

PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
August 11, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-31566

PROVIDENT FINANCIAL SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

42-1547151

(I.R.S. Employer Identification No.)

239 Washington Street, Jersey City, New Jersey

(Address of Principal Executive Offices)

(732) 590-9200

(Registrant's Telephone Number, Including Area Code)

07302

(Zip 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 filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding twelve months (or for such shorter period that the Registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒

Accelerated Filer

☐

Non-Accelerated Filer ☐

Smaller Reporting Company

☐

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

As of August 1, 2014 there were 83,209,293 shares issued and 65,298,012 shares outstanding of the Registrant's Common Stock, par value \$0.01 per share, including 408,203 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

PROVIDENT FINANCIAL SERVICES, INC.
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PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

June 30, 2014 (Unaudited) and December 31, 2013

(Dollars in Thousands)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$ 131,064	\$ 100,053
Short-term investments	1,375	1,171
Total cash and cash equivalents	132,439	101,224
Securities available for sale, at fair value	1,156,986	1,157,594
Investment securities held to maturity (fair value of \$463,277 at June 30, 2014 (unaudited) and \$355,913 at December 31, 2013)	454,648	357,500
Federal Home Loan Bank stock	70,574	58,070
Loans	5,910,069	5,194,813
Less allowance for loan losses	63,875	64,664
Net loans	5,846,194	5,130,149
Foreclosed assets, net	6,983	5,486
Banking premises and equipment, net	96,135	66,448
Accrued interest receivable	25,611	22,956
Intangible assets	405,685	356,432
Bank-owned life insurance	174,958	150,511
Other assets	79,144	80,958
Total assets	\$ 8,449,357	\$ 7,487,328
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	\$ 3,952,738	\$ 3,473,724
Savings deposits	1,005,886	921,993
Certificates of deposit of \$100,000 or more	360,653	270,631
Other time deposits	518,753	536,123
Total deposits	5,838,030	5,202,471
Mortgage escrow deposits	22,985	20,376
Borrowed funds	1,418,843	1,203,879
Other liabilities	48,108	49,849
Total liabilities	7,327,966	6,476,575
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, 83,209,293 shares issued and 64,888,489 shares outstanding at June 30, 2014 (unaudited) and 59,917,649 shares outstanding at December 31, 2013	832	832
Additional paid-in capital	1,025,031	1,026,144
Retained earnings	442,909	427,763
Accumulated other comprehensive income (loss)	4,686	(4,851)

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Treasury stock	(304,741) (390,380)
Unallocated common stock held by the Employee Stock Ownership Plan	(47,326) (48,755)
Common stock acquired by the Directors' Deferred Fee Plan	(7,159	) (7,205)
Deferred compensation – Directors' Deferred Fee Plan	7,159	7,205	
Total stockholders' equity	1,121,391	1,010,753	
Total liabilities and stockholders' equity	\$8,449,357	\$7,487,328	

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Three and six months ended June 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Interest income:				
Real estate secured loans	\$40,381	\$37,585	\$78,933	\$75,920
Commercial loans	11,548	10,055	22,095	20,026
Consumer loans	5,869	5,875	11,531	11,832
Securities available for sale and Federal Home Loan Bank Stock	6,663	6,120	13,745	12,312
Investment securities held to maturity	2,906	2,767	5,576	5,606
Deposits, Federal funds sold and other short-term investments	19	11	29	21
Total interest income	67,386	62,413	131,909	125,717
Interest expense:				
Deposits	3,687	4,607	7,425	9,563
Borrowed funds	6,298	4,395	11,882	8,848
Total interest expense	9,985	9,002	19,307	18,411
Net interest income	57,401	53,411	112,602	107,306
Provision for loan losses	1,500	1,000	1,900	2,500
Net interest income after provision for loan losses	55,901	52,411	110,702	104,806
Non-interest income:				
Fees	7,619	8,318	14,474	16,278
Bank-owned life insurance	1,577	2,944	2,879	4,154
Net gain (loss) on securities transactions	110	423	(240)	) 934
Other income	1,021	952	1,330	1,216
Total non-interest income	10,327	12,637	18,443	22,582
Non-interest expense:				
Compensation and employee benefits	23,581	20,154	44,974	40,997
Net occupancy expense	5,623	5,044	11,712	10,250
Data processing expense	2,761	2,647	5,558	5,269
FDIC insurance	1,144	1,224	2,280	2,474
Amortization of intangibles	519	516	802	1,027
Advertising and promotion expense	1,081	1,277	2,146	2,023
Other operating expenses	8,962	6,951	14,389	12,719
Total non-interest expense	43,671	37,813	81,861	74,759
Income before income tax expense	22,557	27,235	47,284	52,629
Income tax expense	6,206	8,007	13,904	15,573
Net income	\$16,351	\$19,228	\$33,380	\$37,056
Basic earnings per share	\$0.28	\$0.34	\$0.57	\$0.65
Weighted average basic shares outstanding	59,147,241	57,206,242	58,263,052	57,186,828

