Award Plan	**(40,349)**	(41,887)
Common stock acquired by the Directors' Deferred Fee Plan	**(13,379)**	—
Deferred compensation—Directors' Deferred Fee Plan	**13,379**	—
Total stockholders' equity	**1,136,776**	817,119
Total liabilities and stockholders' equity	**$6,433,322**	$4,284,878

See accompanying notes to consolidated financial statements.

consolidated statements of income

(Dollars in thousands, except per share data)	Years Ended December 31, 2004	2003	2002
Interest income:			
Real estate secured loans	**$121,291**	$ 84,307	$ 93,893
Commercial loans	**18,309**	20,711	18,894
Consumer loans	**23,084**	18,432	21,167
Investment securities	**19,183**	17,708	5,323
Securities available for sale	**46,675**	41,639	36,465
Other short-term investments	**480**	463	281
Federal funds	**521**	1,246	1,284
Total interest income	**229,543**	184,506	177,307
Interest expense:			
Deposits	**39,506**	39,171	54,837
Borrowed funds	**27,107**	15,462	8,404
Subordinated debentures	**572**	—	—
Total interest expense	**67,185**	54,633	63,241
Net interest income	**162,358**	129,873	114,066
Provision for loan losses	**3,600**	1,160	12,800
Net interest income after provision for loan losses	**158,758**	128,713	101,266
Non-interest income:			
Fees	**20,409**	16,325	15,144
Bank-owned life insurance	**4,477**	3,847	2,869
Net gain on securities transactions	**1,310**	1,116	960
Other income	**2,955**	2,546	5,174
Total non-interest income	**29,151**	23,834	24,147
Non-interest expense:			
Compensation and employee benefits	**61,098**	54,683	46,862
Net occupancy expense	**17,008**	14,157	13,220
Data processing expense	**8,234**	6,618	6,080
Advertising and promotion expense	**5,969**	3,770	3,003
Amortization of intangibles	**5,266**	3,699	3,677
Federal deposit insurance	**503**	440	417
Other operating expenses	**21,256**	19,412	15,828
Contribution to The Provident Bank Foundation	**—**	24,000	—
Total non-interest expenses	**119,334**	126,779	89,087
Income before income tax expense and the cumulative effect of a change in accounting principle	**$ 68,575**	$ 25,768	$ 36,326
Income tax expense	**19,274**	7,024	9,231
Income before the cumulative effect of a change in accounting principle	**49,301**	18,744	27,095
Cumulative effect of a change in accounting principle, net of tax	**—**	—	(519)
Net income	**$ 49,301**	$ 18,744	$ 26,576
Basic earnings per share	**$ 0.80**	$ 0.31	
Average basic shares outstanding (from date of conversion)	**61,576,544**	57,835,726	
Diluted earnings per share	**$ 0.80**	$ 0.31	
Average diluted shares outstanding (from date of conversion)	**61,932,173**	57,965,640	

See accompanying notes to consolidated financial statements.

▷ consolidated statement of changes in stockholders' equity

For the Years Ended December 31, 2004, 2003 and 2002 (Dollars in thousands)	Common Stock	Additional Paid-In Capital	Unallocated ESOP Shares	Common Stock Awards Under SAP	Common Stock Acquired by DDFP	Deferred Compensation DDFP	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
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 gains 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	615	604,752	—	—	—	—	—	—	—	605,367
Cash dividends paid	—	—	—	—	—	—	—	(8,605)	—	(8,605)
Purchase of ESOP shares	—	—	(81,489)	—	—	—	—	—	—	(81,489)
Allocation of ESOP shares	—	63	2,673	—	—	—	—	—	—	2,736
Purchase of SAP shares	—	—	—	(43,768)	—	—	—	—	—	(43,768)
Allocation of SAP 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
Comprehensive income:										
Net income	—	—	—	—	—	—	—	49,301	—	49,301
Other comprehensive income:										
Unrealized holding loss on securities arising during the period (net of tax of ($1,198))	—	—	—	—	—	—	—	—	(1,874)	(1,874)
Reclassification adjustment for gains included in net income (net of tax of $535)	—	—	—	—	—	—	—	—	(775)	(775)
Total comprehensive income										$ 46,652
Cash dividends paid	—	—	—	—	—	—	—	(14,873)	—	(14,873)
Common stock issued in connection with the First Sentinel acquisition, net	184	350,357	—	—	—	—	—	—	—	350,541
DDFP acquired from First Sentinel	—	—	—	—	(13,379)	13,379	—	—	—	—
Purchases of treasury stock	—	—	—	—	—	—	(70,909)	—	—	(70,909)
Option exercises	—	—	—	—	—	—	99	—	—	99
Allocation of ESOP shares	—	311	2,715	—	—	—	—	—	—	3,026
Purchase of SAP shares	—	—	—	(3,565)	—	—	—	—	—	(3,565)
Allocation of SAP shares	—	94	—	5,103	—	—	—	—	—	5,197
Allocation of stock options	—	3,489	—	—	—	—	—	—	—	3,489
Balance at December 31, 2004	$799	$960,792	$(76,101)	$(40,349)	$(13,379)	$13,379	$(70,810)	$358,678	$ 3,767	$1,136,776

See accompanying notes to consolidated financial statements.

▷ consolidated statements of cash flows

(Dollars in thousands)	Years Ended December 31, 2004	2003	2002
Cash flows from operating activities:			
Net income	**$ 49,301**	$ 18,744	$ 26,576
Adjustments to reconcile net income to net cash provided by operating activities:			
Contribution to The Provident Bank Foundation	**—**	24,000	—
Depreciation and amortization of intangibles	**12,255**	9,735	9,225
Provision for loan losses	**3,600**	1,160	12,800
Deferred tax benefit	**(5,269)**	(9,176)	(1,537)
Increase in cash surrender value of Bank-owned Life Insurance	**(4,477)**	(3,847)	(2,869)
Net amortization (accretion) of premiums and discount on securities	**6,692**	13,614	(380)
Accretion of net deferred loan fees	**(1,551)**	(859)	(713)
Amortization of premiums on purchased loans	**3,885**	924	905
Proceeds from sales of other real estate owned, net	**74**	1,793	299
Allocation of ESOP shares	**3,026**	2,736	—
Allocation of SAP	**5,197**	1,918	—
Allocation of stock options	**3,489**	1,689	—
Net gain on sale of loans	**(1,470)**	(1,235)	(2,232)
Net gain on securities available for sale	**(1,310)**	(1,116)	(960)
Decrease (increase) in accrued interest receivable	**2,233**	(1,000)	(511)
Decrease (increase) in other assets	**23,137**	(14,290)	(7,786)
(Decrease) increase in mortgage escrow deposits	**(7,890)**	1,479	(4,170)
Increase (decrease) in other liabilities	**2,910**	7,192	(9,142)
Net cash provided by operating activities	**93,832**	53,461	19,505
Cash flows from investing activities:			
Proceeds from sale of loans	**88,165**	92,579	79,129
Proceeds from maturities, calls and paydowns of investment securities	**82,630**	134,636	31,635
Purchases of investment securities	**(11,498)**	(438,196)	(134,909)
Proceeds from sales of securities available for sale	**316,633**	86,809	1,041
Proceeds from maturities and paydowns of securities available for sale	**451,456**	1,252,893	137,295
Purchases of securities available for sale	**(289,783)**	(1,262,421)	(871,822)
Cash consideration paid to acquire First Sentinel, net of cash and cash equivalents received	**(148,395)**	—	—
Purchase of Bank-owned Life Insurance	**—**	(20,000)	—
Net increase in loans	**(355,860)**	(279,236)	(127,421)
Purchases of premises and equipment, net	**(8,650)**	(8,770)	(5,926)
Net cash provided by (used in) investing activities	**124,698**	(441,706)	(890,978)

