



PROVIDENT FINANCIAL SERVICES, INC.



Our Commitment Shines Through

2011 ANNUAL REPORT

## CORPORATE PROFILE

**Provident Financial Services, Inc.** is the holding company for The Provident Bank. Established in 1839, The Provident Bank emphasizes personal service and customer convenience in attending to the financial needs of businesses, individuals and families in northern and central New Jersey. The Bank offers a broad array of deposit, loan and investment products, as well as trust, fiduciary and wealth management services through its wholly owned subsidiary, Beacon Trust Company.

## FINANCIAL HIGHLIGHTS

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

At December 31,	2011	2010	2009	2008
Total assets	<b>\$7,097,403</b>	\$6,824,528	\$6,836,172	\$6,548,748
Net loans outstanding	<b>4,579,158</b>	4,341,091	4,323,450	4,479,036
Investment securities	<b>348,318</b>	346,022	335,074	347,484
Securities available for sale	<b>1,376,119</b>	1,378,927	1,333,163	820,329
Deposits	<b>5,156,597</b>	4,877,734	4,899,177	4,226,336
Borrowings	<b>920,180</b>	969,683	999,233	1,247,681
Stockholders' equity	<b>952,477</b>	921,687	884,555	1,018,590

  

At or for the year ended December 31,	2011	2010	2009	2008
Net income (loss)	<b>\$ 57,344</b>	\$ 49,705	\$ (121,824)	\$ 41,642
Diluted earnings (loss) per share	<b>\$1.01</b>	\$0.88	\$(2.16)	\$0.74
Net interest margin	<b>3.49%</b>	3.45%	3.06%	3.11%
Average net interest rate spread	<b>3.33%</b>	3.27%	2.82%	2.78%
Non-performing loans to total loans	<b>2.63%</b>	2.21%	1.93%	1.31%
Allowance for loan losses to total loans	<b>1.60%</b>	1.56%	1.39%	1.05%
Number of branches	<b>82</b>	81	82	83

## DEAR FELLOW STOCKHOLDERS:



**Christopher Martin**  
Chairman, President and  
Chief Executive Officer

Your Company  
earned \$57.3  
million in net  
income in 2011,  
up over 15%  
from 2010.

Our nation's economy began to show signs of recovery throughout 2011, as stimulus programs and payroll tax reductions provided taxpayers with a measure of financial relief. While economic conditions facing banks have improved in many respects, a more vibrant turnaround remains slow to materialize. For Provident, the focus of our efforts has been to maintain our strong financial position, enhance our support structure to weather the ongoing economic challenges, and position the Company to take advantage of a stronger, albeit delayed recovery. During 2011, Provident was able to deliver the following results in the face of substantial economic headwinds:

- Achieved record earnings of \$1.01 per share, an increase of 14.8% from 2010;
- Generated over \$1.5 billion in loan originations;
- Acquired Beacon Trust Company, increasing the breadth and depth of our wealth management services;
- Improved efficiencies and reduced expenses by consolidating administrative functions into one location;
- Provided credit to dozens of small businesses with SBA loans approaching \$20 million in 2011;
- Increased quarterly cash dividends by 9%, to an annualized \$0.48 per share;
- Supported our communities and other philanthropic organizations throughout the state of New Jersey with over \$1.7 million in contributions.

Your Company earned \$57.3 million in net income in 2011, up over 15% from 2010. We also achieved a high-water mark in the size of our balance sheet, reaching \$7.1 billion in assets. Net loans increased 5.5% to \$4.58 billion as of the end of 2011, with most of the growth coming in the commercial areas. Our commercial, commercial real estate and construction loans totaled 59.8% of total loans at December 31, 2011, up from 55.6% at the end of last year. Our pipeline of pending loans remains robust, and we continue to invest in people to achieve inroads in healthcare lending, an area we've targeted for future growth. Total deposits also increased 5.7%, to \$5.16 billion at December 31, 2011. Significantly, this growth occurred in core savings, demand and non-interest bearing deposits. Core deposits accounted for over 78% of total deposits at year end.

While loan and securities yields remained under pressure from the low interest rate and flattening yield curve environment, we were able to improve our net interest margin compared with the prior year by carefully managing our funding costs. Our average cost of funds declined 32 basis points to 1.01% for the year ended December 31, 2011.

As a result, our return on average assets improved to 83 basis points, up 13.7% from the prior year, and our operating efficiency ratio improved again, to 57.3%.

We are a well  
capitalized bank  
...and we will  
continue to be  
competent and  
conservative  
stewards of  
that capital  
in the future.

