

PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
August 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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)

07302
(Zip Code)

(732) 590-9200

(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 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

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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, 2013 there were 83,209,293 shares issued and 59,864,973 shares outstanding of the Registrant's Common Stock, par value \$0.01 per share, including 413,483 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

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PROVIDENT FINANCIAL SERVICES, INC.

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Consolidated Statements of Financial Condition

June 30, 2013 (Unaudited) and December 31, 2012

(Dollars in Thousands)

	June 30, 2013	December 31, 2012
<u>ASSETS</u>		
Cash and due from banks	\$ 79,035	\$ 101,850
Short-term investments	1,470	1,973
Total cash and cash equivalents	80,505	103,823
Securities available for sale, at fair value	1,174,778	1,264,002
Investment securities held to maturity (fair value of \$353,494 at June 30, 2013 (unaudited) and \$374,916 at December 31, 2012)	351,836	359,464
Federal Home Loan Bank stock	47,052	37,543
Loans	4,998,347	4,904,699
Less allowance for loan losses	67,005	70,348
Net loans	4,931,342	4,834,351
Foreclosed assets, net	13,740	12,473
Banking premises and equipment, net	67,732	66,120
Accrued interest receivable	22,999	24,002
Intangible assets	357,015	357,907
Bank-owned life insurance	148,069	147,286
Other assets	79,011	76,724
Total assets	\$ 7,274,079	\$ 7,283,695
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Deposits:		
Demand deposits	\$ 3,420,610	\$ 3,556,011
Savings deposits	945,328	914,787
Certificates of deposit of \$100,000 or more	295,971	324,901
Other time deposits	587,003	632,572
Total deposits	5,248,912	5,428,271
Mortgage escrow deposits	23,077	21,238
Borrowed funds	969,123	803,264
Other liabilities	46,373	49,676
Total liabilities	6,287,485	6,302,449

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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 59,863,653 shares outstanding at June 30, 2013 and 59,937,955 outstanding at December 31, 2012	832	832
Additional paid-in capital	1,024,181	1,021,507
Retained earnings	410,078	389,549
Accumulated other comprehensive income	(6,557)	7,716
Treasury stock	(391,268)	(386,270)
Unallocated common stock held by the Employee Stock Ownership Plan	(50,672)	(52,088)
Common stock acquired by the Directors' Deferred Fee Plan	(7,251)	(7,298)
Deferred compensation - Directors' Deferred Fee Plan	7,251	7,298
Total stockholders' equity	986,594	981,246
Total liabilities and stockholders' equity	\$ 7,274,079	\$ 7,283,695

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Income

Three and Six months ended June 30, 2013 and 2012 (Unaudited)

(Dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Interest income:				
Real estate secured loans	\$ 37,585	\$ 38,672	\$ 75,920	\$ 77,631
Commercial loans	10,055	10,205	20,026	20,575
Consumer loans	5,875	6,335	11,832	12,624
Securities available for sale and Federal Home Loan Bank Stock	6,120	7,812	12,312	16,144
Investment securities held to maturity	2,767	2,991	5,606	5,909
Deposits, Federal funds sold and other short-term investments	11	4	21	16
Total interest income	62,413	66,019	125,717	132,899
Interest expense:				
Deposits	4,607	6,503	9,563	13,505
Borrowed funds	4,395	4,938	8,848	9,979
Total interest expense	9,002	11,441	18,411	23,484
Net interest income	53,411	54,578	107,306	109,415
Provision for loan losses	1,000	3,500	2,500	8,500
Net interest income after provision for loan losses	52,411	51,078	104,806	100,915
Non-interest income:				
Fees	8,318	7,411	16,278	15,486
Bank-owned life insurance	2,944	1,260	4,154	2,622
Net gain on securities transactions	423	1	934	2,184
Other income	952	671	1,216	1,779
Total non-interest income	12,637	9,343	22,582	22,071
Non-interest expense:				
Compensation and employee benefits	20,154	20,199	40,997	40,479
Net occupancy expense	5,044	5,162	10,250	10,188
Data processing expense	2,647	2,462	5,269	5,050
FDIC insurance	1,224	1,230	2,474	2,620
Amortization of intangibles	516	718	1,027	1,457
Advertising and promotion expense	1,277	1,128	2,023	1,813
Other operating expenses	6,951	6,857	12,719	12,940
Total non-interest expense	37,813	37,756	74,759	74,547

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Income before income tax expense	27,235	22,665	52,629	48,439
Income tax expense	8,007	6,662	15,573	14,008
Net income	\$ 19,228	\$ 16,003	\$ 37,056	\$ 34,431
Basic earnings per share	\$ 0.34	\$ 0.28	\$ 0.65	\$ 0.60
Average basic shares outstanding	57,206,242	57,152,952	57,186,828	57,102,389
Diluted earnings per share	\$ 0.34	\$ 0.28	\$ 0.65	\$ 0.60
Average diluted shares outstanding	57,283,646	57,187,413	57,240,932	57,135,022

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Comprehensive Income

Three and Six months ended June 30, 2013 and 2012 (Unaudited)

