

PROVIDENT FINANCIAL SERVICES INC

Form 10-Q

November 10, 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 September 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 November 1, 2014 there were 83,209,285 shares issued and 65,294,163 shares outstanding of the Registrant's Common Stock, par value \$0.01 per share, including 406,883 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

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

(Dollars in Thousands)

	September 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$87,439	\$100,053
Short-term investments	1,366	1,171
Total cash and cash equivalents	88,805	101,224
Securities available for sale, at fair value	1,110,323	1,157,594
Investment securities held to maturity (fair value of \$471,173 at September 30, 2014 (unaudited) and \$355,913 at December 31, 2013)	460,014	357,500
Federal Home Loan Bank stock	68,725	58,070
Loans	5,966,198	5,194,813
Less allowance for loan losses	63,330	64,664
Net loans	5,902,868	5,130,149
Foreclosed assets, net	6,334	5,486
Banking premises and equipment, net	96,558	66,448
Accrued interest receivable	24,189	22,956
Intangible assets	404,948	356,432
Bank-owned life insurance	176,307	150,511
Other assets	79,487	80,958
Total assets	\$8,418,558	\$7,487,328
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	\$3,928,254	\$3,473,724
Savings deposits	983,831	921,993
Certificates of deposit of \$100,000 or more	314,027	270,631
Other time deposits	501,841	536,123
Total deposits	5,727,953	5,202,471
Mortgage escrow deposits	21,544	20,376
Borrowed funds	1,490,983	1,203,879
Other liabilities	49,036	49,849
Total liabilities	7,289,516	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, 83,209,285 shares issued and 64,887,339 shares outstanding at September 30, 2014 (unaudited) and 59,917,649 outstanding at December 31, 2013	832	832
Additional paid-in capital	1,026,479	1,026,144
Retained earnings	452,152	427,763
Accumulated other comprehensive income (loss)	1,054	(4,851)

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Treasury stock	(304,864) (390,380)
Unallocated common stock held by the Employee Stock Ownership Plan	(46,611) (48,755)
Common stock acquired by the Directors' Deferred Fee Plan	(7,136	) (7,205)
Deferred compensation – Directors' Deferred Fee Plan	7,136	7,205	
Total stockholders' equity	1,129,042	1,010,753	
Total liabilities and stockholders' equity	\$8,418,558	\$7,487,328	
See accompanying notes to unaudited consolidated financial statements.			

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Three and nine months ended September 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest income:				
Real estate secured loans	\$43,837	\$38,238	\$122,770	\$114,158
Commercial loans	13,961	10,092	36,056	30,118
Consumer loans	6,106	5,918	17,637	17,750
Securities available for sale and Federal Home Loan Bank Stock	6,410	6,033	20,155	18,345
Investment securities held to maturity	3,323	2,694	8,899	8,300
Deposits, Federal funds sold and other short-term investments	15	9	44	30
Total interest income	73,652	62,984	205,561	188,701
Interest expense:				
Deposits	4,054	4,354	11,479	13,917
Borrowed funds	6,629	4,633	18,511	13,481
Total interest expense	10,683	8,987	29,990	27,398
Net interest income	62,969	53,997	175,571	161,303
Provision for loan losses	1,500	1,200	3,400	3,700
Net interest income after provision for loan losses	61,469	52,797	172,171	157,603
Non-interest income:				
Fees	8,512	9,792	22,986	26,070
Bank-owned life insurance	1,349	1,201	4,228	5,355
Net gain on securities transactions	487	40	247	974
Other income	961	697	2,291	1,913
Total non-interest income	11,309	11,730	29,752	34,312
Non-interest expense:				
Compensation and employee benefits	24,947	21,106	69,921	62,103
Net occupancy expense	5,950	5,072	17,662	15,322
Data processing expense	5,029	2,644	10,587	7,913
FDIC insurance	1,141	1,073	3,421	3,547
Amortization of intangibles	976	318	1,778	1,345
Advertising and promotion expense	1,281	718	3,427	2,741
Other operating expenses	6,509	5,533	20,898	18,252
Total non-interest expense	45,833	36,464	127,694	111,223
Income before income tax expense	26,945	28,063	74,229	80,692
Income tax expense	7,913	11,987	21,817	27,560
Net income	\$19,032	\$16,076	\$52,412	\$53,132
Basic earnings per share	\$0.30	\$0.28	\$0.88	\$0.93
Weighted average basic shares outstanding	62,440,310	57,241,270	59,670,773	57,205,175
Diluted earnings per share	\$0.30	\$0.28	\$0.88	\$0.93
Weighted average diluted shares outstanding	62,559,207	57,357,344	59,804,205	57,279,935

