# UNITED STATES SECURITIES AND EXCHANGE COMMISSION 

Washington, D.C. 20549

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from $\qquad$ to $\qquad$

# PROVIDENT FINANCIAL SERVICES, INC. 

| Delaware <br> (State or Other Jurisdiction of <br> Incorporation or Organization) | $42-1547151$ <br> (I.R.S. Employer |
| :---: | :---: |
| 830 Bergen Avenue, Jersey City, New Jersey |  |
| (Address of Principal Executive Offices) | Identification No.) |
| (Zip Code) |  |

(201) 333-1000
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES x NO *

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). YES x NO *

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). YES * NO x

As of November 1, 2005 there were $79,879,017$ shares issued and $70,128,975$ shares outstanding of the Registrant s Common Stock, par value $\$ 0.01$ per share, including 756,474 shares held by the First Savings Bank Directors Deferred Fee Plan not otherwise considered outstanding under accounting principles generally accepted in the United States of America.

## PROVIDENT FINANCIAL SERVICES, INC.

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## PART I FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS.

## PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

September 30, 2005 (Unaudited) and December 31, 2004
(Dollars in thousands, except share data)

|  | $\begin{gathered} \text { September 30, } \\ 2005 \end{gathered}$ |  | December 31, 2004 |  |
| :---: | :---: | :---: | :---: | :---: |
| ASSETS |  |  |  |  |
| Cash and due from banks | \$ | 127,076 | \$ | 121,187 |
| Federal funds sold |  | 60,000 |  | 16,000 |
| Short-term investments |  | 9,680 |  | 26,507 |
| Total cash and cash equivalents |  | 196,756 |  | 163,694 |
| Investment securities (market value of \$420,375 (unaudited) and \$450,071 at September 30, 2005 and |  |  |  |  |
| December 31, 2004, respectively) |  | 421,057 |  | 445,633 |
| Securities available for sale, at fair value |  | 1,170,318 |  | 1,406,340 |
| Federal Home Loan Bank ( FHLB ) stock |  | 43,208 |  | 48,283 |
| Loans held for sale |  | 1,664 |  |  |
| Loans |  | 3,679,907 |  | 3,707,211 |
| Less: allowance for loan losses |  | 32,621 |  | 33,766 |
| Net loans |  | 3,647,286 |  | 3,673,445 |
| Foreclosed assets, net |  | 421 |  | 140 |
| Banking premises and equipment, net |  | 62,538 |  | 64,605 |
| Accrued interest receivable |  | 20,893 |  | 23,865 |
| Intangible assets |  | 437,459 |  | 443,148 |
| Bank-owned life insurance ( BOLI ) |  | 109,770 |  | 105,932 |
| Other assets |  | 64,101 |  | 58,237 |
| Total assets | \$ | 6,175,471 | \$ | 6,433,322 |
| LIABILITIES AND STOCKHOLDERS EOUITY |  |  |  |  |
| Deposits: |  |  |  |  |
| Demand deposits | \$ | 1,142,838 | \$ | 1,116,812 |
| Savings deposits |  | 1,418,168 |  | 1,538,466 |
| Certificates of deposit of \$100,000 or more |  | 278,111 |  | 253,024 |
| Other time deposits |  | 1,125,231 |  | 1,142,171 |

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| Total deposits | 3,964,348 | 4,050,473 |
| :---: | :---: | :---: |
| Mortgage escrow deposits | 18,768 | 15,389 |
| Borrowed funds | 1,048,387 | 1,166,064 |
| Subordinated debentures | 26,611 | 27,113 |
| Other liabilities | 38,955 | 37,507 |
| Total liabilities | 5,097,069 | 5,296,546 |
| 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 $69,372,501$ shares outstanding at September 30, 2005, and 74,078,784 shares outstanding at December 31, 2004 | 799 | 799 |
| Additional paid-in capital | 963,545 | 960,792 |
| Retained earnings | 385,685 | 358,678 |
| Accumulated other comprehensive (loss) income | $(6,893)$ | 3,767 |
| Treasury stock, at cost | $(154,152)$ | $(70,810)$ |
| Unallocated common stock held by Employee Stock Ownership Plan ( ESOP ) | $(74,062)$ | $(76,101)$ |
| Common stock acquired by the Stock Award Plan (SAP ) | $(36,520)$ | $(40,349)$ |
| Common stock acquired by the Directors Deferred Fee Plan ( DDFP ) | $(13,224)$ | $(13,379)$ |
| Deferred compensation DDFP | 13,224 | 13,379 |
|  |  |  |
| Total stockholders equity | 1,078,402 | 1,136,776 |
|  |  |  |
| Total liabilities and stockholders equity | \$ 6,175,471 | \$ 6,433,322 |

See accompanying notes to unaudited consolidated financial statements.

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## PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Three and Nine Months ended September 30, 2005 and 2004 (Unaudited)
(Dollars in thousands, except per share data)

|  | Three months ended September 30, |  |  |  | Nine months ended <br> September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | 2004 |  | 2005 |  | 2004 |  |
| Interest income: |  |  |  |  |  |  |  |  |
| Real estate secured loans | \$ | 38,759 | , | 36,978 | \$ | 115,673 | \$ | 84,283 |
| Commercial loans |  | 5,691 |  | 3,953 |  | 15,927 |  | 10,979 |
| Consumer loans |  | 7,889 |  | 6,552 |  | 22,390 |  | 15,948 |
| Investment securities |  | 4,275 |  | 4,799 |  | 12,925 |  | 14,522 |
| Securities available for sale |  | 12,271 |  | 14,423 |  | 38,901 |  | 32,603 |
| Other short-term investments |  | 103 |  | 108 |  | 419 |  | 408 |
| Federal funds |  | 283 |  | 95 |  | 819 |  | 469 |
| Total interest income |  | 69,271 |  | 66,908 |  | 207,054 |  | 159,212 |
| Interest expense: |  |  |  |  |  |  |  |  |
| Deposits |  | 15,603 |  | 11,321 |  | 42,619 |  | 27,123 |
| Borrowed funds |  | 8,478 |  | 8,404 |  | 25,405 |  | 18,008 |
| Subordinated debentures |  | 379 |  | 253 |  | 1,083 |  | 253 |
| Total interest expense |  | 24,460 |  | 19,978 |  | 69,107 |  | 45,384 |
| Net interest income |  | 44,811 |  | 46,930 |  | 137,947 |  | 113,828 |
| Provision for loan losses |  | 100 |  | 1,050 |  | 500 |  | 2,700 |
| Net interest income after provision for loan losses |  | 44,711 |  | 45,880 |  | 137,447 |  | 111,128 |
| Non-interest income: |  |  |  |  |  |  |  |  |
| Fees |  | 6,384 |  | 5,853 |  | 17,261 |  | 15,536 |
| BOLI |  | 1,286 |  | 1,255 |  | 3,838 |  | 3,193 |
| Net gain on securities transactions |  | 213 |  | 577 |  | 151 |  | 1,312 |
| Other income |  | (63) |  | 515 |  | 292 |  | 2,531 |
| Total non-interest income |  | 7,820 |  | 8,200 |  | 21,542 |  | 22,572 |
| Non-interest expense: |  |  |  |  |  |  |  |  |
| Compensation and employee benefits |  | 15,221 |  | 17,869 |  | 50,186 |  | 46,351 |
| Net occupancy expense |  | 4,842 |  | 4,837 |  | 14,523 |  | 12,355 |
| Data processing expense |  | 2,135 |  | 2,156 |  | 6,462 |  | 5,820 |
| Amortization of intangibles |  | 1,595 |  | 1,953 |  | 5,581 |  | 3,048 |
| Advertising and promotion expense |  | 1,086 |  | 1,853 |  | 3,290 |  | 4,897 |
| Other operating expenses |  | 5,151 |  | 5,672 |  | 14,593 |  | 14,612 |