(Continued)

(Dollars in thousands)	Years Ended December 31, 2004	2003	2002
Cash flows from financing activities:			
Net (decrease) increase in deposits	**$ (4,691)**	$ (547,358)	$ 901,611
Proceeds from sale of stock, net	**—**	567,214	—
Purchase of ESOP shares, net	**—**	(81,489)	—
Purchase of SAP shares, net	**(3,565)**	(43,768)	—
Purchase of treasury stock	**(70,909)**	—	—
Cash dividends paid to stockholders	**(14,873)**	(8,605)	—
Stock options exercised	**99**	—	—
Proceeds from FHLB Advances	**1,696,000**	499,800	166,150
Payments on FHLB Advances	**(1,837,404)**	(75,249)	(43,700)
Net increase (decrease) in Repurchase Agreements	**4,655**	(11,303)	4,864
Net cash (used in) provided by financing activities	**(230,688)**	299,242	1,028,925
Net (decrease) increase in cash and cash equivalents	**(12,158)**	(89,003)	157,452
Cash and cash equivalents at beginning of period	**175,852**	264,855	107,403
Cash and cash equivalents at end of period	**$ 163,694**	$ 175,852	$ 264,855
Cash paid during the period for:			
Interest on deposits and borrowings	**$ 64,794**	$ 54,633	$ 63,242
Income taxes	**$ 30,816**	$ 15,779	$ 11,650
Non cash investing activities:			
Transfer of loans receivable to other real estate owned	**$ 173**	$ 1,834	$ 299
Transfer of conversion proceeds held in escrow deposits to stockholders' equity	**$ —**	$ 525,989	$ —
Common stock contributed to the Provident Bank Foundation	**$ —**	$ 19,200	$ —
Fair value of assets acquired	**$ 2,152,075**	$ —	$ —
Goodwill and core deposit intangible	**$ 423,217**	$ —	$ —
Liabilities assumed	**$ 1,972,888**	$ —	$ —
Common stock issued for First Sentinel acquisition	**$ 350,541**	$ —	$ —

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 their wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Business

The Company, through the Bank, 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 dates of the consolidated statements of financial condition 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.

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.

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. Fair values are based on published or securities dealers' market prices. Gains or losses on the sale of securities are based upon the specific identification method.

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.

Loans

Mortgages on real estate and other loans are stated at the face amount of the loans. Unearned income on purchased residential mortgage loans is recognized in income based on 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. 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. Residential mortgage and consumer loans are deemed smaller balance homogeneous loans which are evaluated collectively for impairment and are therefore excluded from the population of impaired loans.

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.

Foreclosed Assets

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell. Fair market value is generally based on recent appraisals. When an asset is acquired, the excess of the loan balance over fair value, less estimated costs to sell, is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

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 depreciation, 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.

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. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, goodwill with an indefinite useful life is not amortized, but 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 accelerated and straight-line bases over periods of 8.8 and ten years. Mortgage servicing rights are recorded when purchased or originated mortgage loans are sold, with servicing rights retained. Mortgage servicing rights are amortized 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.

Bank-Owned Life Insurance

Bank-owned life insurance 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.

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 Bank pension plan was frozen.

The Bank has a savings incentive plan covering substantially all employees of the Bank. The Bank may match a percentage of the first 6% contributed by participants. The Bank's matching contribution, if any, is determined quarterly by the Board of Directors.

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 the Company's 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. The Company's 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 the Company's 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 plan and SAP. 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.

In connection with the First Sentinel acquisition, the Company assumed the First Savings Bank Directors' Deferred Fee Plan (the "DDFP"). The DDFP was frozen prior to the acquisition. The Company recorded a deferred compensation equity instrument and corresponding contra-equity account for the value of the shares held by the DDFP at the July 14, 2004 acquisition date. These accounts will be liquidated as shares are distributed from the DDFP in accordance with the plan document. At December 31, 2004, there were 765,318 shares held by the DDFP.

Postretirement Benefits Other Than Pensions

The Bank provides postretirement 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 postretirement 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 Stockholders' 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.

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.

Reclassifications

Certain reclassifications have been made to the 2003 and 2002 consolidated financial statements to conform to the presentation adopted in 2004.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of SFAS No. 153 are to be applied prospectively and are effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier application permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. The provisions of SFAS No. 123(R) are effective for most public companies' interim or annual periods beginning after June 15, 2005. The Company's stock option plan is currently accounted for in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" and the Company's 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 in the income statement for the stock option plan and expense for the SAP in the amount of the fair value of the common stock at the date of grant is recognized in the income statement ratably over the vesting period. The adoption of SFAS No. 123(R) is not expected to have a material impact on the Company's financial condition or results of operations.

In September 2004, the FASB approved issuing a Staff Position to delay the requirement to record impairment losses under Emerging Issues Task Force Issue No. 03-1, "The Meaning of Other Than Temporary Impairment and its Application to Certain Investments" ("EITF 03-1"). The approved delay is applicable to all securities within the scope of EITF 03-1 and will remain in effect until new guidance is issued and comes into effect. The disclosure requirements originally prescribed by EITF 03-1 will remain in effect, and SEC Staff Accounting Bulletin No. 59, "Accounting for Noncurrent Marketable Equity Securities, September 1985, SAB Topic 5.M, Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities" remains in effect for public companies.

In May 2004, the FASB issued FASB Staff Position ("FSP") FAS106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP FAS106-2 supersedes FSP FAS106-1 and provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. At present, detailed regulations necessary to implement the Act have not been issued, including those that would specify the manner in which actuarial equivalency must be determined, the evidence required to demonstrate actuarial equivalency, and the documentation requirements necessary to be entitled to the subsidy. At December 31, 2004, measures of the Company's accumulated postretirement benefit obligation and net periodic postretirement benefit cost do not reflect any amount associated with the subsidy because the Company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

2. Stockholders' Equity and Acquisition

Stockholders' Equity

On January 15, 2003 the Bank completed its plan of conversion, 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 net proceeds in the amount $567.2 million.

In connection with the Bank's commitment to its community, the plan of conversion 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 $24.0 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 of conversion, 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, 2004, the liquidation account, which is an off-balance sheet memorandum account, amounted to $102,733,000.