(Dollars in thousands)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 19,228	\$ 16,003	\$ 37,056	\$ 34,431
Other comprehensive income (loss), net of tax:				
Unrealized gains and losses on securities available for sale:				
Net unrealized gains (losses) arising during the period	(12,562)	123	(14,182)	1,547
Reclassification adjustment for (gains) losses included in net income	(250)	(1)	(552)	(1,292)
Total	(12,812)	122	(14,734)	255
Amortization related to post-retirement obligations	202	212	461	(176)
Total other comprehensive (loss) income	(12,610)	334	(14,273)	79
Total comprehensive income	\$ 6,618	\$ 16,337	\$ 22,783	\$ 34,510

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended June 30, 2013 and 2012 (Unaudited)

(Dollars in thousands)

	ADDITIONAL		ACCUMULATED OTHER COMPREHENSIVE		UNALLOCATED		COMMON STOCK ACQUIRED DEFERRED		TOTAL
	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	INCOME (LOSS)	TREASURY STOCK	ESOP SHARES	DDFP	DDFP	STOCKHOLDERS' EQUITY
Balance at December 31, 2011	\$ 832	\$ 1,019,253	\$ 363,011	\$ 9,571	\$ (384,725)	\$ (55,465)	\$ (7,390)	\$ 7,390	\$ 952,477
Net income			34,431						34,431
Other comprehensive income, net of tax				79					79
Cash dividends declared			(15,208)						(15,208)
Distributions from DDFP							46	(46)	
Purchases of treasury stock					(5,620)				(5,620)
Shares issued dividend reinvestment plan		(1,604)			6,736				5,132
Stock option exercises		(6)			10				4
Allocation of ESOP shares		(235)				1,401			1,166
Allocation of SAP shares		1,930							1,930
Allocation of stock options		155							155
Balance at June 30, 2012	\$ 832	\$ 1,019,493	\$ 382,234	\$ 9,650	\$ (383,599)	\$ (54,064)	\$ (7,344)	\$ 7,344	\$ 974,546

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended June 30, 2013 and 2012 (Unaudited) (Continued)

(Dollars in thousands)

	ADDITIONAL COMMON STOCK	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 income, net of tax				(14,273)					(14,273)
Cash dividends paid			(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.

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Consolidated Statements of Cash Flows

Six months ended June 30, 2013 and 2012 (Unaudited)

(Dollars in thousands)

	Six months ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 37,056	\$ 34,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	4,598	4,864
Provision for loan losses	2,500	8,500
Deferred tax expense (benefit)	1,761	(4,005)
Increase in cash surrender value of Bank-owned life insurance	(4,154)	(2,622)
Net amortization of premiums and discounts on securities	7,277	7,662
Accretion of net deferred loan fees	(2,064)	(1,701)
Amortization of premiums on purchased loans, net	756	833
Net increase in loans originated for sale	(14,344)	(23,620)
Proceeds from sales of loans originated for sale	15,161	24,954
Proceeds from sales of foreclosed assets	3,704	9,090
ESOP expense	1,258	1,166
Allocation of stock award shares	2,802	1,930
Allocation of stock options	141	155
Net gain on sale of loans	(817)	(1,334)
Net gain on securities transactions	(934)	(2,184)
Net loss (gain) on sale of premises and equipment	29	(97)
Net loss on sale of foreclosed assets	195	270
Decrease in accrued interest receivable	1,003	775
Increase in other assets	(5,338)	(2,286)
Decrease in other liabilities	(3,303)	(1,369)
Net cash provided by operating activities	47,287	55,412
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities	51,146	39,095
Purchases of investment securities held to maturity	(44,718)	(54,428)
Proceeds from sales of securities	14,834	47,131
Proceeds from maturities and paydowns of securities available for sale	196,434	233,196
Purchases of securities available for sale	(151,861)	(218,099)
BOLI benefits paid		
Purchases of loans	(4,558)	(48,980)
Net increase in loans	(93,406)	(42,280)
Proceeds from sales of premises and equipment	35	65
Purchases of premises and equipment	(5,188)	(4,555)
Net cash used in investing activities	(37,282)	(48,855)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(179,359)	49,416
Increase in mortgage escrow deposits	1,839	3,308
Purchase of treasury Stock	(5,883)	(5,620)

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Cash dividends paid to stockholders	(16,527)	(15,208)
Shares issued dividend reinvestment plan	595	5,132
Stock options exercised	153	4
Proceeds from long-term borrowings	50,000	
Payments on long-term borrowings	(45,798)	(25,796)
Net increase (decrease) in short-term borrowings	161,657	(10,180)
Net cash (used in) provided by financing activities	(33,323)	1,056
Net decrease in cash and cash equivalents	(23,318)	(7,613)
Cash and cash equivalents at beginning of period	103,823	69,632
Cash and cash equivalents at end of period	\$ 80,505	\$ 77,245
Cash paid during the period for:		
Interest on deposits and borrowings	\$ 18,692	\$ 23,793
Income taxes	\$ 13,344	\$ 10,071
Non cash investing activities:		
Transfer of loans receivable to foreclosed assets	\$ 5,537	\$ 10,507

See accompanying notes to unaudited consolidated financial statements

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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 current unstable economic environment has resulted in a heightened degree of uncertainty inherent in these material estimates.