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| Total non-interest expense |  | 30,030 |  | 34,340 |  | 94,635 |  | 87,083 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Income before income tax expense |  | 22,501 |  | 19,740 |  | 64,354 |  | 46,617 |
| Income tax expense |  | 7,564 |  | 6,397 |  | 20,626 |  | 14,399 |
| Net income | \$ | 14,937 | \$ | 13,343 | \$ | 43,728 | \$ | 32,218 |
| Basic earnings per share | \$ | 0.23 | \$ | 0.19 | \$ | 0.66 | \$ | 0.54 |
| Average basic shares outstanding |  | 24,553 |  | 29,870 |  | 30,203 |  | 44,983 |
| Diluted earnings per share | \$ | 0.23 | \$ | 0.19 | \$ | 0.65 | \$ | 0.54 |
| Average diluted shares outstanding |  | 81,331 |  | 370,675 |  | 87,825 |  | 60,492 |

See accompanying notes to unaudited consolidated financial statements.

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## PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders Equity for the Nine Months Ended September 30, 2005 and 2004 (Unaudited)
(Dollars in Thousands)

adjustment for gains
included in net
income (net of tax
of \$536)
(776)
(776)

| Total comprehensive income |  |  |  |  |  |  |  |  | \$ | 30,506 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Cash dividends paid |  |  |  |  |  |  |  | $(11,401)$ |  | $(11,401)$ |
| Common stock issued in connection with the First Sentinel Bancorp, Inc. acquisition, net | 184 | 350,357 |  |  |  |  |  |  |  | 350,541 |
| DDFP acquired from First Sentinel Bancorp, Inc. |  |  |  |  | $(13,379)$ | 13,379 |  |  |  |  |
| Purchase of treasury shares |  |  |  |  |  |  | $(57,327)$ |  |  | $(57,327)$ |
| Allocation of ESOP shares |  | (188) | 2,339 |  |  |  |  |  |  | 2,151 |
| Purchase of SAP shares |  |  |  | $(3,565)$ |  |  |  |  |  | $(3,565)$ |
| Allocation of SAP shares |  | 72 |  | 3,853 |  |  |  |  |  | 3,925 |
| Allocation of stock options |  | 2,653 |  |  |  |  |  |  |  | 2,653 |

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Balance at
September 30, 2004 \$ 799 \$ 959,435 \$ $(76,477) \$(41,599) \$(13,379) \$ 13,379 \$(57,327) \$ 345,067$ \$ 4,704 \$ $1,134,602$ 5

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## PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders Equity for the Nine Months Ended September 30, 2005 and 2004 (Unaudited) (Continued)
(Dollars in Thousands)


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## PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Nine Months ended September 30, 2005 and 2004 (Unaudited)
(Dollars in thousands)

|  | Nine months ended |
| :--- | :---: |
| September 30, |  |
|  |  |

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| Net (decrease) increase in deposits | $(86,125)$ | 40,618 |
| :---: | :---: | :---: |
| Increase (decrease) in mortgage escrow deposits | 3,379 | $(8,403)$ |
| Purchase of SAP shares, net |  | $(3,565)$ |
| Purchase of treasury stock | $(83,342)$ | $(57,327)$ |
| Cash dividends paid to stockholders | $(16,721)$ | $(11,401)$ |
| Proceeds from FHLB Advances | 52,500 | 1,348,800 |
| Payments on FHLB Advances | $(170,034)$ | $(1,429,581)$ |
| Net (decrease) increase in Repurchase Agreements | (143) | 18,988 |
|  | $\qquad$ |  |
| Net cash used in financing activities | $(300,486)$ | $(101,871)$ |
|  |  |  |
| Net increase (decrease) in cash and cash equivalents | 33,062 | $(25,476)$ |
| Cash and cash equivalents at beginning of period | 163,694 | 175,852 |
| Cash and cash equivalents at end of period | \$ 196,756 | \$ 150,376 |
|  | $\longrightarrow$ | - |
| Cash paid during the period for: |  |  |
| Interest on deposits and borrowings | \$ 69,008 | \$ 42,747 |
| Income taxes | \$ 14,292 | \$ 14,336 |

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PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Nine Months ended September 30, 2005 and 2004 (Unaudited) (Continued)
(Dollars in thousands)


See accompanying notes to unaudited consolidated financial statements.

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## PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Summary of Significant Accounting Policies

## A. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly-owned subsidiaries, The Provident Bank and First Sentinel Capital Trust I and II (the Company ). These interim consolidated financial statements reflect the acquisition of First Sentinel Bancorp, Inc. ( First Sentinel ) on July 14, 2004, and the related issuance of 18.5 million shares of the Company s common stock in connection with the merger.

The interim consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results of operations that may be expected for all of 2005.

Certain information and note disclosures normally included in financial statements and prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain prior period amounts have been reclassified to correspond with the current period presentations.

These unaudited consolidated financial statements should be read in conjunction with the December 31, 2004 Annual Report to Stockholders on Form 10-K.

## B. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (dollars in thousands, except per share data):

| 2005 | 2004 | 2005 | 2004 |
| :---: | :---: | :---: | :---: |


|  | Income | Shares |  | Income | Shares |  | Income | Shares | Per Share <br> Amoun | Income | Shares | Per Share <br> Amoun |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net income | \$ 14,937 |  |  | \$ 13,343 |  |  | \$ 43,728 |  |  | \$ 32,218 |  |  |
| Basic earnings per share: |  |  |  |  |  |  |  |  |  |  |  |  |
| Income available to common stockholders | \$ 14,937 | 65,324,553 | \$ 0.23 | \$ 13,343 | 68,729,870 | \$ 0.19 | \$ 43,728 | 66,730,203 | \$ 0.66 | \$ 32,218 | 59,444,983 | \$ 0.54 |
| Dilutive DDFP shares |  | 754,418 |  |  | 640,538 |  |  | 756,244 |  |  | 215,071 |  |
| Dilutive common stock equivalents |  | 2,360 |  |  | 267 |  |  | 1,378 |  |  | 438 |  |
| Diluted earnings per share: |  |  |  |  |  |  |  |  |  |  |  |  |
| Income available to common stockholders | \$ 14,937 | 66,081,331 | \$ 0.23 | \$ 13,343 | 69,370,675 | \$ 0.19 | \$ 43,728 | 67,487,825 | \$ 0.65 | \$ 32,218 | 59,660,492 | \$ 0.54 |

Anti-dilutive stock options and awards totaling 5,218,063 shares at September 30, 2005, were excluded from the earnings per share computations.