Acquisition

The Company completed the acquisition of First Sentinel and the merger of its wholly-owned subsidiary, First Savings Bank, with and into the Bank, as of the close of business July 14, 2004. First Savings Bank operated 22 full-service branch offices in Middlesex, Monmouth, Somerset and Union Counties, New Jersey. The acquisition presented the Company with the strategic opportunity to enhance stockholder value, market share and earnings growth. The opportunities include strengthening and expanding the Company's presence in the growing Middlesex County marketplace through additional retail and commercial banking product offerings, increasing deposit share and further building the Company's core deposit funding base, as well as enhancing the Company's avenues for earning asset generation.

Pursuant to the terms of the Agreement and Plan of Merger, 60% of First Sentinel's common stock was converted into Provident common stock at an exchange rate of 1.092 Provident shares per each First Sentinel share and 40% was converted into $22.25 in cash for each First Sentinel share. The aggregate consideration paid in the merger consisted of $251.9 million in cash and 18,540,662 shares of the Company's common stock, which had a value of $19.09 per share based on the Company's average closing price from December 21, 2003 to December 26, 2003. The cash portion of the merger consideration was funded through the sale of securities available for sale and cash from continuing operations. Shares of the Company's common stock amounting to 199,945 shares issued in exchange for shares of First Sentinel common stock owned by the Company at the time of the merger were retired upon issuance.

The acquisition was accounted for as a purchase and the excess cost over the fair value of net assets acquired ("goodwill") in the transaction was $390.2 million. Under the provisions of SFAS No. 142, goodwill is not being amortized in connection with this transaction and the goodwill will not be deductible for income tax purposes. The Company also recorded a core deposit intangible of $33.0 million in connection with the acquisition, which is being amortized on an accelerated basis over 8.8 years. The amortization of premiums and discounts resulting from the fair value adjustments of assets and liabilities did not have a material impact on the Company's results of operations.

The following table presents data with respect to the fair values of assets and liabilities acquired in the First Sentinel acquisition (in thousands):

	At July 14, 2004
Assets:	
Cash and due from banks	$ 103,468
Securities	739,825
Loans, net	1,190,261
FHLB-NY stock	19,521
Fixed assets	16,203
Other assets	82,797
Core deposit intangible	33,013
Goodwill	390,204
Total assets	$2,575,292
Liabilities:	
Deposits	$1,359,188
Borrowings	566,485
Subordinated debentures	27,448
Other liabilities	19,767
Total liabilities	1,972,888
Net assets acquired	$ 602,404

The net deferred tax liability resulting from adjustments of net assets acquired, including the creation of the core deposit intangible, amounted to $2.7 million.

The computation of the purchase price, the allocation of the purchase price to net assets of First Sentinel based on their respective values as of July 14, 2004, and the resulting amount of goodwill are presented below (dollars in thousands, except per share amounts):

Common shares outstanding of First Sentinel	28,299,255
Percentage exchanged for Provident common stock	60%
First Sentinel common shares exchanged for Provident common stock	16,979,553
Exchange ratio	1.092
	18,541,672
Fractional shares	(1,010)
Provident common stock issued	18,540,662
Market price per share of Provident common stock	$ 19.09
Total market value of Provident common stock issued	$353,941
Retirement of Provident stock issued on First Sentinel stock owned by Provident	(3,400)
Total market value of Provident common stock issued, net	$350,541
Common shares outstanding of First Sentinel	28,299,255
Percentage exchanged for cash	40%
First Sentinel common shares exchanged for cash	11,319,702
Cash price per share of First Sentinel common stock	$ 22.25
Total cash distributed to First Sentinel stockholders	$251,863
Total purchase price of First Sentinel	$602,404
Total common stockholders' equity of First Sentinel	206,144
Excess of purchase price over carrying value of assets acquired	396,260
Purchase accounting adjustments related to assets and liabilities acquired, net of tax:	
Securities available for sale	1,598
Loans	(1,686)
Banking premises and equipment, net	(1,020)
Deposits	2,240
Borrowed funds	12,472
Subordinated debentures	990
Other liabilities—Other post-retirement employee benefits	597
Post-acquisition transaction costs	5,116
DDFP	(334)
ESOP termination	(9,849)
Core deposit intangible	(16,180)
Goodwill	$390,204

The following table presents pro forma condensed combined financial information of the Company had the acquisition taken place on January 1, for all periods presented (dollars in thousands, except per share data):

	Year Ended December 31, 2004	Year Ended December 31, 2003
Net interest income	**$192,527**	$186,557
Net income	**57,027**	35,768
Basic earnings per share	**$ 0.76**	$ 0.46
Diluted earnings per share	**$ 0.76**	$ 0.45

The pro forma combined results of operations presented in the preceding table exclude charges directly attributable to the transaction totaling $21.8 million, net of tax, for 2004 and $4.3 million, net of tax, for 2003. Transaction and acquisition costs have been determined in accordance with EITF 95-3. All expected transaction costs have been paid as of December 31, 2004.

3. Cash and Due from Banks

Included in cash on hand and due from banks at December 31, 2004 and 2003 is $4,198,000 and $2,882,000, respectively, representing reserves required by banking regulations.

4. Investment Securities Held to Maturity

Investment securities held to maturity at December 31, 2004 and 2003 are summarized as follows (in thousands):

2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mortgage-backed securities	**$229,001**	**$1,330**	**$ (216)**	**$230,115**
State and municipal obligations	**215,858**	**4,765**	**(1,441)**	**219,182**
Equity securities	**774**	**—**	**—**	**774**
	$445,633	**$6,095**	**$(1,657)**	**$450,071**

2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mortgage-backed securities	$305,496	$3,143	$ (273)	$308,366
State and municipal obligations	212,293	5,434	(1,664)	216,063
	$517,789	$8,577	$(1,937)	$524,429

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.

The amortized cost and market value of investment securities at December 31, 2004 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.

2004	Amortized Cost	Market Value
Due in one year or less	**$ 9,268**	**$ 9,339**
Due after one year through five years	**27,542**	**28,765**
Due after five years through ten years	**102,914**	**104,938**
Due after ten years	**76,134**	**76,140**
Mortgage-backed securities	**229,001**	**230,115**
Equity securities	**774**	**774**
	$445,633	**$450,071**

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

	December 31, 2004 Unrealized Losses					
	Less Than 12 months		**12 Months or Longer**		**Total**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Mortgage-backed securities	**$ 50,244**	**$ (177)**	**$ 9,213**	**$ (39)**	**$ 59,457**	**$ (216)**
State and municipal obligations	**17,867**	**(118)**	**54,122**	**(1,323)**	**71,989**	**(1,441)**
	$ 68,111	**$ (295)**	**$63,335**	**$(1,362)**	**$131,446**	**$(1,657)**

	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
Mortgage-backed securities	$ 38,314	$ (273)	$ —	$ —	$ 38,314	$ (273)
State and municipal obligations	77,450	(1,664)	—	—	77,450	(1,664)
	$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 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, 2004 and 2003 are summarized as follows (in thousands):

	2004			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Market Value**
U.S. Treasury obligations	**$ 95,887**	**$ 154**	**$ (729)**	**$ 95,312**
FHLMC obligations	**1,971**	**37**	**—**	**2,008**
Mortgage-backed securities	**1,167,838**	**5,243**	**(3,994)**	**1,169,087**
State and municipal obligations	**10,876**	**91**	**(25)**	**10,942**
Corporate obligations	**90,735**	**1,861**	**(101)**	**92,495**
Equity securities	**32,864**	**3,761**	**(129)**	**36,496**
	$1,400,171	**$11,147**	**$(4,978)**	**$1,406,340**

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury obligations	$ 120,913	$ 671	$ (4)	$ 121,580
FNMA obligations	5,000	36	—	5,036
Mortgage-backed securities	874,401	4,179	(4,647)	873,933
Corporate obligations	104,818	5,059	—	109,877
Equity securities	35,802	5,787	(186)	41,403
	$1,140,934	$15,732	$(4,837)	$1,151,829

Securities available for sale having a carrying value of $564,414,000 and $331,157,000 at December 31, 2004 and 2003, 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, 2004, 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.