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, 2013 are not necessarily indicative of the results of operations that may be expected for all of 2013.

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, 2012 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 months ended June 30,						For the six months ended June 30,					
	2013		2012				2013		2012			
	Weighted Average Common		Weighted Average Common				Weighted Average Common		Weighted Average Common			
	Net Income	Shares Outstanding	Per Share Amount	Net Income	Shares Outstanding	Per Share Amount	Net Income	Shares Outstanding	Per Share Amount	Net Income	Shares Outstanding	Per Share Amount
Net income	\$ 19,228			\$ 16,003			\$ 37,056			\$ 34,431		
Basic earnings per share:												
Income available to common stockholders	\$ 19,228	57,206,242	\$ 0.34	\$ 16,003	57,152,952	\$ 0.28	\$ 37,056	57,186,828	\$ 0.65	\$ 34,431	57,102,389	\$ 0.60
Dilutive shares		77,404			34,461			54,104			32,632	
Diluted earnings per share:												
	\$ 19,228	57,283,646	\$ 0.34	\$ 16,003	57,187,413	\$ 0.28	\$ 37,056	57,240,932	\$ 0.65	\$ 34,431	57,135,022	\$ 0.60

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Income available
to common
stockholders

Anti-dilutive stock options and awards totaling 4,017,937 shares at June 30, 2013, were excluded from the earnings per share calculations.

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At June 30, 2013, the Company had \$1.17 billion and \$351.8 million in available for sale and held to maturity investment securities, respectively. Many factors, including lack of liquidity in the secondary market for certain securities, variations in pricing information, regulatory actions, changes in the business environment or any changes in the competitive marketplace could have an adverse effect on the Company's investment portfolio which could result in other-than-temporary impairment on certain investment securities in future periods. Included in the Company's investment portfolio are private label mortgage-backed securities. These investments may pose a higher risk of future impairment charges as a result of the uncertain economic environment and the potential negative effect on future performance of these private label mortgage-backed securities. The total number of all held to maturity and available for sale securities in an unrealized loss position as of June 30, 2013 totaled 241, compared with 65 at December 31, 2012. All securities with unrealized losses at June 30, 2013 were analyzed for other-than-temporary impairment. Based upon this analysis, no other-than-temporary impairment existed at June 30, 2013.

Securities Available for Sale

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for securities available for sale at June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 94,280	340	(213)	94,407
Mortgage-backed securities	1,064,862	16,668	(13,221)	1,068,309
State and municipal obligations	11,567	253	(111)	11,709
Equity securities	307	46		353
	\$ 1,171,016	17,307	(13,545)	1,174,778

	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 90,443	574		91,017
Mortgage-backed securities	1,134,647	27,934	(256)	1,162,325
State and municipal obligations	9,933	384	(1)	10,316
Equity securities	307	37		344
	\$ 1,235,330	28,929	(257)	1,264,002

The amortized cost and fair value of securities available for sale at June 30, 2013, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	June 30, 2013	
	Amortized cost	Fair value
Due in one year or less	\$ 33,642	33,689
Due after one year through five years	68,761	69,078
Due after five years through ten years	407	423
Due after ten years	3,037	2,926
Mortgage-backed securities	1,064,862	1,068,309

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Equity securities	307	353
	\$ 1,171,016	1,174,778

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Proceeds from the sale of securities available for sale for the three months ended June 30, 2013, were \$6,915,000 resulting in gross gains of \$407,000 and no gross losses. No securities were sold from the available for sale portfolio during the three months ended June 30, 2012.

For the six months ended June 30, 2013, proceeds from the sale of securities available for sale were \$14,310,000, resulting in gross gains of \$888,000 and no gross losses. For the same period last year, proceeds from the sale of securities available for sale were \$47,131,000, resulting in gross gains of \$2,160,000 and no gross losses. Also, for the three and six months ended June 30, 2013, proceeds from calls on securities available for sale totaled \$896,000, with no gains or losses recognized.

The following table presents a roll-forward of the credit loss component of other-than-temporary impairment (OTTI) on debt securities for which a non-credit component of OTTI was recognized in other comprehensive income. OTTI recognized in earnings after that date for credit-impaired debt securities is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment), or whether the current period is not the first time a debt security was credit impaired (subsequent credit impairment). Changes in the credit loss component of credit-impaired debt securities were as follows (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Beginning credit loss amount	\$ 1,240	1,240	1,240	1,240
Add: Initial OTTI credit losses				
Subsequent OTTI credit losses				
Less: Realized losses for securities sold				
Securities intended or required to be sold				
Increases in expected cash flows on debt securities				
Ending credit loss amount	\$ 1,240	1,240	1,240	1,240

The Company did not incur an OTTI charge on securities for the three and six months ended June 30, 2013 or 2012, respectively.