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## Note 2. Loans, Loans Held for Sale and Allowance for Loan Losses

Loans receivable at September 30, 2005 and December 31, 2004 are summarized as follows (in thousands):


The activity in the allowance for loan losses for the three and nine months ended September 30, 2005 and 2004 is summarized as follows (in thousands):

|  | Three months ended <br> September 30, |  | Nine months ended <br> September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 | 2004 | 2005 | 2004 |
| Balance at beginning of period | \$ 33,353 | \$ 20,920 | \$ 33,766 | \$ 20,631 |
| Allowance of acquired institution (First Sentinel) |  | 12,925 |  | 12,925 |
| Provision charged to operations | 100 | 1,050 | 500 | 2,700 |
| Recoveries of loans previously charged off | 342 | 749 | 1,283 | 2,007 |
| Loans charged off | $(1,174)$ | $(2,014)$ | $(2,928)$ | $(4,633)$ |
| Balance at end of period | \$ 32,621 | \$ 33,630 | \$ 32,621 | \$ 33,630 |

## Note 3. Deposits

Deposits at September 30, 2005 and December 31, 2004 are summarized as follows (in thousands):

|  | September 30, <br> $\mathbf{2 0 0 5}$ | December 31, <br>  <br> 2004 |  |
| :--- | ---: | ---: | ---: |
| Savings deposits | $\$ 1,418,168$ | $\$$ | $1,538,466$ |
| Money market accounts | 122,240 | 155,514 |  |
| NOW accounts | 541,586 | 485,698 |  |
| Non-interest bearing deposits | 479,012 | 475,600 |  |
| Certificates of deposit | $1,403,342$ | $1,395,195$ |  |
|  | $\$ 3,964,348$ | $\$ 4,050,473$ |  |

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## Note 4. Components of Net Periodic Benefit Cost

The Bank has a noncontributory defined benefit pension plan (the 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 31, 2002, the Company eliminated the post-retirement benefits for employees with less than ten years of service.

Net periodic benefit costs for the three and nine months ended September 30, 2005 and 2004 included the following components (in thousands):

|  |  | mont <br> eptemb | $\begin{aligned} & \text { hs end } \\ & \text { er 30, } \end{aligned}$ |  |  | ne month <br> Septembe | ended <br> 30, |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Pension b | enefits | $\begin{array}{r} \mathrm{Ot} \\ \text { po } \\ \text { retire } \\ \text { ben } \end{array}$ | her <br> st- <br> efits | Pension b | enefits | Other retire bene | post- <br> ment <br> fits |
|  | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Service cost | \$ |  | 208 | 189 | \$ |  | 607 | 471 |
| Interest cost | 307 | 314 | 354 | 447 | 936 | 1,022 | 1,149 | 1,137 |
| Expected return on plan assets | (461) | (461) |  |  | $(1,361)$ | $(1,340)$ |  |  |
| Amortization of unrecognized transitional obligation |  |  | 96 | 96 |  |  | 288 | 288 |
| Amortization of the net (gain) loss | (2) | (8) | 5 | 71 | 2 | 8 | 82 | 87 |
| Net periodic benefit (increase) cost | \$ (156) | (155) | 663 | 803 | \$ (423) | (310) | 2,126 | 1,983 |

The Company previously disclosed in its financial statements for the year ended December 31, 2004, that it does not expect to contribute to its defined benefit pension plan in 2005. As of September 30, 2005, no contributions have been made.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

## Forward Looking Statements

Certain statements contained herein are 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 that the factors listed above could affect the Company sfinancial performance and could cause the Company s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

## Critical Accounting Policies

The calculation of the allowance for loan losses is a critical accounting policy of the Company. The allowance for loan losses is a valuation account that reflects management s evaluation of the probable losses inherent 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

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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.

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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.

The provision for loan losses is established after considering the results of the review of delinquency and charge-off trends, the allowance for loan loss worksheet, the amount of the allowance for loan losses in relation to the total loan balance, loan portfolio growth, accounting principles generally accepted in the United States of America and regulatory guidance. This process has been applied consistently, and the Company has made minimal changes in the estimation methods and assumptions that have been used.


#### Abstract

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. 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 three and nine months ended September 30, 2005 or 2004.

The Company s available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. Estimated fair values are based on 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 amortized cost.

The determination of whether deferred tax assets will be realizable is predicated on estimates of future taxable income. Such estimates are subject to management s judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items.

## COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2005 AND DECEMBER 31, 2004

Total assets at September 30, 2005 decreased $\$ 257.9$ million, or $4.0 \%$, to $\$ 6.18$ billion compared to $\$ 6.43$ billion at December 31, 2004, primarily as a result of reductions in securities, which were used to fund repayments of borrowings, deposit outflows and common stock repurchases.

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Securities available for sale, at fair value, decreased $\$ 236.0$ million, or $16.8 \%$, to $\$ 1.17$ billion at September 30, 2005, compared to $\$ 1.41$ billion at December 31, 2004. Investment securities held to maturity decreased $\$ 24.6$ million, or $5.5 \%$, to $\$ 421.1$ million at September 30, 2005, compared to $\$ 445.6$ million at December 31, 2004. The majority of the decline in the securities portfolios was attributable to amortization of mortgage-backed securities and investment maturities. In addition, the Company sold $\$ 32.7$ million of primarily mortgage-backed securities during the nine months ended September 30, 2005, as part of its ongoing interest rate risk management process. The weighted average life of the Company s available for sale securities portfolio was 2.9 years at September 30, 2005.

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Net loans at September 30, 2005 decreased $\$ 26.2$ million, or $0.7 \%$, to $\$ 3.65$ billion, compared to $\$ 3.67$ billion at December 31, 2004. Residential mortgage loans decreased $\$ 70.7$ million to $\$ 1.80$ billion at September 30, 2005, compared to $\$ 1.87$ billion at December 31, 2004. Residential mortgage loan originations of $\$ 120.4$ million and purchases of $\$ 110.0$ million were more than offset by repayments of $\$ 268.8$ million. Residential mortgage loans were further reduced by the sale of $\$ 31.5$ million of 20 - and 30 -year fixed-rate loans in 2005. The loan sales were another component of the Company s ongoing interest rate risk management process. In addition, commercial real estate loans, including multi-family and construction loans, decreased $\$ 13.6$ million to $\$ 946.9$ million at September 30, 2005, compared to $\$ 960.5$ million at December 31, 2004. Partially offsetting the decline in real estate secured loans, commercial loans increased $\$ 25.1$ million to $\$ 378.8$ million at September 30, 2005, compared to $\$ 353.6$ million at December 31, 2004. Furthermore, consumer loans increased $\$ 33.7$ million to $\$ 548.0$ million at September 30, 2005, compared to $\$ 514.3$ million at December 31, 2004.