	2004	
	Amortized Cost	**Market Value**
Due in one year or less	**$ 44,610**	**$ 44,787**
Due after one year through five years	**143,957**	**144,949**
Due after five years through ten years	**10,902**	**11,021**
Mortgage-backed securities	**1,167,838**	**1,169,087**
Equity securities	**32,864**	**36,496**
	$1,400,171	**$1,406,340**

Proceeds from the sale of securities available for sale during 2004 were $316,633,000, resulting in gross gains and gross losses of $2,637,000 and $1,327,000, respectively. 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. During 2002, proceeds from the sale of securities available for sale were $1,041,000, resulting in gross gains and gross losses of $960,000 and $0, respectively.

The following table represents the Company's disclosure on securities available for sale with temporary impairment (in thousands):

	December 31, 2004 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. Treasury obligations	**$ 89,164**	**$ (730)**	**$ —**	**$ —**	**$ 89,164**	**$ (730)**
Mortgage-backed securities	**362,769**	**(2,198)**	**85,776**	**(1,795)**	**448,545**	**(3,993)**
State and municipal obligations	**3,577**	**(25)**	**—**	**—**	**3,577**	**(25)**
Corporate obligations	**13,100**	**(101)**	**—**	**—**	**13,100**	**(101)**
Equity securities	**3,253**	**(129)**	**—**	**—**	**3,253**	**(129)**
	$471,863	**$(3,183)**	**$85,776**	**$(1,795)**	**$ 557,639**	**$(4,978)**

	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. Treasury obligations	$ 34,924	$ (4)	$ —	$ —	$ 34,924	$ (4)
Mortgage-backed securities	408,920	(4,647)	—	—	408,920	(4,647)
Equity securities	1,719	(186)	—	—	1,719	(186)
	$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 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, 2004 and 2003 are summarized as follows (in thousands):

	2004	2003
Mortgage loans:		
Residential	**$1,866,614**	$1,044,788
Commercial	**685,330**	449,092
Multi-family	**86,292**	90,552
Commercial construction	**188,902**	99,072
Total mortgage loans	**2,827,138**	1,683,504
Mortgage warehouse loans	**—**	4,148
Commercial loans	**353,626**	246,606
Consumer loans	**514,296**	300,825
	867,922	551,579
Premiums on purchased loans	**14,421**	5,411
Less unearned discounts	**1,309**	1,547
Less net deferred fees	**961**	1,580
	$3,707,211	$2,237,367

Premiums on purchased loans are amortized over the lives of the loans as an adjustment to the loans' yield. Required reductions due to loan prepayments are charged against interest income. For the years ended December 31, 2004, 2003 and 2002, $3,885,000, $924,000 and $905,000, 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 deterioration in the financial condition of the borrowers. The principal amount of these nonaccrual loans is $6,195,000 and $6,128,000 at December 31, 2004 and 2003, respectively.

If the nonaccrual loans had performed in accordance with their original terms, interest income would have increased by $274,000, $589,000 and $651,000, for the years ended December 31, 2004, 2003 and 2002, respectively. At December 31, 2004, there are no commitments to lend additional funds to borrowers whose loans are nonaccrual.

At December 31, 2004, impaired loans consisted of five commercial loans totaling $862,000, all of which are included in nonaccrual loans. General and specific allocations of the allowance for loan losses attributable to impaired loans totaled $172,000 at December 31, 2004. There were no impaired loans at December 31, 2003. The average balances of impaired loans during the years ended December 31, 2004, 2003 and 2002 were $1,174,000, $0 and $1,382,000 respectively. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2004, 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 $306,960,000 and $183,545,000, at December 31, 2004 and 2003, 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 $424,820,000 and $396,870,000, at December 31, 2004 and 2003, respectively, and undisbursed home equity and personal credit lines of $174,506,000 and $74,071,000 at December 31, 2004 and 2003, 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 multi-family 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, 2004, 2003 and 2002 is as follows (in thousands):

	Years Ended December 31,		
	2004	2003	2002
Balance at beginning of period	**$20,631**	$20,986	$ 21,909
Allowance of acquired institution (First Sentinel)	**12,925**	—	—
Provision charged to operations	**3,600**	1,160	12,800
Recoveries of loans previously charged off	**2,971**	2,871	1,197
Loans charged off	**(6,361)**	(4,386)	(14,920)
Balance at end of period	**$33,766**	$20,631	$ 20,986

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, 2004 and 2003 is as follows (in thousands):

	2004	2003
Land	**$ 10,481**	$ 6,394
Banking premises	**60,245**	42,033
Furniture, fixtures and equipment	**41,170**	28,224
Leasehold improvements	**16,064**	11,473
Construction in progress	**2,382**	1,787
	130,342	89,911
Less accumulated depreciation and amortization	**65,737**	43,170
	$ 64,605	$46,741

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 amounted to $6,989,000, $6,036,000 and $5,548,000, respectively.

9. Intangible Assets

Intangible assets at December 31, 2004 and 2003 are summarized as follows (in thousands):

	2004	2003
Goodwill	**$410,112**	$19,908
Core deposit premiums	**31,574**	2,982
Mortgage servicing rights	**1,054**	1,048
SERP	**408**	—
	$443,148	$23,938

Amortization expense of intangible assets for the years ended December 31, 2004, 2003 and 2002 is as follows (in thousands):

	2004	2003	2002
Goodwill amortization	**$ —**	$ —	$ 55
Core deposit premiums	**4,421**	1,149	1,046
Mortgage servicing rights	**845**	2,550	2,576
	$5,266	$3,699	$3,677

Accumulated amortization of core deposit intangibles totaled $13,661,000 at December 31, 2004. Scheduled amortization of core deposit intangibles for each of the next five years is as follows (in thousands):

Year ended December 31,	
2005	$6,838,000
2006	5,756,000
2007	4,997,000
2008	4,238,000
2009	3,479,000

During 2002, in connection with the implementation of SFAS No. 142, the Bank determined that $519,000 of goodwill related to the acquisition of a mortgage company was impaired, and recognized the impairment as a cumulative effect of a change in accounting principle.