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Diluted earnings per share	\$0.28	\$0.34	\$0.57	\$0.65
Weighted average diluted shares outstanding	59,269,262	57,283,646	58,403,753	57,240,932

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Three and six months ended June 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income	\$ 16,351	\$ 19,228	\$ 33,380	\$ 37,056
Other comprehensive income (loss), net of tax:				
Unrealized gains and losses on securities available for sale:				
Net unrealized gains (losses) arising during the period	6,339	(12,562)	) 10,058	(14,182)
Reclassification adjustment for (gains) losses included in net income	(65)	) (250)	) 142	(552)
Total	6,274	(12,812)	) 10,200	(14,734)
Amortization related to post-retirement obligations	(615)	) 202	(663)	) 461
Total other comprehensive income (loss)	5,659	(12,610)	) 9,537	(14,273)
Total comprehensive income	\$ 22,010	\$ 6,618	\$ 42,917	\$ 22,783

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

Six months ended June 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2012	\$ 832	\$ 1,021,507	\$ 389,549	\$ 7,716	\$ (386,270)	\$ (52,088)	\$ (7,298)	\$ 7,298	\$ 981,246
Net income	—	—	37,056	—	—	—	—	—	37,056
Other comprehensive loss, net of tax	—	—	—	(14,273)	—	—	—	—	(14,273)
Cash dividends declared	—	—	(16,527)	—	—	—	—	—	(16,527)
Distributions from DDFP	—	—	—	—	—	—	47	(47)	—
Purchases of treasury stock	—	—	—	—	(5,883)	—	—	—	(5,883)
Shares issued dividend reinvestment plan	—	(78)	—	—	673	—	—	—	595
Stock option exercises	—	(59)	—	—	212	—	—	—	153
Allocation of ESOP shares	—	(158)	—	—	—	1,416	—	—	1,258
Allocation of SAP shares	—	2,828	—	—	—	—	—	—	2,828
Allocation of stock options	—	141	—	—	—	—	—	—	141
Balance at June 30, 2013	\$ 832	\$ 1,024,181	\$ 410,078	\$ (6,557)	\$ (391,268)	\$ (50,672)	\$ (7,251)	\$ 7,251	\$ 986,594

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Six months ended June 30, 2014 and 2013 (Unaudited) (Continued)
(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2013	\$ 832	\$ 1,026,144	\$ 427,763	\$ (4,851)	\$ (390,380)	\$ (48,755)	\$ (7,205)	\$ 7,205	\$ 1,010,753
Net income	—	—	33,380	—	—	—	—	—	33,380
Other comprehensive income, net of tax	—	—	—	9,537	—	—	—	—	9,537
Cash dividends declared	—	—	(18,234)	—	—	—	—	—	(18,234)
Distributions from DDFP	—	—	—	—	—	—	46	(46)	—
Purchases of treasury stock	—	—	—	—	(3,880)	—	—	—	(3,880)
Treasury shares issued to finance acquisition	—	(962)	—	—	84,479	—	—	—	83,517
Shares issued dividend reinvestment plan	—	—	—	—	659	—	—	—	659
Stock option exercises	—	(22)	—	—	128	—	—	—	106
Allocation of ESOP shares	—	53	—	—	—	1,429	—	—	1,482
Allocation of SAP shares	—	3,919	—	—	—	—	—	—	3,919
Allocation of Treasury Shares	—	(4,253)	—	—	4,253	—	—	—	—
Allocation of stock options	—	152	—	—	—	—	—	—	152
Balance at June 30, 2014	\$ 832	\$ 1,025,031	\$ 442,909	\$ 4,686	\$ (304,741)	\$ (47,326)	\$ (7,159)	\$ 7,159	\$ 1,121,391

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Six months ended June 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands)

	Six months ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$33,380	\$37,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	4,562	4,598
Provision for loan losses	1,900	2,500
Deferred tax expense	1,820	1,761
Increase in cash surrender value of Bank-owned life insurance	(2,879)	) (4,154)
Net amortization of premiums and discounts on securities	4,792	7,277
Accretion of net deferred loan fees	(1,541)	) (2,064)
Amortization of premiums on purchased loans, net	353	756
Net increase in loans originated for sale	(3,524)	) (14,344)
Proceeds from sales of loans originated for sale	3,807	15,161
Proceeds from sales of foreclosed assets	3,539	3,704
ESOP expense	1,483	1,258
Allocation of stock award shares	3,654	2,802
Allocation of stock options	152	141
Net gain on sale of loans	(283)	) (817)
Net loss (gain) on securities transactions	240	) (934)
Net (gain) loss on sale of premises and equipment	(1)	) 29
Net (gain) loss on sale of foreclosed assets	(385)	) 195
Decrease in accrued interest receivable	405	1,003
Increase in other assets	(14,780)	) (5,338)
Increase (decrease) in other liabilities	961	(3,303)
Net cash provided by operating activities	37,655	47,287
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities held to maturity	24,481	51,146
Purchases of investment securities held to maturity	(40,577)	) (44,718)
Proceeds from sales of securities	15,007	14,834
Proceeds from maturities, calls and paydowns of securities available for sale	91,710	196,434
Purchases of securities available for sale	(18,566)	) (151,861)
Cash received, net of cash consideration paid for acquisition	68,650	—
Purchases of loans	(31,027)	) (4,558)
Net increase in loans	(54,216)	) (93,406)
Proceeds from sales of premises and equipment	—	35
Purchases of premises and equipment	(10,890)	) (5,188)
Net cash provided by (used) in investing activities	44,572	(37,282)
Cash flows from financing activities:		
Net decrease in deposits	(134,377)	) (179,359)
Increase in mortgage escrow deposits	2,586	1,839
Purchases of treasury stock	(3,880)) (5,883)