Retail loans, which consist of residential mortgages and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled $\$ 2.34$ billion and accounted for $63.8 \%$ of the loan portfolio at September 30, 2005, compared to $\$ 2.38$ billion, or $64.4 \%$ of the loan portfolio at December 31, 2004. Commercial loans, consisting of commercial real estate, multi-family, construction, and commercial and industrial loans, totaled $\$ 1.33$ billion, or $36.2 \%$ of the loan portfolio at September 30, 2005, compared to $\$ 1.31$ billion, or $35.6 \%$ at December 31, 2004. The Company intends to continue to focus on the origination of commercial loans.

At September 30, 2005, the Company s unfunded loan pipeline totaled $\$ 793.8$ million, including $\$ 318.7$ million in construction loan commitments, $\$ 172.5$ million in commercial loan commitments and $\$ 89.5$ million in commercial mortgage commitments. This compares with an unfunded loan pipeline of $\$ 599.3$ million at December 31, 2004.

At September 30, 2005, the allowance for loan losses totaled $\$ 32.6$ million, compared to $\$ 33.8$ million at December 31, 2004. Total non-performing loans were $\$ 6.5$ million at September 30, 2005, compared to $\$ 6.2$ million at December 31, 2004. Non-performing assets were $\$ 6.9$ million and $\$ 6.3$ million at September 30, 2005 and December 31, 2004, respectively. Total non-performing loans as a percentage of total loans were $0.18 \%$ at September 30, 2005, compared to $0.17 \%$ at December 31, 2004. The allowance for loan losses as a percentage of total loans was $0.89 \%$ at September 30, 2005, compared with $0.91 \%$ at December 31, 2004.

Cash and cash equivalents increased $\$ 33.1$ million, or $20.2 \%$, to $\$ 196.8$ million at September 30, 2005, from $\$ 163.7$ million at December 31, 2004, as a result of the reductions in investments and loans described above, pending deployment into higher-yielding asset categories and/or the repayment of maturing borrowings.

Borrowed funds decreased $\$ 117.7$ million, or $10.1 \%$, to $\$ 1.05$ billion at September 30, 2005, from $\$ 1.17$ billion at December 31, 2004, as proceeds from maturing investments and the amortization of mortgage-backed securities were used to pay off maturing liabilities.

Total deposits decreased $\$ 86.1$ million from $\$ 4.05$ billion at December 31, 2004, to $\$ 3.96$ billion at September 30, 2005. Core deposits, which consist of all demand and savings deposits, declined $\$ 94.3$ million to $\$ 2.56$ billion at September 30, 2005, from $\$ 2.66$ billion at December 31, 2004. Core deposits represented $64.6 \%$ and $65.6 \%$ of total deposits at September 30, 2005 and December 31, 2004, respectively. The Company outsourced its Bank check processing in April 2005, resulting in a $\$ 12.0$ million decrease in core deposits at September 30, 2005, compared with December 31, 2004. Savings deposit levels were further impacted by the competitive interest rate environment, as well as renewed consumer interest in investment alternatives.

Total stockholders equity decreased $\$ 58.4$ million, or $5.1 \%$, to $\$ 1.08$ billion at September 30, 2005, compared to $\$ 1.14$ billion at December 31, 2004. This decrease was due to common stock repurchases totaling $\$ 83.3$ million, an increase in the accumulated other comprehensive loss of

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$\$ 10.7$ million, and cash dividends declared of $\$ 16.7$ million, partially offset by net income of $\$ 43.7$ million, and net amortization of stock-based compensation plans of $\$ 8.6$ million. Common stock repurchases for the three and nine months ended September 30, 2005, totaled 1.6 million shares at an average cost of $\$ 17.82$ per share, and 4.7 million shares at an average cost of $\$ 17.87$ per share, respectively. An additional 2.7 million shares remain eligible for repurchase under the current common stock repurchase authorization. At September 30, 2005, book value per share and tangible book value per share totaled $\$ 15.55$ and $\$ 9.24$, respectively.

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Liquidity and Capital Resources. The Company s primary sources of funds are deposits, FHLB advances, repurchase agreements, loan repayments, maturities of investments and cash flows from mortgage-backed securities. Scheduled loan amortization is a fairly predictable source of funds while loan and mortgage-backed securities prepayments and deposit flows are influenced by interest rates, local economic conditions and the competitive marketplace. Additional sources of liquidity that are available to the Company, should the need arise, are a $\$ 100.0$ million overnight line of credit and a $\$ 100.0$ million one-month overnight repricing line of credit with the Federal Home Loan Bank of New York. As of September 30, 2005, the Company did not have any outstanding borrowings against these lines of credit.

Cash needs for the nine months ended September 30, 2005, were provided for primarily from income and principal payments on loans, investments and mortgage-backed securities, sales of mortgage-backed securities and sales of residential mortgage loans. The cash was used primarily to fund the repayment of borrowings, interest and operating expenses, common stock repurchases, current loan originations and net deposit outflows.

As of September 30, 2005, the Bank exceeded all regulatory capital requirements as follows:

|  | As of September 30, 2005 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Required |  | Actual |  |
|  | Amount | Ratio | Amount | Ratio |
|  | (Dollars in Thousands) |  |  |  |
| Regulatory Tier 1 leverage capital | \$ 228,210 | 4.00\% | \$ 515,035 | 9.03\% |
| Tier 1 risk-based capital | 152,608 | 4.00 | 515,035 | 13.50 |
| Total risk-based capital | 305,217 | 8.00 | 547,734 | 14.36 |

## COMPARISON OF OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

General. The Company reported basic and diluted earnings per share of $\$ 0.23$ for the quarter ended September 30, 2005, representing increases of $17.8 \%$ and $17.5 \%$, respectively, compared to basic and diluted earnings per share of $\$ 0.19$ for the quarter ended September 30, 2004. Basic and diluted earnings per share were $\$ 0.66$ and $\$ 0.65$, respectively, for the nine months ended September 30,2005 , representing increases of $20.9 \%$ and $20.0 \%$, respectively, compared to basic and diluted earnings per share of $\$ 0.54$ for the nine months ended September 30, 2004. Net income for the three months ended September 30, 2005 totaled $\$ 14.9$ million, an increase of $\$ 1.6$ million, or $11.9 \%$, compared to $\$ 13.3$ million reported for the same period in 2004. Net income was $\$ 43.7$ million for the nine months ended September 30, 2005, an increase of $\$ 11.5$ million, or $35.7 \%$, compared to $\$ 32.2$ million for the same period in 2004.

The Company s annualized return on average assets was $0.96 \%$ and $0.93 \%$ for the three and nine months ended September 30, 2005, respectively, compared with $0.87 \%$ and $0.88 \%$ for the same periods in 2004 . The annualized return on average equity was $5.42 \%$ and $5.28 \%$ for the three and nine months ended September 30, 2005, respectively, compared with $5.16 \%$ and $4.84 \%$ for the same respective periods in 2004.