10. Deposits

Deposits at December 31, 2004 and 2003 are summarized as follows (in thousands):

	2004	**Weighted Average Interest Rate**	2003	Weighted Average Interest Rate
Savings deposits	**$1,538,466**	**0.95%**	$ 987,877	1.24%
Money market accounts	**155,514**	**1.03**	116,176	1.60
NOW accounts	**485,698**	**0.64**	329,997	1.04
Non-interest-bearing deposits	**475,600**	**—**	328,815	—
Certificate of deposits	**1,395,195**	**2.39**	933,111	2.40
	$4,050,473		$2,695,976	

Scheduled maturities of certificates of deposit accounts at December 31, 2004 and 2003 are as follows (in thousands):

	2004	2003
Within one year	**$ 959,962**	$709,087
One to three years	**263,496**	145,097
Three to five years	**135,932**	75,022
Five years and thereafter	**35,805**	3,905
	$1,395,195	$ 933,111

Interest expense on deposits for the years ended December 31, 2004, 2003 and 2002 is summarized as follows (in thousands):

	Years Ended December 31,		
	2004	2003	2002
Savings deposits	**$11,011**	$11,839	$14,459
NOW and money market accounts	**4,274**	3,590	4,897
Certificates of deposits	**24,221**	23,742	35,481
	$39,506	$39,171	$54,837

11. Borrowed Funds

Borrowed funds at December 31, 2004 and 2003 are summarized as follows (in thousands):

	2004	2003
Securities sold under repurchase agreements	**$ 465,386**	$ 44,663
FHLB line of credit	**—**	65,000
FHLB advances	**700,678**	626,665
	$1,166,064	$736,328

FHLB advances are at fixed rates and mature between January 31, 2005 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, 2004 are as follows (in thousands):

	2004
Due in one year or less	**$189,197**
Due after one year through two years	**158,937**
Due after two years through three years	**130,030**
Due after three years through four years	**169,509**
Due after four years through five years	**14,283**
Thereafter	**38,722**
	$700,678

Scheduled maturities of securities sold under repurchase agreements at December 31, 2004 are as follows (in thousands):

	2004
Due in one year or less	**$175,712**
Due after one year through two years	**56,039**
Due after two years through three years	**12,100**
Due after three years through four years	**94,015**
Due after four years through five years	**32,310**
Thereafter	**95,210**
	$465,386

The following tables set forth certain information as to borrowed funds for the years ended December 31, 2004 and 2003 (in thousands):

	Maximum Balance	Average Balance	Weighted Average Interest Rate
2004:			
Securities sold under repurchase agreements	**$493,409**	**254,185**	**2.48%**
FHLB line of credit	**70,000**	**9,899**	**1.05%**
FHLB advances	**768,858**	**680,297**	**3.04%**
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%

Securities sold under repurchase agreements include wholesale borrowing arrangements as well as 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. At December 31, 2004 and 2003, the Bank had unused lines of credit with the FHLB of $100,000,000 and $35,000,000, respectively.

12. Subordinated Debentures

As part of the First Sentinel acquisition, the Company assumed subordinated debentures issued by First Sentinel in connection with the issuance, in November 2001, of $25,000,000 of Company-obligated mandatorily redeemable preferred capital securities through special purpose business trusts. Of the $25,000,000 of preferred capital securities sold, $12,500,000 have a floating rate of interest, which resets semi-annually, equal to six-month LIBOR plus 3.75%. The floating rate, however, may not exceed 11.00% for the first five years. The remaining $12,500,000 of preferred capital securities have a fixed interest rate of 9.95%. Distributions on the preferred capital securities are payable semi-annually. The stated maturity of the preferred capital securities is December 8, 2031, with early redemption permitted on any June 8 or

December 8 on or after December 8, 2006, at par. Upon assumption of the subordinated debentures, the Company recorded a premium of $1,674,000, representing the fair market value adjustment at the acquisition date. This premium is being accreted against interest expense on a straight-line basis over 2.5 years.

▷ 13. 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. On December 8, 2003, The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Measures of the benefit obligation or net periodic benefit cost shown below do not reflect any amount associated with the subsidy because the Company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

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 and life insurance plans and the accumulated benefit obligation at the measurement dates, December 31, 2004, 2003 and 2002 (in thousands):

	Pension			Post-Retirement		
	2004	2003	2002	**2004**	2003	2002
Change in benefit obligation:						
Benefit obligation at beginning of year	**$22,033**	$ 31,148	$ 25,690	**$ 22,272**	$ 19,962	$ 17,934
Acquisition of First Sentinel	**—**	—	—	**3,165**	—	—
Plan Amendment	**—**	(11,915)	625	**—**	(4,136)	—
Service cost	**—**	415	1,479	**659**	479	1,125
Interest cost	**1,336**	1,579	1,929	**1,582**	1,227	1,192
Actuarial loss (gain)	**(432)**	3,824	1,470	**1,721**	2,589	(652)
Benefits paid	**(2,925)**	(3,018)	(1,171)	**(506)**	(327)	(359)
Change in actuarial assumptions	**1,501**	—	1,126	**2,167**	2,478	722
Benefit obligation at end of year	**$21,513**	$ 22,033	$ 31,148	**$ 31,060**	$ 22,272	$ 19,962
Change in plan assets:						
Fair value of plan assets at beginning of year	**$22,734**	$ 20,510	$ 16,714	**$ —**	$ —	$ —
Actual return on plan assets	**3,129**	4,842	(1,707)	**—**	—	—
Employer contributions	**—**	400	6,674	**506**	327	359
Benefits paid	**(2,925)**	(3,018)	(1,171)	**(506)**	(327)	(359)
Fair value of plan assets at end of year	**$22,938**	$ 22,734	$ 20,510	**$ —**	$ —	$ —
Funded status	**$ 1,425**	$ 701	$(10,638)	**$(31,060)**	$(22,272)	$(19,962)
Unrecognized transition asset	**—**	—	—	**3,836**	4,219	5,024
Unrecognized prior service cost	**—**	—	533	**—**	—	—
Unrecognized net actuarial (gain) loss	**(57)**	202	11,881	**6,342**	2,570	879
Prepaid (accrued) benefit cost	**$ 1,368**	$ 903	$ 1,776	**$(20,882)**	$(15,483)	$(14,059)
Accumulated Benefit Obligation	**$21,513**	$ 22,033	$ 20,431	**$ —**	$ —	$ —

Net periodic benefit cost for the years ending December 31, 2004, 2003 and 2002, included the following components (in thousands):

	Pension			Post-Retirement		
	2004	2003	2002	**2004**	2003	2002
Service cost	**$ —**	$ 415	$ 1,479	**$ 659**	$ 479	$1,125
Interest cost	**1,336**	1,579	1,929	**1,582**	1,227	1,192
Expected return on plan assets	**(3,129)**	(4,734)	1,708	**—**	—	—
Amortization of:						
Net gain (loss)	**1,328**	3,480	(2,655)	**159**	—	—
Unrecognized prior service cost	**—**	533	74	**—**	—	—
Unrecognized remaining assets	**—**	—	—	**384**	384	419
Net periodic benefit (increase) cost	**(465)**	1,273	2,535	**2,784**	2,090	2,736
Curtailment gain	**—**	—	—	**—**	(339)	—
Post-retirement benefit (increase) cost	**$ (465)**	$ 1,273	$ 2,535	**$2,784**	$1,751	$2,736