We have strengthened our collaborative approach to meeting our customers' needs by consolidating all of our administrative operations into one leased location in Iselin. We completed the sales of our former operating facilities in Jersey City and Woodbridge in November 2011, and the resulting cost savings have exceeded our expectations, while reinvigorating synergies between all divisions of the Bank. We remain vigilant in our pursuit of additional efficiencies through process improvements and the effective use of technology.

Although our results were strong, we were not immune to the challenges of the New Jersey economy, with provisions for loan losses totaling \$28.9 million in 2011. This was a reduction from \$35.5 million in 2010, as the rate of growth in problem assets decreased throughout 2011. Actual loan losses also remained well contained in 2011, with net charge-offs declining to \$23.3 million, or 52 basis points of average loans. While many businesses now find themselves in better financial condition and home prices appear to be reaching a floor, the foreclosure process in New Jersey is among the worst in the nation, with the average time to completion exceeding 950 days. This will continue to inhibit a recovery, maintaining the elevated inventory of unsold and unoccupied homes throughout the state, and adversely affecting household wealth and confidence.

The declining interest rate environment in 2011 benefitted many banks through reduced funding costs and increased loan fees from refinancing activity. Looking forward however, sustained low rates are expected to pressure asset pricing and net interest margins through at least 2014, according to Federal Reserve estimates.

At the same time, regulatory initiatives like the Dodd-Frank Act and the Durbin Amendment have resulted in decreased fee income and increased operational costs across our industry. Regulatory challenges are just beginning, as banks address the myriad issues emanating from Dodd-Frank. Policymakers and regulators are making vast changes in an overly broad attempt to address what they believe caused the Great Recession. While many of these rules have yet to be developed, we must remain engaged in the process so that community banks like ours are not penalized for the issues created by larger money center banks and investment companies.

In dealing with these economic and regulatory issues, core capital is essential. In recent years, the quality of capital, in addition to the quantity, has become increasingly important. We are a well capitalized bank, as currently defined by our regulators, and we will continue to be competent and conservative stewards of that capital in the future. As the challenges of increased regulatory scrutiny and the costs that accompany it escalate, we anticipate an increase in merger and acquisition activity in the financial services industry. We will consider acquisition targets that are priced appropriately and where the risks and associated costs can be clearly defined and evaluated.

In August 2011, we completed the acquisition of Beacon Trust Company, which increased our assets under management to approximately \$1.5 billion. The Beacon acquisition expanded our wealth management platform by adding a sophisticated team of professionals in wealth management and trust services, and augmenting growth in our non-interest income.

Our retail branch network throughout northern and central New Jersey has been instrumental in growing customer relationships and expanding the number of products per household. Our management and staff have been extremely successful at reinforcing a culture where the customer shapes the brand, and drives distribution, products and services.

We are working diligently to stay ahead of the rapid rate of change in the financial services industry. Smart phones and tablet computers are redefining the marketplace. Many users of these wireless devices would prefer not to visit branch offices. We continue to explore new ways to meet the demand for alternative delivery channels, as well as the use of social media to capture opportunities and communicate with current and future customers. However, while new product development and deployment are essential to our future, they require substantial analysis and an investment of resources to ensure adequate security and functionality.

Many of our communities have struggled in these challenging times, and charitable organizations are straining under the tremendous increase in need. The Provident Bank and The Provident Bank Foundation contributed over \$1.7 million to worthwhile causes and charities in 2011, while our officers and employees also committed their time, efforts, and in many cases personal funds, to help make a difference.

As we reflect on our financial results, what is readily apparent is how well your Company performed as a business and as a team. While other companies were paying back TARP loans or resolving issues with their regulators, we were cultivating relationships and assisting our customers. All these positives were accomplished by the committed officers and employees of our organization, guided by our dedicated board of directors. It is with a tremendous amount of pride that I have been able to work alongside these professionals, and we all look forward to addressing the challenges ahead, with the goals of enhancing stockholder value, meeting our customers' financial needs and supporting our communities.

Sincerely,



Christopher Martin  
*Chairman, President and Chief Executive Officer*



## BOARD OF DIRECTORS AND CORPORATE MANAGEMENT

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Chief Executive Officer*

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Tradelinks Transport, Inc.*

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

**\*Lead Director**

### MANAGEMENT

#### PROVIDENT FINANCIAL SERVICES, INC.

**Christopher Martin**  
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General Counsel and  
Corporate Secretary*

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*Executive Vice President and  
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**Leonard G. Gleason**  
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*Executive Vice President,  
Chief Administrative Officer  
and General Counsel*

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



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