The earnings and per share data reflect the inclusion of the operations of First Sentinel Bancorp, Inc. ( First Sentinel ) which merged with the Company on July 14, 2004, and the related issuance of 18.5 million shares of the Company s common stock in connection with the merger, from the July 14, 2004 merger date. Earnings for the nine months ended September 30, 2005 were also impacted by the acceptance of a Voluntary

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Resignation Initiative ( VRI ) by certain officers of the Company in the second quarter of 2005, which resulted in an after-tax charge of $\$ 815,000$. Third quarter and nine months 2004 earnings were impacted by one-time expenses related to the merger and integration of First Sentinel s operations of approximately $\$ 870,000$, net of tax.

Net Interest Income. Total net interest income decreased $\$ 2.1$ million, or $4.5 \%$, to $\$ 44.8$ million for the quarter ended September 30, 2005, compared to $\$ 46.9$ million for the quarter ended September 30, 2004. For the nine months ended September 30, 2005, total net interest income increased $\$ 24.1$ million, or $21.2 \%$, to $\$ 137.9$ million, compared to $\$ 113.8$ million for the same period in 2004. Interest income for the third quarter of 2005 increased $\$ 2.4$ million, or $3.5 \%$, to $\$ 69.3$ million, compared to $\$ 66.9$ million for the same period in 2004. For the nine months ended September 30, 2005, interest income increased $\$ 47.8$ million, or $30.0 \%$,

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to $\$ 207.1$ million, compared to $\$ 159.2$ million for the nine months ended September 30, 2004. Interest expense increased $\$ 4.5$ million, or $22.4 \%$, to $\$ 24.5$ million for the quarter ended September 30, 2005, compared to $\$ 20.0$ million for the quarter ended September 30, 2004. For the nine months ended September 30,2005 , interest expense increased $\$ 23.7$ million, or $52.3 \%$, to $\$ 69.1$ million, compared to $\$ 45.4$ million for the nine months ended September 30, 2004. The changes in interest income and expense for the three months ended September 30, 2005, versus the comparable 2004 period are largely attributable to increases in market interest rates. The changes in interest income and expense for the nine months ended September 30, 2005, versus the comparable 2004 period are primarily attributable to increases in earning assets and interest-bearing liabilities due to the First Sentinel acquisition, and to a lesser extent, increases in market interest rates.

The Company s net interest margin compressed three basis points to $3.31 \%$ for the quarter ended September 30, 2005, from $3.34 \%$ for the quarter ended June 30, 2005. This was a decrease of 12 basis points compared with the net interest margin of $3.43 \%$ for the quarter ended September 30, 2004. The net interest spread was $2.98 \%$ for the quarter ended September 30, 2005, compared with $3.04 \%$ for the trailing quarter and $3.19 \%$ for the three months ended September 30, 2004. The weighted average rate for interest-earning assets was $5.11 \%$ for the three months ended September 30, 2005, compared with $5.01 \%$ for the trailing quarter and $4.89 \%$ for the three months ended September 30, 2004. The weighted average rate for interest-bearing liabilities was $2.13 \%$ for the quarter ended September 30, 2005, compared with $1.97 \%$ for the trailing quarter and $1.70 \%$ for the third quarter of 2004.

For the nine months ended September 30, 2005, the net interest margin was $3.35 \%$. This was a decrease of six basis points compared with the net interest margin of $3.41 \%$ for the nine months ended September 30, 2004. The net interest spread for the nine months ended September 30, 2005 was $3.04 \%$, compared with $3.08 \%$ for the same period in 2004 . The weighted average rate for interest-earning assets was $5.03 \%$ for the nine months ended September 30, 2005, compared with $4.77 \%$ for the nine months ended September 30, 2004. The weighted average rate for interest-bearing liabilities was $1.99 \%$ for the nine months ended September 30, 2005, compared with $1.69 \%$ for the nine months ended September 30, 2004. The increases in rates on interest-earning assets and interest-bearing liabilities reflect increases in market interest rates experienced throughout the past year.

The average balance of net loans increased $\$ 253.9$ million, or $7.5 \%$, to $\$ 3.66$ billion for the quarter ended September 30, 2005, compared to $\$ 3.41$ billion for the same period in 2004. Income on all loans secured by real estate increased $\$ 1.8$ million, or $4.8 \%$, to $\$ 38.8$ million for the three months ended September 30, 2005, compared to $\$ 37.0$ million for the three months ended September 30, 2004. Interest income on commercial loans increased $\$ 1.7$ million, or $44.0 \%$, to $\$ 5.7$ million for the quarter ended September 30,2005 , compared to $\$ 4.0$ million for the quarter ended September 30, 2004. Consumer loan interest income increased $\$ 1.3$ million, or $20.4 \%$, to $\$ 7.9$ million for the quarter ended September 30, 2005, compared to $\$ 6.6$ million for the quarter ended September 30, 2004. The average loan yield for the three months ended September 30, 2005 was $5.69 \%$, compared with $5.55 \%$ for the same period in 2004.

For the nine months ended September 30, 2005, the average balance of net loans increased $\$ 1.02$ billion, or $38.7 \%$, to $\$ 3.66$ billion, compared to $\$ 2.64$ billion for the same period in 2004. Income on all loans secured by real estate increased $\$ 31.4$ million, or $37.2 \%$, to $\$ 115.7$ million for the nine months ended September 30, 2005, compared to $\$ 84.3$ million for the nine months ended September 30, 2004. Interest income on commercial loans increased $\$ 4.9$ million, or $45.1 \%$, to $\$ 15.9$ million for the nine months ended September 30, 2005, compared to $\$ 11.0$ million for the nine months ended September 30, 2004. Consumer loan interest income increased $\$ 6.4$ million, or $40.4 \%$, to $\$ 22.4$ million for the nine months ended September 30, 2005, compared to $\$ 15.9$ million for the nine months ended September 30, 2004. The average loan yield for the nine months ended September 30, 2005 was $5.60 \%$, compared with $5.63 \%$ for the same period in 2004.

Interest income on investment securities held to maturity decreased $\$ 524,000$, or $10.9 \%$, to $\$ 4.3$ million for the quarter ended September 30 , 2005, compared to $\$ 4.8$ million for the quarter ended September 30, 2004. Average investment securities held to maturity totaled $\$ 429.6$ million for the quarter ended September 30, 2005, compared with $\$ 474.1$ million for the same period last year. For the nine months ended September 30, 2005 , interest income on investment securities held to maturity decreased $\$ 1.6$ million, or $11.0 \%$, to $\$ 12.9$ million, compared to $\$ 14.5$ million for the same period in 2004. Average investment securities held to maturity totaled $\$ 431.6$ million for the nine months ended September 30, 2005 , compared with $\$ 494.5$ million for the same period last year.