The weighted average actuarial assumptions used in the plan determinations at December 31, 2004, 2003 and 2002 were as follows:

	Pension			Post-Retirement		
	2004	2003	2002	**2004**	2003	2002
Discount rate	**5.75%**	6.25%	6.75%	**5.75%**	6.25%	6.75%
Rate of compensation increase	**—**	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	**—**	—	—	**9.00**	9.00	8.50

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	$ 385	$ (330)
Effect on postretirement benefits obligation	4,475	(3,890)

Estimated future benefit payments, which reflect expected future service, as appropriate for the next five years are as follows (in thousands):

	Pension	Post-Retirement
2005	$488,000	$652,000
2006	596,000	697,000
2007	687,000	738,000
2008	745,000	774,000
2009	800,000	828,000

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

Asset Category	**2004**	2003
Domestic equities	**69%**	68%
Foreign equities	**12%**	10%
US bonds	**8%**	10%
International bonds	**5%**	4%
Real estate	**5%**	5%
Cash	**1%**	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:

Asset Category	Target	Allowable Range
Domestic equities	60%	50–70%
Foreign equities	10%	5–17%
US 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 pension plan was frozen as of April 1, 2003. Based on the measurement date of December 31, 2004, management believes that no contributions will be made to the pension plan in 2005.

The Bank has a savings incentive plan covering substantially all employees of the Bank. For 2004, the Bank matched 50% of the first 6% contributed by the participants. The contribution percentage is determined quarterly by the Board of Directors. The Bank's contributions for 2004, 2003 and 2002 were $702,000, $1,033,000 and $1,265,000, respectively.

The Bank also maintains a non-qualified supplemental retirement plan for certain senior officers of the Bank. This plan was frozen effective April 1, 2003. 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 $134,000, $100,000 and $279,000 for the years 2004, 2003 and 2002, respectively. At December 31, 2004, 2003 and 2002, $1,785,000, $1,242,000 and $1,142,000, respectively, was 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 the Company's 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, 2004, was $77.5 million. Those shares pledged as collateral for the loan are released from the pledge for allocation to participants as loan payments are made.

For the plan year ending December 31, 2004, there are 159,073 shares that are committed to be released and will be allocated to participants at the end of the plan year versus 156,337 shares released in the plan year ending December 31, 2003. Unallocated ESOP shares held in suspense totaled 4,454,054 at December 31, 2004, and had a fair market value of $86.3 million. ESOP compensation expense for the years ended December 31, 2004 and 2003 was $3,026,000 and $2,736,000, respectively.

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 Savings Incentive Plan's and the ESOP's benefit formulas. 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 ESOP 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 December 31, 2003. Accrued benefits under the frozen plan will continue to be governed by the tax laws in effect prior to the enactment of Internal Revenue Code ("IRC") Section 409A created by the American Jobs Creation Act ("AJCA").

Non-Qualified Supplemental Employee Stock Ownership Plan

Effective January 1, 2004, the Bank established a new deferred compensation plan for executive management and key employees of the Bank, known as The Provident Bank Non-Qualified Supplemental Employee Stock Ownership Plan (the "Supplemental ESOP"). The Supplemental ESOP was adopted in order to satisfy the requirements of new IRC Section 409A created by the AJCA. The Supplemental ESOP is a non-qualified plan the provides additional benefits to certain executives whose benefits under the ESOP are limited by tax law limitations applicable to tax-qualified plans. The Supplemental ESOP requires a contribution by the Bank for each participant who also participates in the ESOP equal to the amount which would have been contributed under the terms of the ESOP but for the tax law limitations, less the amount actually contributed under the ESOP.

Stock Award Plan

The purpose of the 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 2,384,732 shares to fund the SAP on the open market at an average price of $19.85 per share as of December 31, 2004.

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, 2004, common stock that had not been awarded totaled 1,073,637 shares. Expense attributable to the SAP amounted to $5,197,000 and $1,918,000 for the years ended December 31, 2004 and 2003, respectively.

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	
	2004	2003
Outstanding at beginning of year	**1,260,000**	—
Granted	**91,095**	1,260,000
Forfeited	**(40,000)**	—
Vested	**(252,000)**	—
Outstanding at the end of year	**1,059,095**	1,260,000

Stock Option Plan

Each stock option granted entitles the holder to purchase one share of the Company'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 vest over a five-year period from the date of grant and expire no later than 10 years following the grant date. Under the Company's stock option plan, 5,961,830 shares of the Company's common stock have been reserved for issuance. Directors and employees have been granted 4,772,000 stock options as of December 31, 2004.

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

	2004		2003	
	Number of Stock Options	**Weighted Average Exercise Price**	Number of Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	**4,943,800**	**$18.57**	—	$ —
Granted	**100,000**	**18.15**	4,953,800	18.57
Exercised	**(5,385)**	**18.57**	—	—
Forfeited	**(271,800)**	**18.57**	(10,000)	18.57
Outstanding at the end of year	**4,766,615**	**$18.56**	4,943,800	$18.57

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$ 17.43–19.22	4,766,615	8.5 years	$18.56	933,323	$18.57

The Company applies SFAS No. 123 and related Interpretations in accounting for stock options. Compensation expense for the Company's stock option plan was determined based on the fair value at the grant date consistent with SFAS No. 123. Compensation expense related to the Company's stock option plan totaled $3,489,000 and $1,689,000 for 2004 and 2003, respectively.

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 Years Ended December 31,	
	2004	2003
Expected dividend yield	**1.22%**	1.00%
Expected volatility	**19.59%**	15.00%
Risk-free interest rate	**3.68%**	2.40%
Expected option life	**8 years**	8 years

▷ 14. Income Taxes

The current and deferred amounts of income tax expense (benefit) for the years ended December 31, 2004, 2003 and 2002 are as follows (in thousands):

	Years Ended December 31,		
	2004	2003	2002
Current:			
Federal	**$23,030**	$14,048	$10,168
State	**1,513**	2,152	600
Total current	**24,543**	16,200	10,768
Deferred:			
Federal	**(5,562)**	(8,286)	517
State	**293**	(890)	(1,023)
Change in state deferred tax rate, net	**—**	—	(1,031)
Total deferred	**(5,269)**	(9,176)	(1,537)
	$19,274	$ 7,024	$ 9,231

The Bank recalculated its deferred tax assets and liabilities 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, a deferred (benefit) expense of $(1,733,000), $(4,082,000) and $5,401,000 during the years 2004, 2003 and 2002, respectively, to reflect the tax effect of the unrealized (loss) gain on securities available for sale.