The following table represents the Company's disclosure regarding securities available for sale with temporary impairment at June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Gross		Gross		Gross	
	Fair value	unrealized losses	Fair value	unrealized losses	Fair value	unrealized losses
Agency obligations	\$ 20,347	(213)			20,437	(213)
Mortgage-backed securities	494,812	(13,220)	439	(1)	495,251	(13,221)
State and municipal obligations	2,926	(111)			2,926	(111)
	\$ 518,085	(13,544)	439	(1)	518,524	(13,545)

	December 31, 2012 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Gross		Gross		Gross	
	Fair value	unrealized losses	Fair value	unrealized losses	Fair value	unrealized losses
Mortgage-backed securities	\$ 59,521	(205)	11,012	(51)	70,533	(256)
State and municipal obligations			503	(1)	503	(1)

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\$ 59,521	(205)	11,515	(52)	71,036	(257)
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The temporary loss position associated with securities available for sale was the result of changes in market interest rates relative to the coupon of the individual security and changes in credit spreads. In addition,

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there remains a lack of liquidity in certain sectors of the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company does not have the intent to sell securities in a temporary loss position at June 30, 2013, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of securities in an unrealized loss position at June 30, 2013 totaled 53, compared with 9 at December 31, 2012. The increase in the number of securities in an unrealized loss position at June 30, 2013, was a function of a steepened yield curve, as longer term market interest rates increased and spreads widened. At June 30, 2013, there were 4 private label mortgage-backed securities in an unrealized loss position, with an amortized cost of \$10,880,000 and unrealized losses totaling \$229,000. Two of these private label mortgage-backed securities were below investment grade at June 30, 2013.

The Company estimates the loss projections for each security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the three and six months ended June 30, 2013. The Company concluded that no other-than-temporary impairment of the securities available for sale portfolio existed at June 30, 2013.

Investment Securities Held to Maturity

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for investment securities held to maturity at June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 5,500	15	(73)	5,442
Mortgage-backed securities	7,370	336		7,706
State and municipal obligations	328,523	7,160	(5,771)	329,912
Corporate obligations	10,443	97	(106)	10,434
	\$ 351,836	7,608	(5,950)	353,494

	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 4,705	34		4,739
Mortgage-backed securities	11,123	460		11,583
State and municipal obligations	336,078	15,332	(585)	350,825
Corporate obligations	7,558	211		7,769
	\$ 359,464	16,037	(585)	374,916

The Company generally purchases securities for long-term investment purposes, and differences between amortized cost and fair values may fluctuate during the investment period. For the three and six months ended June 30, 2013, the Company recognized gross gains of \$16,000 and \$30,000, and gross losses of \$0 and \$2,000, respectively, related to calls on certain securities in the held to maturity portfolio, with proceeds from the calls totaling \$13,269,000 and \$22,478,000, respectively. In addition, for the six months ended June 30, 2013, the Company recognized gross gains of \$18,000, and no gross losses, related to the sales of certain securities, with the proceeds totaling \$524,000. The sales of these securities were in response to the credit deterioration of the issuers. There were no sales of securities from the held to maturity portfolio for the three months ended June 30, 2013.

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For the three and six months ended June 30, 2012, the Company recognized gains of \$1,000 and \$24,000, respectively, related to calls on certain securities in the held to maturity portfolio, with proceeds from the calls totaling \$1,249,000 and \$3,956,000 for the three and six months ended June 30, 2012, respectively. There were no sales of securities from the held to maturity portfolio for the three and six months ended June 30, 2012.

The amortized cost and fair value of investment securities in the held to maturity portfolio at June 30, 2013 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	June 30, 2013	
	Amortized cost	Fair value
Due in one year or less	\$ 32,775	32,948
Due after one year through five years	65,228	66,396
Due after five years through ten years	98,183	101,466
Due after ten years	148,280	144,978
Mortgage-backed securities	7,370	7,706
	\$ 351,836	353,494

The following table represents the Company's disclosure on investment securities held to maturity with temporary impairment at June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013 Unrealized Losses				Total	
	Less than 12 months		12 months or longer			
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	\$ 3,638	(67)	494	(6)	4,132	(73)
State and municipal obligations	96,727	(5,728)	1,051	(43)	97,778	(5,771)
Corporate obligations	4,619	(106)			4,619	(106)
	\$ 104,984	(5,901)	1,545	(49)	106,529	(5,950)

	December 31, 2012 Unrealized Losses				Total	
	Less than 12 months		12 months or longer			
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
State and municipal obligations	\$ 30,992	(585)			30,992	(585)
	\$ 30,992	(585)			30,992	(585)

Based upon the review of the held to maturity securities portfolio, the Company believes that as of June 30, 2013, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The review of the portfolio for other-than-temporary impairment considers the percentage and length of time the fair value of an investment is below book value, as well as general market conditions, changes in interest rates, credit risks, whether the Company has the intent to sell the securities and whether it is more likely than not that the Company would be required to sell the securities before the anticipated recovery.

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The number of securities in an unrealized loss position at June 30, 2013 totaled 188, compared with 56 at December 31, 2012. The increase in the number of securities in an unrealized loss position at June 30, 2013, was a function of a steepened yield curve, as longer term market interest rates increased and spreads widened on municipal securities, which represents the majority of the held to maturity portfolio. All temporarily impaired investment securities were investment grade at June 30, 2013.