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Three and nine months ended September 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands)

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013		2014	2013
Net income	\$19,032		\$52,412	\$53,132
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on securities available for sale:				
Net unrealized (losses) gains arising during the period	(3,389	) 779	6,669	(13,403
Reclassification adjustment for gains included in net income	(288	) (24	) (146	) (576
Total	(3,677	) 755	6,523	(13,979
Amortization related to post-retirement obligations	45	202	(618	) 663
Total other comprehensive (loss) income	(3,632	) 957	5,905	(13,316
Total comprehensive income	\$15,400	\$17,033	\$58,317	\$39,816

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

Nine months ended September 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	—	—	53,132	—	—	—	—	—	53,132
Other comprehensive loss, net of tax	—	—	—	(13,316)	—	—	—	—	(13,316)
Cash dividends declared	—	—	(24,965)	—	—	—	—	—	(24,965)
Distributions from DDFP	—	—	—	—	—	—	70	(70)	—
Purchases of treasury stock	—	—	—	—	(5,883)	—	—	—	(5,883)
Shares issued dividend reinvestment plan	—	(96)	—	—	997	—	—	—	901
Stock option exercises	—	(76)	—	—	275	—	—	—	199
Allocation of ESOP shares	—	(168)	—	—	—	2,124	—	—	1,956
Allocation of SAP shares	—	3,212	—	—	—	—	—	—	3,212
Allocation of stock options	—	210	—	—	—	—	—	—	210
Balance at September 30, 2013	\$ 832	\$ 1,024,589	\$ 417,716	\$ (5,600)	\$ (390,881)	\$ (49,964)	\$ (7,228)	\$ 7,228	\$ 996,692

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Nine months ended September 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	—	—	52,412	—	—	—	—	—	52,412
Other comprehensive income, net of tax	—	—	—	5,905	—	—	—	—	5,905
Cash dividends declared	—	—	(28,023)	—	—	—	—	—	(28,023)
Distributions from DDFP	—	—	—	—	—	—	69	(69)	—
Purchases of treasury stock	—	—	—	—	(4,401)	—	—	—	(4,401)
Treasury shares issued to finance acquisition	—	(962)	—	—	84,479	—	—	—	83,517
Shares issued dividend reinvestment plan	—	—	—	—	1,019	—	—	—	1,019
Stock option exercises	—	(22)	—	—	166	—	—	—	144
Allocation of ESOP shares	—	46	—	—	—	2,144	—	—	2,190
Allocation of SAP shares	—	5,301	—	—	—	—	—	—	5,301
Allocation of Treasury Shares	—	(4,253)	—	—	4,253	—	—	—	—
Allocation of stock options	—	225	—	—	—	—	—	—	225
Balance at September 30, 2014	\$ 832	\$ 1,026,479	\$ 452,152	\$ 1,054	\$ (304,864)	\$ (46,611)	\$ (7,136)	\$ 7,136	\$ 1,129,042

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Nine months ended September 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands)