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Cash dividends paid to stockholders	(18,234) (16,527)
Shares issued dividend reinvestment plan	659	595	
Stock options exercised	106	153	

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Proceeds from long-term borrowings	322,231	50,000	
Payments on long-term borrowings	(161,959) (45,798)
Net (decrease) increase in short-term borrowings	(58,144	) 161,657	
Net cash used in financing activities	(51,012	) (33,323)
Net increase (decrease) in cash and cash equivalents	31,215	(23,318)
Cash and cash equivalents at beginning of period	101,224	103,823	
Cash and cash equivalents at end of period	\$132,439	\$80,505	
Cash paid during the period for:			
Interest on deposits and borrowings	\$19,283	\$18,692	
Income taxes	\$12,531	\$13,344	
Non-cash investing activities:			
Transfer of loans receivable to foreclosed assets	\$4,206	\$5,537	
Acquisition:			
Non-cash assets acquired:			
Investment securities available for sale	157,635	—	
Loans	631,390	—	
Bank-owned life insurance	22,319		
Goodwill and other intangible assets, net	50,041	—	
Other assets	33,939	—	
Total non-cash assets acquired	\$895,324	\$—	
Liabilities assumed:			
Deposits	769,936	—	
Borrowings	112,835	—	
Other Liabilities	(2,314) —	
Total liabilities assumed	\$880,457	—	
Common stock issued for acquisitions	\$83,517	\$—	
See accompanying notes to unaudited consolidated financial statements			

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly owned subsidiary, The Provident Bank (the “Bank,” together with Provident Financial Services, Inc., the “Company”).

In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the periods presented. Actual results could differ from these estimates. The allowance for loan losses and the valuation of securities available for sale are material estimates that are particularly susceptible to near-term change.

The interim unaudited 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 six months ended June 30, 2014 are not necessarily indicative of the results of operations that may be expected for all of 2014.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission.

These unaudited consolidated financial statements should be read in conjunction with the December 31, 2013 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 calculations for the three and six months ended June 30, 2014 and 2013 (dollars in thousands, except per share amounts):

	Three months ended June 30, 2014			2013		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	\$ 16,351			\$ 19,228		
Basic earnings per share:						
Income available to common stockholders	\$ 16,351	59,147,241	\$0.28	\$ 19,228	57,206,242	\$0.34
Dilutive shares		122,021			77,404	
Diluted earnings per share:						
Income available to common stockholders	\$ 16,351	59,269,262	\$0.28	\$ 19,228	57,283,646	\$0.34

	Six months ended June 30, 2014			2013		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	\$33,380			\$37,056		
Basic earnings per share:						
Income available to common stockholders	\$33,380	58,263,052	\$0.57	\$37,056	57,186,828	\$0.65
Dilutive shares		140,701			54,104	
Diluted earnings per share:						
Income available to common stockholders	\$33,380	58,403,753	\$0.57	\$37,056	57,240,932	\$0.65
Anti-dilutive stock options and awards totaling 1,116,839 shares at June 30, 2014, were excluded from the earnings per share calculations.						

Note 2. Business Combinations

On May 30, 2014, the Company completed its acquisition of Team Capital Bank ("Team Capital"), which after purchase accounting adjustments added \$964.0 million to total assets, \$631.4 million to loans, and \$769.9 million to deposits. Total consideration paid for Team Capital was \$115.1 million: \$31.6 million in cash and 4.9 million shares of common stock valued at \$83.5 million on the acquisition date. Team Capital was merged with and into the Company's subsidiary, The Provident Bank as of the close of business on the date of acquisition.

The acquisition was accounted for under the acquisition method of accounting. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based upon their estimated fair values, net of tax. The excess of consideration paid over the fair value of the net assets acquired has been recorded as goodwill.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition for Team Capital, net of cash consideration paid (in thousands):

	At May 30, 2014
Assets acquired:	
Cash and cash equivalents, net	\$68,650
Securities available for sale	157,635
Loans	631,390
Bank-owned life insurance	22,319
Banking premises and equipment	24,778
Accrued interest receivable	3,060
Goodwill	40,173
Other intangibles assets	9,868