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Loans receivable at June 30, 2013 and December 31, 2012 are summarized as follows (in thousands):

	June 30, 2013	December 31, 2012
Mortgage loans:		
Residential	\$ 1,206,368	1,265,015
Commercial	1,386,606	1,349,950
Multi-family	799,840	723,958
Construction	162,332	120,133
Total mortgage loans	3,555,146	3,459,056
Commercial loans	876,782	866,395
Consumer loans	568,139	579,166
Total gross loans	5,000,067	4,904,617
Premiums on purchased loans	4,269	4,964
Unearned discounts	(66)	(78)
Net deferred fees	(5,923)	(4,804)
	\$ 4,998,347	4,904,699

The following table summarizes the aging of loans receivable by portfolio segment and class as follows (in thousands):

	At June 30, 2013						Recorded Investment > 90 days accruing
	30-59 Days	60-89 Days	Non-accrual	Total Past		Total Loans Receivable	
				Due and Non-accrual	Current		
Mortgage loans:							
Residential	\$ 12,972	7,408	24,667	45,047	1,161,321	1,206,368	
Commercial	695	457	28,168	29,320	1,357,286	1,386,606	
Multi-family			412	412	799,428	799,840	
Construction			8,673	8,673	153,659	162,332	
Total mortgage loans	13,667	7,865	61,920	83,452	3,471,694	3,555,146	
Commercial loans	334	62	23,112	23,508	853,274	876,782	
Consumer loans	2,398	1,716	3,803	7,917	560,222	568,139	
Total loans	\$ 16,399	9,643	88,835	114,877	4,885,190	5,000,067	

	At December 31, 2012						Recorded Investment > 90 days accruing
	30-59 Days	60-89 Days	Non-accrual	Total Past		Total Loans Receivable	
				Due and Non-accrual	Current		
Mortgage loans:							

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Residential	\$ 15,752	11,986	29,293	57,031	1,207,984	1,265,015
Commercial	535	12,194	29,072	41,801	1,308,149	1,349,950
Multi-family			412	412	723,546	723,958
Construction			8,896	8,896	111,237	120,133
Toal mortgage loans	16,287	24,180	67,673	108,140	3,350,916	3,459,056
Commercial loans	1,840	70	25,467	27,377	839,018	866,395
Consumer loans	4,144	1,808	5,850	11,802	567,364	579,166
Total loans	\$ 22,271	26,058	98,990	147,319	4,757,298	4,904,617

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Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The principal amounts of these non-accrual loans were \$88.8 million and \$99.0 million at June 30, 2013 and December 31, 2012, respectively. Included in non-accrual loans were \$32.2 million and \$33.0 million of loans which were less than 90 days past due at June 30, 2013 and December 31, 2012, respectively. There were no loans ninety days or greater past due and still accruing interest at June 30, 2013, or December 31, 2012.

The Company defines an impaired loan as a non-homogenous loan greater than \$1.0 million for which it is probable, based on current information, all amounts due under the contractual terms of the loan agreement will not be collected. Impaired loans also include all loans modified as troubled debt restructurings (TDRs). A loan is deemed to be a TDR when a loan modification resulting in a concession is made in an effort to mitigate potential loss arising from a borrower's financial difficulty. Smaller balance homogeneous loans, including residential mortgages and other consumer loans, are evaluated collectively for impairment and are excluded from the definition of impaired loans, unless modified as TDRs. The Company separately calculates the reserve for loan losses on impaired loans. The Company may recognize impairment of a loan based upon: (1) the present value of expected cash flows discounted at the effective interest rate; or (2) if a loan is collateral dependent, the fair value of collateral; or (3) the market price of the loan. Additionally, if impaired loans have risk characteristics in common, those loans may be aggregated and historical statistics may be used as a means of measuring those impaired loans.

The Company uses third-party appraisals to determine the fair value of the underlying collateral in its analyses of collateral dependent impaired loans. A third party appraisal is generally ordered as soon as a loan is designated as a collateral dependent impaired loan and is updated annually or more frequently, if required.

A specific allocation of the allowance for loan losses is established for each collateral dependent impaired loan with a carrying balance greater than the collateral's fair value, less estimated costs to sell. Charge-offs are generally taken for the amount of the specific allocation when operations associated with the respective property cease and it is determined that collection of amounts due will be derived primarily from the disposition of the collateral. At each fiscal quarter end, if a loan is designated as a collateral dependent impaired loan and the third party appraisal has not yet been received, an evaluation of all available collateral is made using the best information available at the time, including rent rolls, borrower financial statements and tax returns, prior appraisals, management's knowledge of the market and collateral, and internally prepared collateral valuations based upon market assumptions regarding vacancy and capitalization rates, each as and where applicable. Once the appraisal is received and reviewed, the specific reserves are adjusted to reflect the appraised value. The Company believes there have been no significant time lapses as a result of this process.

At June 30, 2013, there were 149 impaired loans totaling \$115.8 million. Included in this total were 116 TDRs related to 106 borrowers totaling \$62.7 million that were performing in accordance with their restructured terms and which continued to accrue interest at June 30, 2013. At December 31, 2012, there were 108 impaired loans totaling \$109.6 million. Included in this total were 80 TDRs to 70 borrowers totaling \$58.4 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2012.