A 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,		
	2004	2003	2002
Tax expense at statutory rate of 35%	**$24,001**	$ 9,016	$12,534
Increase (decrease) in taxes resulting from:			
State tax, net of federal income tax benefit	**1,174**	820	(945)
Tax-exempt income	**(3,068)**	(1,968)	(1,180)
Change in valuation reserve	**(1,848)**	—	—
Bank-owned life insurance	**(1,567)**	(1,346)	(1,004)
Other, net	**582**	502	(174)
	$19,274	$ 7,024	$ 9,231

The net deferred tax asset is included in other assets in the consolidated statements of financial 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, 2004 and 2003 are as follows (in thousands):

	2004	2003
Deferred tax assets:		
Deferred fee income	**$ —**	$ 505
Allowance for loan losses	**13,480**	8,355
Post-retirement benefit	**8,922**	6,518
Deferred compensation	**5,261**	341
Pension expense	**—**	108
Intangibles	**4,118**	2,347
Depreciation	**495**	1,589
SERP	**729**	508
Deferred gain	**133**	200
Contribution carry-forward	**6,799**	9,582
Accrued bonuses	**518**	—
ESOP	**622**	73
Stock compensation	**2,519**	1,360
Other	**295**	739
Total gross deferred tax assets	**43,891**	32,225
Valuation Reserve	**946**	2,794
Deferred tax liabilities:		
Unrealized gain on securities	**$ 2,402**	$ 4,135
Pension expense	**335**	—
Deferred loan costs	**1,734**	—
Investment securities, principally due to accretion of discounts	**163**	158
Purchase accounting adjustments	**3,567**	—
Originated mortgage servicing rights	**306**	189
Other	**76**	1,137
Total gross deferred tax liabilities	**8,583**	5,619
Net deferred tax asset	**$34,362**	$23,812

Equity at December 31, 2004 includes approximately $51,866,000 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, 2004 the Company had an unrecognized tax liability of $21,187,000 with respect to this reserve.

In 2004, the Company reduced the valuation reserve pertaining to the charitable contributions carry-forward $1,855,000 as a result of projected improvement in the Company's ability to generate sufficient future taxable income to realize the deferred tax asset. This improvement in the Company's future earnings outlook was largely due to the First Sentinel acquisition. The Company maintained a $946,000 valuation reserve against certain state deferred tax assets at December 31, 2004, which are not expected to be realized based upon projected future taxable income. Management has determined that it is more likely than not that it will realize the net deferred tax asset 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 that such levels of taxable income will be generated.

15. Lease Commitments

The approximate future minimum rental commitments for all significant noncancellable operating leases at December 31, 2004 are summarized as follows (in thousands):

Year Ending December 31:	
2005	$ 2,931
2006	2,980
2007	3,004
2008	2,882
2009	2,889
Thereafter	33,042
	$47,728

Rental expense was $3,107,000, $2,411,000 and $2,269,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

▷ 16. 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 $7,615,000, $6,191,000 and $5,849,000 the years ended December 31, 2004, 2003 and 2002, 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 has entered into employment agreements with three executives. 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 $6,728,000 pursuant to the employment agreements upon a change of control of the Company based upon current levels of compensation.

▷ 17. Regulatory Capital Requirements

FDIC regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2004 and 2003, the Bank is required to maintain (i) a minimum leverage ratio of Tier 1 capital to total adjusted assets of 4.00%, and (ii) minimum ratios of Tier 1 and total capital to risk-weighted assets of 4.00% and 8.00%, 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 5.00%; a Tier 1 risk-based capital ratio of at least 6.00%; and a total risk-based capital ratio of at least 10.00%.

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, 2004 and 2003, 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, 2004 and 2003, 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, 2004:						
Leverage (Tier 1)	**$498,977**	**8.33%**	**$239,561**	**4.00%**	**$299,451**	**5.00%**
Risk-based capital:						
Tier 1	**498,977**	**13.31**	**149,963**	**4.00**	**224,945**	**6.00**
Total	**532,865**	**14.21**	**299,926**	**8.00**	**374,908**	**10.00**

	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	4.00%	$200,019	5.00%
Risk-based capital:						
Tier 1	530,985	21.52	98,717	4.00	148,075	6.00
Total	551,766	22.36	197,434	8.00	246,792	10.00

18. Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Cash and Cash Equivalents

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

Investment Securities and Securities Available for Sale

The fair value of investment securities and securities available for sale is estimated 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, 2004 and 2003 are presented in the following table (in thousands):

	2004		2003	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 163,694**	**$ 163,694**	$ 175,852	$ 175,852
Securities available for sale	**1,406,340**	**1,406,340**	1,151,829	1,151,829
Investment securities	**445,633**	**450,071**	517,789	524,429
FHLB stock	**48,283**	**48,283**	34,585	34,585
Loans	**3,673,445**	**3,653,009**	2,216,736	2,287,323
Financial liabilities:				
Deposits	**4,050,473**	**4,049,798**	2,695,976	2,699,484
Borrowed funds	**1,166,064**	**1,148,630**	736,328	739,017
Subordinated debentures	**27,113**	**26,405**	—	—

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 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.

19. Selected Quarterly Financial Data (Unaudited)

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2004 and 2003. Basic and diluted earnings per share for the year ended December 31, 2003 includes the result of operations from January 15, 2003, the date the Company completed its Plan of Conversion. Fourth quarter 2004 earnings were favorably impacted by a $1.9 million, or $0.03 per share, reduction of a valuation allowance pertaining to charitable contribution carry-forwards created in connection with the formation of The Provident Bank Foundation.

	2004 Quarter Ended			
(In thousands except per share data)	**March 31**	**June 30**	**September 30**	**December 31**
Interest income	**$46,987**	**$45,317**	**$66,908**	**$70,331**
Interest expense	**12,585**	**12,821**	**19,978**	**21,801**
Net interest income	**34,402**	**32,496**	**46,930**	**48,530**
Provision for loan losses	**600**	**1,050**	**1,050**	**900**
Net interest income after provision for loan losses	**33,802**	**31,446**	**45,880**	**47,630**
Non-interest income	**7,656**	**6,716**	**8,200**	**6,579**
Non-interest expense	**26,666**	**26,077**	**34,340**	**32,251**
Income before income tax expense	**14,792**	**12,085**	**19,740**	**21,958**
Income tax expense	**4,498**	**3,504**	**6,397**	**4,875**
Net income	**$10,294**	**$ 8,581**	**$13,343**	**$17,083**
Basic earnings per share	**0.19**	**0.16**	**0.19**	**0.25**
Diluted earnings per share	**0.19**	**0.16**	**0.19**	**0.24**

	2003 Quarter Ended			
(In thousands except per share data)	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) and the cumulative effect of a change in accounting principle	(10,393)	13,114	11,600	11,447
Income tax expense	(3,950)	4,276	3,462	3,236
Net income	$ (6,443)	$ 8,838	$ 8,138	$ 8,211
Basic earnings per share	(0.12)	0.15	0.14	0.15
Diluted earnings per share	(0.12)	0.15	0.14	0.15

20. Earnings Per Share

The following is a reconciliation of the outstanding shares used in the basic and diluted earnings per share computations.