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Interest income on securities available for sale decreased $\$ 2.2$ million, or $14.9 \%$, to $\$ 12.3$ million for the quarter ended September 30, 2005, compared to $\$ 14.4$ million for the quarter ended September 30, 2004. Average securities available for sale were $\$ 1.22$ billion for the three months ended September 30, 2005, compared with $\$ 1.46$ billion for the same period in 2004. For the nine months ended September 30, 2005, interest income on securities available for sale increased $\$ 6.3$ million, or $19.3 \%$, to $\$ 38.9$ million, compared to $\$ 32.6$ million for the nine months ended September 30, 2004. Average securities available for sale were $\$ 1.29$ billion for the nine months ended September 30, 2005, compared with $\$ 1.19$ billion for the same period in 2004.

The average yield on all securities was $3.88 \%$ for the three and nine months ended September 30, 2005, compared with $3.79 \%$ and $3.51 \%$, respectively, for the same periods in 2004.

The average balance of interest-bearing core deposit accounts decreased $\$ 74.6$ million, or $3.5 \%$, to $\$ 2.08$ billion for the quarter ended September 30, 2005, compared to $\$ 2.16$ billion for the quarter ended September 30, 2004. For the nine months ended September 30, 2005, average interest-bearing core deposits increased $\$ 451.4$ million, or $27.1 \%$, to $\$ 2.11$ billion, compared with $\$ 1.66$ billion for the same period in 2004. Average time deposit account balances increased $\$ 39.6$ million, or $3.0 \%$, to $\$ 1.38$ billion for the quarter ended September 30, 2005, compared to $\$ 1.34$ billion for the same period in 2004. For the nine months ended September 30, 2005, average time deposits increased $\$ 315.6$ million, or $29.4 \%$, to $\$ 1.39$ billion, compared with $\$ 1.07$ billion for the same period in 2004. The increases in average deposits for the nine months ended September 30, 2005, compared with the same period in 2004, were largely attributable to the First Sentinel acquisition. Interest paid on deposit accounts increased $\$ 4.3$ million, or $37.8 \%$, to $\$ 15.6$ million for the quarter ended September 30,2005 , compared to $\$ 11.3$ million for the quarter ended September 30, 2004. For the nine months ended September 30, 2005, interest paid on deposit accounts increased $\$ 15.5$ million, or $57.1 \%$, to $\$ 42.6$ million, compared to $\$ 27.1$ million for the nine months ended September 30, 2004. The average cost of interest-bearing deposits was $1.79 \%$ and $1.63 \%$ for the three and nine months ended September 30, 2005, respectively, compared with $1.29 \%$ and $1.32 \%$ for the three and nine months ended September 30, 2004, respectively, reflecting increased market interest rates.

Average borrowings, including subordinated debentures, decreased $\$ 69.7$ million, or $5.9 \%$, to $\$ 1.10$ billion for the quarter ended September 30, 2005, compared to $\$ 1.17$ billion for the quarter ended September 30, 2004. For the nine months ended September 30, 2005, average borrowings increased $\$ 277.5$ million, or $32.5 \%$, to $\$ 1.13$ billion, compared to $\$ 854.3$ million for the nine months ended September 30, 2004. The increase in average borrowings for the nine months ended September 30, 2005, compared with the same period in 2004, was primarily due to the assumption of borrowings, including subordinated debentures, in the First Sentinel acquisition. Interest paid on such borrowed funds increased $\$ 200,000$, or $2.3 \%$, to $\$ 8.9$ million for the quarter ended September 30, 2005, from $\$ 8.7$ million for the quarter ended September 30, 2004. For the nine months ended September 30, 2005, interest paid on such borrowed funds increased $\$ 8.2$ million, or $45.1 \%$, to $\$ 26.5$ million, from $\$ 18.3$ million for the nine months ended September 30, 2004. The average cost of borrowings was $3.18 \%$ and $3.13 \%$ for the three and nine months ended September 30, 2005, respectively, compared with $2.94 \%$ and $2.86 \%$ for the three and nine months ended September 30, 2004, respectively.

Provision for Loan Losses. The Company establishes provisions for loan losses, which are charged to income, in order to maintain the allowance for loan losses at a level management considers adequate to absorb probable credit losses inherent in the loan portfolio. In determining the level of the allowance for loan losses, management considers past and current loss experience, evaluation of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower s ability to repay the loan and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates, and the ultimate losses may vary from such estimates as more information becomes available or 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 recorded provisions for loan losses totaling $\$ 100,000$ and $\$ 500,000$ for the three and nine months ended September 30, 2005, respectively, compared to provisions of $\$ 1.1$ million and $\$ 2.7$ million for the three and nine months ended September 30, 2004, respectively. The reduction in the provision for loan losses for the three and nine months ended September 30, 2005, compared with the same periods in 2004, was attributable to improved asset quality, consistent loan portfolio composition and a reduction in loan balances year over year. The Company had net charge-offs of $\$ 832,000$ and $\$ 1.6$ million for the three and nine months ended September 30, 2005, respectively, compared to net charge-offs

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of $\$ 1.3$ million and $\$ 2.6$ million for the same periods in 2004. The allowance for loan losses was $\$ 32.6$ million, or $0.89 \%$ of total loans at September 30, 2005,

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compared to $\$ 33.8$ million, or $0.91 \%$ of total loans at December 31, 2004 and $\$ 33.6$ million, or $0.90 \%$ of total loans at September 30, 2004. At September 30, 2005, the allowance for loan losses as a percentage of non-performing loans was $504.6 \%$, compared to $545.1 \%$ at December 31, 2004, and $687.9 \%$ at September 30, 2004.

Non-Interest Income. Non-interest income totaled $\$ 7.8$ million for the quarter ended September 30, 2005, a decrease of $\$ 380,000$, or $4.6 \%$, compared to the same period in 2004. An increase of $\$ 531,000$ in fee income for the quarter ended September 30, 2005, compared with the same period in 2004, was more than offset by a decrease in net gains on securities sales of $\$ 364,000$ and a $\$ 578,000$ decrease in other income. The increase in fee income was primarily attributable to loan prepayment fees and fees related to the outsourcing of the official check function. The reduction in other income was primarily attributable to the recognition of losses on loan sales of $\$ 221,000$ during the quarter ended September 30, 2005, compared with gains of \$90,000 realized during the same period in 2004.

For the year-to-date period, non-interest income totaled $\$ 21.5$ million, a decrease of $\$ 1.0$ million, or $4.6 \%$, compared to the same period in 2004. Increases in fee income of $\$ 1.7$ million and income on BOLI of $\$ 645,000$ were more than offset by a reduction in securities gains of $\$ 1.2$ million and a decline in other income of $\$ 2.2$ million. The increase in fee income was primarily attributable to loan prepayment fees, ATM and debit card income, fees related to the outsourcing of the official check function and mortgage servicing fees. The increase in BOLI income was primarily a result of additional BOLI acquired from First Sentinel in the July 2004 merger. Other income for the nine months ended September 30, 2005, included losses on loan sales of $\$ 231,000$, compared with gains of $\$ 1.4$ million recorded in 2004.