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Loans receivable summarized by portfolio segment and impairment method are as follows (in thousands):

	At June 30, 2013			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	\$ 83,308	30,690	1,802	115,800
Collectively evaluated for impairment	3,471,838	846,092	566,337	4,884,267
Total	\$ 3,555,146	876,782	568,139	5,000,067

	At December 31, 2012			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	\$ 78,525	29,807	1,298	109,630
Collectively evaluated for impairment	3,380,531	836,588	577,868	4,794,987
Total	\$ 3,459,056	866,395	579,166	4,904,617

The allowance for loan losses is summarized by portfolio segment and impairment classification as follows (in thousands):

	At June 30, 2013					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	\$ 5,237	1,468	117	6,822		6,822
Collectively evaluated for impairment	25,433	22,342	4,356	52,131	8,052	60,183
Total	\$ 30,670	23,810	4,473	58,953	8,052	67,005

	At December 31, 2012					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	\$ 5,172	1,949	90	7,211		7,211
Collectively evaluated for impairment	32,790	18,366	5,134	56,290	6,847	63,137
Total	\$ 37,962	20,315	5,224	63,501	6,847	70,348

Loan modifications to borrowers experiencing financial difficulties that are considered TDRs primarily involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications generally do not result in the forgiveness of principal or accrued interest. In addition, the Company attempts to obtain additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

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The following tables present the number of loans modified as TDRs during the three and six months ended June 30, 2013 and 2012 and their balances immediately prior to the modification date and post-modification as of June 30, 2013 and 2012.

Troubled Debt Restructuring	For the three months ended					
	June 30, 2013			June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(\$ s in thousands)				
Mortgage loans:						
Residential	18	\$ 4,227	\$ 4,339	8	\$ 2,010	\$ 1,823
Commercial						
Total mortgage loans	18	4,227	4,339	8	2,010	1,823
Commercial loans				3	3,846	3,846
Consumer loans	2	228	222	1	393	364
Total restructured loans	20	\$ 4,455	\$ 4,561	12	\$ 6,249	\$ 6,033

Troubled Debt Restructuring	For the six months ended					
	June 30, 2013			June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(\$ s in thousands)				
Mortgage loans:						
Residential	33	\$ 7,029	7,203	15	\$ 3,760	\$ 3,404
Commercial	1	329	307			
Total mortgage loans	34	7,358	7,510	15	3,760	3,404
Commercial loans				6	14,107	13,940
Consumer loans	5	468	461	3	498	439
Total restructured loans	39	\$ 7,826	\$ 7,971	24	\$ 18,365	\$ 17,783

All TDRs are impaired loans, which are individually evaluated for impairment, as previously discussed. Estimated collateral values of collateral dependent impaired loans modified during the three and six months ended June 30, 2013 and 2012 exceeded the carrying amounts of such loans. As a result, there were no charge-offs recorded on collateral dependent impaired loans presented in the preceding tables for the three and six months ended June 30, 2013 and 2012. The allowance for loan losses associated with the TDRs presented in the preceding tables totaled \$294,000 and \$141,000 for the three months ended June 30, 2013 and 2012, respectively, and were included in the allowance for loan losses for loans individually evaluated for impairment. For the six months ended June 30, 2013 and 2012, the allowance for loan losses associated with the TDRs presented in the preceding tables totaled \$670,000 and \$1,400,000, respectively, and were included in the allowance for loan losses for loans individually evaluated for impairment.

For the three and six months ended June 30, 2013, the TDRs presented in the preceding tables had a weighted average modified interest rate of approximately 4.20% and 4.24%, respectively, compared to a rate of 5.49% and 5.67% prior to modification, respectively. For the three and six months ended June 30, 2012, the TDRs had weighted average modified interest rate of approximately 4.52% and 5.11%, respectively, compared to a rate of 5.08% and 5.93% prior to modification, respectively.

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The following table presents loans modified as TDRs within the previous 12 months from June 30, 2013 and 2012, and for which there was a payment default (90 days or more past due) at the quarter ended June 30, 2013 and 2012.

Troubled Debt	2013		June 30, 2012	
	Number of Loans	Outstanding Recorded Investment (\$ in thousands)	Number of Loans	Outstanding Recorded Investment (\$ in thousands)
Restructurings				
Subsequently Defaulted				
Mortgage loans:				
Residential	1	\$ 1,445	1	\$ 903
Total mortgage loans	1	1,445	1	903
Total restructured loans	1	\$ 1,445	1	\$ 903

TDRs that subsequently default are considered collateral dependent impaired loans and are evaluated for impairment based on the estimated fair value of the underlying collateral less expected selling costs.