(Dollars in thousands, except per share data)	For the Year Ended December 31,	
	2004	2003
Net income	**$49,301**	$17,755
Basic weighted average common shares outstanding	**61,576,544**	57,835,726
Plus:		
Dilutive DDFP shares	**343,498**	—
Dilutive stock options	**12,131**	129,914
Diluted weighted average common shares outstanding	**61,932,173**	57,965,640
Earnings per share:		
Basic	**$ 0.80**	$ 0.31
Diluted	**$ 0.80**	$ 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 the Company completed its Plan of Conversion. Anti-dilutive stock options and awards totaling 6,020,295 shares at December 31, 2004, were excluded from the earnings per share calculations.

21. Parent-only Financial Information

The condensed financial statements of Provident Financial Services, Inc. (parent company only) are presented below:

Provident Financial Services, Inc.

Condensed Statements of Financial Condition

(Dollars in thousands)	December 31,	
	2004	2003
ASSETS		
Cash and due from banks	**$ 40,755**	$ 5,356
Short-term investments	**25,300**	68,966
Total cash and cash equivalents	**66,055**	74,322
Securities available for sale, at fair value	**35,843**	100,456
Investment in Subsidiaries	**942,272**	517,640
Due from Subsidiary – SAP	**42,331**	47,333
ESOP Loan	**77,498**	78,990
Accrued interest receivable	**29**	200
Other assets	**753**	63
Total assets	**$1,164,781**	$819,004
LIABILITIES AND STOCKHOLDERS' EQUITY		
Subordinated debentures	**27,113**	—
Other liabilities	**892**	1,885
Total stockholders' equity	**1,136,776**	817,119
Total liabilities and stockholders' equity	**$1,164,781**	$819,004

Provident Financial Services, Inc. *Condensed Statements of Income* *(Dollars in thousands)*	Year Ended December 31, **2004**	January 15 to December 31, 2003
Income:		
Dividends from Subsidiary	**$ 239,189**	$ —
Interest income	**3,633**	2,484
Investment income	**3,022**	2,917
Other income	**12**	—
Total income	**245,856**	5,401
Interest expense	**907**	—
Non-interest expense	**1,536**	28,410
Total expense	**2,443**	28,410
Income (loss) before income tax expense	**$ 243,413**	$ (23,009)
Income tax expense	**164**	89
Income (loss) before equity in undistributed net income of subsidiary	**243,249**	(23,098)
(Dividends in excess of earnings) Equity in undistributed net income of subsidiary	**(193,948)**	41,842
Net income	**$ 49,301**	$ 18,744

Provident Financial Services, Inc. *Condensed Statements of Cash Flows* *(Dollars in thousands)*	Year Ended December 31, **2004**	January 15 to December 31, 2003
Cash flows from operating activities:		
Net income	**$ 49,301**	$ 18,744
Adjustments to reconcile net income to		
Dividends in excess of earnings (Equity in undistributed net income of subsidiary)	**193,948**	(41,842)
Contribution to The Provident Bank Foundation	**—**	24,000
ESOP expense	**3,026**	2,736
SAP expense	**5,197**	1,918
Stock option expense	**3,489**	1,689
Gain on sales of securities available for sale	**(743)**	—
Decrease in Due from Subsidiary—SAP	**5,002**	—
Increase in other assets	**(519)**	(6,606)
(Decrease) increase in other liabilities	**(6,369)**	1,886
Net cash provided by operating activities	**252,332**	2,525
Cash flows from investing activities:		
Purchases of available for sale securities	**(109,226)**	(376,616)
Proceeds from sales of available for sale securities	**71,584**	29,257
Proceeds from maturities and paydowns of securities available for sale	**103,891**	243,903
Net decrease (increase) in ESOP loan	**1,492**	(78,990)
Cash consideration paid to acquire First Sentinel, net of cash and cash equivalents received	**(239,092)**	—
Investment in subsidiary	**—**	(304,366)
Net cash used in investing activities	**(171,351)**	(486,812)
Cash flows from financing activities:		
Proceeds from sale of stock, net	**—**	567,214
Purchases of treasury stock	**(70,909)**	—
Purchases of SAP shares	**(3,565)**	—
Stock option exercises	**99**	—
Cash dividends paid	**(14,873)**	(8,605)
Net cash (used in) provided by financing activities	**(89,248)**	558,609
Net (decrease) increase in cash and cash equivalents	**(8,267)**	74,322
Cash and cash equivalents at beginning of period	**74,322**	—
Cash and cash equivalents at end of period	**$ 66,055**	$ 74,322

report of independent registered public accounting firm

The Board of Directors and Stockholders
Provident Financial Services, Inc.:

We have audited the accompanying consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary (the "Company") as of December 31, 2004 and 2003, 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, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Provident Financial Services, Inc. and subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Provident Financial Services, Inc. and subsidiary's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 11, 2005 expressed an unqualified opinion on management's assessment of, and the effectiveness of, internal control over financial reporting.

KPMG LLP

Short Hills, New Jersey
March 11, 2005

report of independent registered public accounting firm on internal control over financial reporting

The Board of Directors and Stockholders
Provident Financial Services, Inc.:

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Provident Financial Services, Inc. and subsidiary (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Provident Financial Services, Inc. and subsidiary maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, Provident Financial Services, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary as of December 31, 2004 and 2003, 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, 2004, and our report dated March 11, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Short Hills, New Jersey
March 11, 2005

management's report on internal control over financial reporting

The management of Provident Financial Services, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is a process designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on the assessment management believes that, as of December 31, 2004, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on our assessment of, and the effectiveness of, the Company's internal control over financial reporting as of December 31, 2004.

PROVIDENT FINANCIAL SERVICES, INC.

board of directors & corporate management

DIRECTORS

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

John G. Collins
Former President, Fleet NJ

J. Martin Comey
Former Vice President, Schering-Plough Corporation

Geoffrey M. Connor
Partner, Reed Smith LLP

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

Carlos Hernandez
President, New Jersey City University

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

David Leff
Former Partner, Eichenbaum, Kantrowicz, Leff & Gulko, Attorneys

Arthur McConnell
President, McConnell Realty

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

Edward O'Donnell
President, Tradelinks Transport, Inc.

Thomas E. Sheenan
President, Sheenan Funeral Home

Jeffries Shein
Principal JGT Management Co., LLC

MANAGEMENT— Provident Financial Services, Inc.

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

Christopher Martin
President

Kevin J. Ward
Vice Chairman

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 and Chief Executive Officer

Christopher Martin
President

Kevin J. Ward
Vice Chairman and Chief Operating Officer

Donald Blum
Executive Vice President and Chief Lending Officer

Gregory French
Senior Vice President—Market Development and Delivery

Linda A. Niro
Senior Vice President and Chief Financial Officer

John F. Kuntz
Senior Vice President and General Counsel

CORPORATE INFORMATION

Annual Meeting
The annual meeting of stockholders will be held on April 27, 2005 at 10:00 a.m. at the Hilton Newark Airport, 1170 Spring Street, Elizabeth, New Jersey, 07201. Notice of the meeting and a proxy statement are included with this mailing to stockholders of record as of March 4, 2005.

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

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