Non-Interest Expense. For the three months ended September 30, 2005, non-interest expense decreased $\$ 4.3$ million, or $12.6 \%$, to $\$ 30.0$ million, compared to $\$ 34.3$ million for the three months ended September 30, 2004. Compensation and employee benefits expense decreased $\$ 2.6$ million for the quarter ended September 30, 2005, compared with the same period in 2004, due primarily to reductions in staff and executive severance costs recorded in 2004. The Company employed 895 full-time equivalent employees at September 30, 2005, compared with 961 full-time equivalent employees at September 30, 2004. Advertising expense decreased $\$ 767,000$ for the quarter ended September 30, 2005, compared with the same period in 2004, largely as a result of the cost of customer communications associated with the integration of the First Sentinel business incurred in 2004. Amortization of intangibles decreased $\$ 358,000$ for the quarter ended September 30, 2005, compared with the same period in 2004, primarily as a result of the conclusion of the amortization of a core deposit intangible from an earlier acquisition. Furthermore, other non-interest expense decreased $\$ 521,000$ for the quarter ended September 30, 2005, compared with the same period in 2004, primarily due to reductions in consultant fees and printing and supplies expense.

For the nine months ended September 30, 2005, non-interest expense increased $\$ 7.6$ million, or $8.7 \%$, to $\$ 94.6$ million, compared to $\$ 87.1$ million for the nine months ended September 30, 2004. Compensation and employee benefits expense increased $\$ 3.8$ million for the nine months ended September 30, 2005, compared with the same period in 2004, as a result of increased staffing following the First Sentinel acquisition and a $\$ 1.4$ million expense recognized in the second quarter of 2005 in connection with the VRI. Amortization of intangibles increased $\$ 2.5$ million for the nine months ended September 30, 2005, compared with the same period in 2004, primarily as a result of amortization of the core deposit intangible recorded in connection with the First Sentinel acquisition. Additional increases in occupancy expense of $\$ 2.2$ million and data processing expense of $\$ 642,000$ for the nine months ended September 30, 2005, compared with the same period in 2004, were also due primarily to the acquisition and integration of First Sentinel s operations. As a result of the First Sentinel acquisition, the Company added 22 full-service branch locations, including the former headquarters building, which now serves as the Provident Loan Center. Partially offsetting these increases, advertising and promotions expense declined $\$ 1.6$ million for the nine months ended September 30, 2005, compared with the same period in 2004.

The Company s annualized non-interest expense as a percentage of average assets improved to $1.9 \%$ for the quarter ended September 30, 2005, compared with $2.2 \%$ for the same period in 2004. For the nine months ended September 30, 2005, annualized non-interest expense as a percentage of average assets was $2.0 \%$, compared with $2.4 \%$ for the same period in 2004. The efficiency ratio (non-interest expense divided by the sum of net interest income and non-interest income) improved to $57.1 \%$ for the quarter ended September 30, 2005, compared with $62.3 \%$ for the same period in 2004. For the nine months ended September 30, 2005, the efficiency ratio was $59.3 \%$, compared with $63.8 \%$ for the same period in 2004.

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Income Tax Expense. For the three months ended September 30, 2005, income tax expense increased $\$ 1.2$ million, or $18.2 \%$, to $\$ 7.6$ million, compared to $\$ 6.4$ million for the three months ended September 30, 2004. The effective tax rate for the three months ended September 30, 2005 was $33.6 \%$, compared with $32.4 \%$ for the three months ended September 30, 2004. The increase in the effective tax rate for the third quarter of 2005 compared with the same period in 2004 was primarily due to the vesting of stock awards at a market price below the market value on the date of grant, resulting in the reversal of a previously recognized tax benefit. For the nine months ended September 30, 2005, income tax expense increased $\$ 6.2$ million, or $43.2 \%$, to $\$ 20.6$ million, compared to $\$ 14.4$ million for the nine months ended September 30, 2004. The effective tax rate for the nine months ended September 30, 2005 was $32.1 \%$, compared with $30.9 \%$ for the nine months ended September 30, 2004. The increases in income tax expense and the effective tax rate for the nine months ended September 30, 2005, compared with the same period in 2004, were attributable to growth in taxable income, largely as a result of the First Sentinel acquisition.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Qualitative Analysis. The Company s most significant risk exposure is interest rate risk. Interest rate risk is the exposure of a bank scurrent and future earnings and capital arising from adverse movements in interest rates. The guidelines of the Company s interest rate risk policy seek to limit the exposure to changes in interest rates that affect the underlying economic value of assets and liabilities, earnings and capital. To minimize interest rate risk, the Company may periodically sell 20 - and 30 -year fixed-rate mortgage loans. Commercial real estate loans generally have interest rates that reset in five years, and other commercial loans such as construction loans and commercial lines of credit reset with changes in the prime rate or LIBOR. Investment securities purchases generally have maturities of five years or less, and mortgage-backed securities have weighted average lives between three and five years.

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

The Company s strategy for liabilities has been to maintain a stable core-funding base by focusing on core deposit account acquisition and increasing products and services per household. A consistent focus on core deposit accounts contributes to less interest rate sensitivity. The Company s ability to retain maturing certificate of deposit accounts is partially a result of its strategy to remain competitively priced within its marketplace, typically within the upper quartile of rates offered by its competitors. Pricing strategy may vary depending upon current funding needs and the ability of the Company to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB during periods of pricing dislocation.

Quantitative Analysis. Current and future sensitivity to changes in interest rates are measured through the use of balance sheet and income simulation models. The analyses capture changes in net interest income using flat rates as a base, a most likely rate forecast and rising and declining interest rate forecasts. Changes in net interest income and net income for the forecast period, generally twelve to twenty-four months, are measured and compared to limits for acceptable change.

The following sets forth the results of a twelve-month net interest income projection model as of September 30, 2005 (dollars in thousands):
Change in Interest Rates in

Net Interest Income
Basis Points (Rate Ramp)

| Dollar | Dollar | Percent |
| :--- | :--- | :--- |

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|  | Amount | Change | Change |
| :---: | :---: | :---: | :---: |
| -100 | \$ 178,214 | \$ 8,498 | 5.0\% |
| Static | 169,716 |  |  |
| +100 | 159,737 | $(9,979)$ | (5.9) |
| +200 | 149,564 | $(20,152)$ | (11.9) |

The preceding table indicates that as of September 30, 2005, in the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, net interest income would decrease $11.9 \%$, or $\$ 20.2$ million. In the event of a 100 basis point decrease in interest rates, net interest income is projected to increase $5.0 \%$, or $\$ 8.5$ million.

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Due to the difficulty in accurately predicting the sensitivity of interest-bearing deposits to changes in interest rates, the assumptions made in the model regarding deposit repricing reflect a worst case scenario. The model assumes that all interest-bearing deposits, including products with no defined maturity such as passbook savings, statement savings, interest-bearing checking, and money market accounts, will reprice the full monthly incremental amount for each rate ramp scenario. Although this is unlikely to happen, management believes this is an objective methodology to use in measuring interest rate risk.