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The activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2013 and 2012 was as follows (in thousands):

Three Months Ended June 30,	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
2013						
Balance at beginning of period	\$ 36,393	23,501	4,821	64,715	5,319	70,034
Provision charged to operations	(2,789)	396	660	(1,733)	2,733	1,000
Recoveries of loans previously charged off	115	199	263	577		577
Loans charged off	(3,049)	(286)	(1,271)	(4,606)		(4,606)
Balance at end of period	\$ 30,670	23,810	4,473	58,953	8,052	67,005
2012						
Balance at beginning of period	\$ 37,683	20,962	5,783	64,428	9,568	73,996
Provision charged to operations	749	4,353	216	5,318	(1,818)	3,500
Recoveries of loans previously charged off	78	499	385	962		962
Loans charged off	(1,075)	(4,243)	(788)	(6,106)		(6,106)
Balance at end of period	\$ 37,435	21,571	5,596	64,602	7,750	72,352
Six Months Ended June 30,						
2013						
Balance at beginning of period	\$ 37,962	20,315	5,224	63,501	6,847	70,348
Provision charged to operations	(3,611)	4,248	658	1,295	1,205	2,500
Recoveries of loans previously charged off	343	313	506	1,162		1,162
Loans charged off	(4,024)	(1,066)	(1,915)	(7,005)		(7,005)
Balance at end of period	\$ 30,670	23,810	4,473	58,953	8,052	67,005
2012						
Balance at beginning of period	\$ 39,443	25,381	5,515	70,339	4,012	74,351
Provision charged to operations	131	3,315	1,316	4,762	3,738	8,500
Recoveries of loans previously charged off	120	697	630	1,447		1,447
Loans charged off	(2,259)	(7,822)	(1,865)	(11,946)		(11,946)
Balance at end of period	\$ 37,435	21,571	5,596	64,602	7,750	72,352

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Impaired loans receivable by class are summarized as follows (in thousands):

	At June 30, 2013					At December 31, 2012				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance										
Mortgage loans:										
Residential	\$ 10,949	8,352		8,849	139	7,241	5,309		5,395	155
Commercial	13,688	12,893		13,016		17,656	14,104		16,579	82
Multi-family										
Construction	9,810	8,673		8,774		9,810	8,896		9,738	
Total	34,447	29,918		30,639	139	34,707	28,309		31,712	237
Commercial loans	19,711	17,484		18,341	55	7,252	6,117		7,064	53
Consumer loans	770	635		695	11	84	58		71	2
Total loans	54,928	48,037		49,675	205	42,043	34,484		38,847	292
Loans with an allowance recorded										
Mortgage loans:										
Residential	\$ 17,796	16,426	2,224	16,968	272	14,139	13,133	1,805	13,206	378
Commercial	37,825	36,964	3,013	37,162	493	37,739	37,083	3,367	37,490	990
Multi-family										
Construction										
Total	55,621	53,390	5,237	54,130	765	51,878	50,216	5,172	50,696	1,368
Commercial loans	13,207	13,206	1,468	13,664	336	24,545	23,690	1,949	24,777	689
Consumer loans	1,196	1,167	117	1,179	27	1,277	1,240	90	1,291	46
Total loans	\$ 70,024	67,763	6,822	68,973	1,128	77,700	75,146	7,211	76,764	2,103
Total										
Mortgage loans:										
Residential	\$ 28,745	24,778	2,224	25,817	411	21,380	18,442	1,805	18,601	533
Commercial	51,513	49,857	3,013	50,178	493	55,395	51,187	3,367	54,069	1,072
Multi-family										
Construction	9,810	8,673		8,774		9,810	8,896		9,738	
Total	90,068	83,308	5,237	84,769	904	86,585	78,525	5,172	82,408	1,605
Commercial loans	32,918	30,690	1,468	32,005	391	31,797	29,807	1,949	31,841	742
Consumer loans	1,966	1,802	117	1,874	38	1,361	1,298	90	1,362	48
Total loans	\$ 124,952	115,800	6,822	118,648	1,333	119,743	109,630	7,211	115,611	2,395

Specific allocations of the allowance for loan losses attributable to impaired loans totaled \$6,822,000 and \$7,211,000 at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013 and December 31, 2012, impaired loans for which there was no related allowance for loan losses totaled \$48,037,000 and \$34,484,000, respectively. The average balance of impaired loans during the six months ended June 30, 2013 was \$118,648,000.

The Company utilizes an internal nine-point risk rating system to summarize its loan portfolio into categories with similar characteristics. Loans deemed to be acceptable quality (pass) are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to

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be of questionable quality are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by Credit Administration. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports concerning periodic loan review examinations by the independent third party are presented directly to both the Audit and Risk Committees of the Board of Directors.

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Loans receivable by credit quality risk rating indicator are as follows (in thousands):

	At June 30, 2013							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	\$ 7,408	12,921			20,329	20,865	1,765	42,959
Substandard	24,667	65,685	412	8,673	99,437	58,477	3,643	161,557
Doubtful						1,593		1,593
Loss								
Total classified and criticized	32,075	78,606	412	8,673	119,766	80,935	5,408	206,109
Pass/Watch	1,174,293	1,308,000	799,428	153,659	3,435,380	795,847	562,731	4,793,958
Total outstanding loans	\$ 1,206,368	1,386,606	799,840	162,332	3,555,146	876,782	568,139	5,000,067

	At December 31, 2012							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	\$ 11,986	14,816			26,802	17,076	1,808	45,686
Substandard	29,293	79,235	412	13,642	122,582	54,200	5,666	182,448
Doubtful						464		464
Loss								
Total classified and criticized	41,279	94,051	412	13,642	149,384	71,740	7,474	228,598
Pass/Watch	1,223,736	1,255,899	723,546	106,491	3,309,672	794,655	571,692	4,676,019
Total outstanding loans	\$ 1,265,015	1,349,950	723,958	120,133	3,459,056	866,395	579,166	4,904,617