	Nine months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$52,412	\$53,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	7,752	6,691
Provision for loan losses	3,400	3,700
Deferred tax expense	667	4,863
Increase in cash surrender value of Bank-owned life insurance	(4,228)	) (5,355)
Net amortization of premiums and discounts on securities	7,701	10,482
Accretion of net deferred loan fees	(2,376)	) (2,957)
Amortization of premiums on purchased loans, net	526	1,068
Net increase in loans originated for sale	(7,280)	) (20,539)
Proceeds from sales of loans originated for sale	7,864	21,500
Proceeds from sales of foreclosed assets	4,580	10,998
ESOP expense	2,190	1,956
Allocation of stock award shares	5,049	3,562
Allocation of stock options	225	210
Net gain on sale of loans	(584)	) (961)
Net gain on securities transactions	(247)	) (974)
Net gain on sale of premises and equipment	(5)	) (42)
Net gain on sale of foreclosed assets	(497)	) (18)
Decrease in accrued interest receivable	1,828	2,700
Increase in other assets	(12,411)	) (7,008)
Increase in other liabilities	1,501	575
Net cash provided by operating activities	68,067	83,583
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities held to maturity	36,062	77,817
Purchases of investment securities held to maturity	(58,192)	) (78,608)
Proceeds from sales of securities	24,953	14,834
Proceeds from maturities, calls and paydowns of securities available for sale	157,765	298,894
Purchases of securities available for sale	(54,581)	) (227,101)
Cash received, net of cash consideration paid for acquisition	68,650	—
Purchases of loans	(94,464)	) (22,005)
Net increase in loans	(45,982)	) (160,914)
Proceeds from sales of premises and equipment	5	35
Purchases of premises and equipment	(14,404)	) (6,623)
Net cash provided by (used) in investing activities	19,812	(103,671)
Cash flows from financing activities:		
Net decrease in deposits	(244,454)	) (172,598)
Increase in mortgage escrow deposits	1,146	715
Purchases of treasury stock	(4,401)) (5,883)

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Cash dividends paid to stockholders	(28,023) (24,965)
Shares issued dividend reinvestment plan	1,019	901	
Stock options exercised	144	199	

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Proceeds from long-term borrowings	404,334	215,000
Payments on long-term borrowings	(201,856) (52,193
Net (decrease) increase in short-term borrowings	(28,207	) 50,375
Net cash (used in) provided by financing activities	(100,298	) 11,551
Net decrease in cash and cash equivalents	(12,419	) (8,537
Cash and cash equivalents at beginning of period	101,224	103,823
Cash and cash equivalents at end of period	\$88,805	\$95,286
Cash paid during the period for:		
Interest on deposits and borrowings	\$29,910	\$27,532
Income taxes	\$19,742	\$21,321
Non-cash investing activities:		
Transfer of loans receivable to foreclosed assets	\$4,535	\$6,408
Acquisition:		
Non-cash assets acquired:		
Investment securities available for sale	\$157,635	\$—
Loans	631,209	—
Bank-owned life insurance	22,319	—
Goodwill and other intangible assets, net	50,222	—
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, the valuation of securities available for sale and the valuation of deferred tax assets 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 nine months ended September 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 nine months ended September 30, 2014 and 2013 (dollars in thousands, except per share amounts):

	Three months ended September 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	\$ 19,032			\$ 16,076		
Basic earnings per share:						
Income available to common stockholders	\$ 19,032	62,440,310	\$0.30	\$ 16,076	57,241,270	\$0.28
Dilutive shares		118,897			116,074	
Diluted earnings per share:						
Income available to common stockholders	\$ 19,032	62,559,207	\$0.30	\$ 16,076	57,357,344	\$0.28

	Nine months ended September 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	\$52,412			\$53,132		
Basic earnings per share:						
Income available to common stockholders	\$52,412	59,670,773	\$0.88	\$53,132	57,205,175	\$0.93
Dilutive shares		133,432			74,760	
Diluted earnings per share:						
Income available to common stockholders	\$52,412	59,804,205	\$0.88	\$53,132	57,279,935	\$0.93
Anti-dilutive stock options and awards totaling 1,099,371 shares at September 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, \$631.2 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 transaction 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 from 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	631,209
Bank-owned life insurance	22,319
Banking premises and equipment	24,778
Accrued interest receivable	