Another measure of interest rate sensitivity is to model changes in economic value of equity through the use of immediate and sustained interest rate shocks. The following table illustrates the result of the economic value of equity model as of September 30, 2005 (dollars in thousands):

| Change in Interest Rates | Present Value of Equity |  |  | Present Value of Equity as Percent of Present Value of Assets |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Dollar <br> Amount | Dollar <br> Change | Percent Change | Present <br> Value Ratio | Percent <br> Change |
| -100 | \$ 1,314,336 | \$ 51,344 | 4.1\% | 20.5\% | 2.7\% |
| Flat | 1,262,992 |  |  | 19.9 |  |
| +100 | 1,197,376 | $(65,616)$ | (5.2) | 19.2 | (3.7) |
| +200 | 1,126,273 | $(136,719)$ | (10.8) | 18.4 | (7.9) |

The above table indicates that as of September 30, 2005, in the event of an immediate and sustained 200 basis point increase in interest rates, the present value of equity is projected to decrease $10.8 \%$, or $\$ 136.7$ million. If rates were to decrease 100 basis points, the model forecasts a $4.1 \%$, or $\$ 51.3$ million increase in the present value of equity.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the use of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions to be reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company s interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on the Company s net interest income and will differ from actual results.

## Item 4. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) were evaluated at the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. There has been no change in the Company s internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company $s$ internal control over financial reporting.

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## PART II OTHER INFORMATION

## Item 1. Legal Proceedings

The Company is involved in various legal actions and claims arising in the normal course of business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company s financial condition and results of operations.

In its Annual Report on Form 10-K for the year ended December 31, 2002, the Company reported that after the completion of The Provident Bank s ( Bank ) conversion from a mutual to stock savings bank, certain depositors of the Bank appealed the Order and Decision of the Commissioner of the New Jersey Department of Banking and Insurance (the Commissioner ) approving the plan of conversion. The appeal In the Matter of the Decision of the Commissioner of Banking and Insurance dated November 8, 2002, Permitting the Conversion of The Provident Bank from a Mutual to Stock Savings Bank (Superior Court of New Jersey, Appellate Division/Docket Nos. A-2107-02T2 and A-2615-02T3) challenged the aggregate purchase limits on subscription rights contained in the Bank s plan of conversion, as approved by the Commissioner, claiming that the limits violated the New Jersey Law Against Discrimination ( NJLAD ) and state and federal law. In its Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, the Company reported that the Appellate Division of the Superior Court of New Jersey dismissed the appeal as moot without reaching the merits of the depositors claims.

The Company disclosed in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, that on September 10, 2004 certain of the depositors filed a lawsuit (Stephen Royce et al. v. The Provident Bank et al., Docket No. HUD-L-4751-04) in the Superior Court of New Jersey against the Bank, the Company and certain members of the board of directors of the Company alleging facts similar to those raised in the appeal. The lawsuit, which sought compensatory and punitive damages, asserted that purchase limitations contained in the Bank splan of conversion, as approved by the Commissioner, violated the NJLAD and that the named directors, as well as the Bank and the Company, breached their fiduciary duty to the plaintiff depositors by approving the plan of conversion with the purchase limitations. On a motion to dismiss brought by the Company and the other named defendants, the Court dismissed the plaintiffs claims based on the NJLAD. The parties subsequently reached a settlement as to the balance of the claims and executed a stipulation of dismissal of the case with prejudice effective as of August 17, 2005.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share |  | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | (d) Maximum Number of Shares that May Yet <br> Be Purchased under the Plans or Programs (1) |
| :---: | :---: | :---: | :---: | :---: | :---: |
| July 1, 2005 through July 31, 2005 | 4,663 | \$ | 17.55 | 4,663 | 4,267,594 |
| August 1, 2005 through August 31, 2005 | 880,156 |  | 17.91 | 880,156 | 3,387,438 |
| September 1, 2005 through September 30, 2005 | 719,576 |  | 17.71 | 719,576 | 2,667,862 |
| Total | 1,604,395 | \$ | 17.82 | 1,604,395 |  |

(1) On January 26, 2005, the Company s Board of Directors approved the purchase of up to 3,742,205 shares of its common stock under a general repurchase program. On July 27, 2005, the Company s Board of Directors approved an additional stock repurchase program, which commenced upon completion of the prior repurchase program. The new authorization provides that the Company may repurchase an additional $3,589,234$ shares. The repurchase program has no expiration date.

## Item 3. Defaults Upon Senior Securities.

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

## Item 6. Exhibits.

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The following exhibits are filed herewith:
3.1 Certificate of Incorporation of Provident Financial Services, Inc.*
3.2 Amended and Restated Bylaws of Provident Financial Services, Inc.**
4.1 Form of Common Stock Certificate of Provident Financial Services, Inc. *
10.1 Form of Employment Agreement between Provident Financial Services, Inc. and certain executive officers. *

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10.2 Form of Change in Control Agreement between Provident Financial Services, Inc. and certain executive officers. *
10.3 Amended and Restated Employee Savings Incentive Plan, as amended. **
10.4 Employee Stock Ownership Plan* and Amendment No. 1 to the Employee Stock Ownership Plan. **
10.5 Amended and Restated Supplemental Executive Retirement Plan. **
10.6 Amended and Restated Supplemental Executive Savings Plan, as amended. **
10.7 Retirement Plan for the Board of Directors of The Provident Bank, as amended. *
10.8 Amendment No. 1 and Amendment No. 2 to The Provident Bank Amended and Restated Board of Directors Voluntary Fee Deferral Plan. **
10.9 Voluntary Bonus Deferral Plan, as amended. *
10.10 Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan, as amended. **
10.11 First Savings Bank Directors Deferred Fee Plan, as amended. ***
10.12 The Provident Bank 2005 Board of Directors Voluntary Fee Deferral Plan. ****
10.13 The Provident Bank Non-Qualified Supplemental Employee Stock Ownership Plan. ****
10.14 Provident Financial Services, Inc. 2003 Stock Option Plan. *****
10.15 Provident Financial Services, Inc. 2003 Stock Award Plan. *****
31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed as exhibits to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission (Registration No. 333-98241).
** Filed as exhibits to the Company s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (File No. 001-31566).
*** Filed as exhibit to the Company s September 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (File No. 001-31566).
**** Filed as exhibits to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2004 (File No. 001-31566).
***** Filed as exhibits to the Company s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003 (File No. 001-31566).


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## SIGNATURES

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

## PROVIDENT FINANCIAL SERVICES, INC.

Date: November 9, 2005

Date: November 9, 2005

Date: November 9, 2005

By: /s/ Paul M. Pantozzi
Paul M. Pantozzi
Chairman and Chief Executive Officer
(Principal Executive Officer)
By: /s/ Linda A. Niro
Linda A. Niro
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Thomas M. Lyons
Thomas M. Lyons
First Vice President and Chief Accounting Officer
(Principal Accounting Officer)