Note 4. Deposits

Deposits at June 30, 2013 and December 31, 2012 are summarized as follows (in thousands):

	June 30, 2013	December 31, 2012
Savings	\$ 945,328	914,787
Money market	1,321,926	1,357,046
NOW	1,277,779	1,334,813
Non-interest bearing	820,905	864,152
Certificates of deposit	882,974	957,473
	\$ 5,248,912	5,428,271

Note 5. Components of Net Periodic Benefit Cost

The Bank has a noncontributory defined benefit pension plan (the Plan) covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The Plan was frozen on April 1, 2003. All participants in the Plan are 100% vested. The Plan's assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial.

In addition to pension benefits, certain health care and life insurance benefits are currently made available to certain of the Bank's retired employees. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee became fully

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eligible to receive the benefits. Effective January 1, 2003, eligibility for retiree health care benefits was frozen to new entrants and benefits were eliminated for employees with less than ten years of service as of December 31, 2002. Effective January 1, 2007, eligibility for retiree life insurance benefits was frozen as to new entrants, and retiree life insurance benefits were eliminated for employees with less than ten years of service as of December 31, 2006.

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Net periodic benefit cost (increase) for pension benefits and other post-retirement benefits for the three and six months ended June 30, 2013 and 2012 includes the following components (in thousands):

	Three months ended June 30,				Six months ended June 30,					
	Pension benefits		Other post-retirement benefits		Pension benefits		Other post-retirement benefits			
	2013	2012	2013	2012	2013	2012	2013	2012		
Service cost	\$		60	63	\$		120	126		
Interest cost		318	322	245	261	636	644	490	522	
Expected return on plan assets		(792)	(645)			(1,584)	(1,290)			
Amortization of prior service cost				(1)	(1)			(2)	(2)	
Amortization of the net loss (gain)		338	357	4	(3)	676	714	8	6	
Net periodic benefit cost (increase)	\$	(136)	34	308	326	\$	(272)	68	616	652

In its consolidated financial statements for the year ended December 31, 2012, the Company previously disclosed that it does not expect to contribute to the Plan in 2013. As of June 30, 2013, no contributions to the Plan have been made.

The net periodic benefit cost (increase) for pension benefits and other post-retirement benefits for the three and six months ended June 30, 2013 were calculated using the actual January 1, 2013 pension valuation and the estimated results of the other post-retirement benefits January 1, 2013 valuations.

Note 6. Impact of Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) in July 2013 issued Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists , which provides guidance on the presentation of unrecognized tax benefits and the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU is effective for fiscal years, and interim reporting periods within those years, beginning after December 31, 2013. This guidance is not expected to have a significant impact on the Company's consolidated financial statements.

The FASB in January 2013 issued ASU No. 2013-01, Scope of Disclosures about Offsetting Assets and Liabilities , which clarifies the scope of the new offsetting disclosures required under ASU 2011-11. It is limited to (1) derivatives, (2) repurchase and reverse repurchase agreements, and (3) securities borrowing and lending transactions, that are either: offset in the statement of financial positions in accordance with ASC 210, Balance Sheet Presentation , or ASC 815, Derivatives and Hedging , or subject to an enforceable master netting arrangement or similar agreement regardless of whether they are presented net in the financial statements. This ASU is effective for annual and interim reporting periods beginning on or after January 1, 2013. This guidance did not have a significant impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income , which requires disclosure of the effects of reclassifications out of accumulated other comprehensive income (AOCI) on net income line items only for those items that are reported in their entirety in net income in the period of reclassification. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required U.S. GAAP

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disclosures. This guidance was effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company adopted this guidance, as required, for the quarter ended March 31, 2013.

Note 7. Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. Where quoted market values in an active market are not readily available, the Company utilizes various valuation techniques to estimate fair value.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, in many instances fair value estimates may not be substantiated by comparison to independent markets and may not be realized in an immediate sale of the financial instrument.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The valuation techniques are based upon the unpaid principal balance only, and exclude any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Assets Measured at Fair Value on a Recurring Basis

The valuation techniques described below were used to measure fair value of financial instruments in the table below on a recurring basis as of June 30, 2013 and June 30, 2012.

Securities Available for Sale

For securities available for sale, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark to comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company

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compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also may hold equity securities and debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

Assets Measured at Fair Value on a Non-Recurring Basis

The valuation techniques described below were used to estimate fair value of financial instruments measured on a non-recurring basis as of June 30, 2013 and December 31, 2012.

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraisers' market knowledge and experience, as well as adjustments for estimated costs to sell of up to 6%. The Company classifies these loans as Level 3 within the fair value hierarchy.

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell of up to 6%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case basis, to comparable assets based on the appraisers' market knowledge and experience, and are classified as Level 3. When an asset is acquired, the excess of the loan balance over fair value, less estimated costs to sell, is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

There were no changes to the valuation techniques for fair value measurements as of June 30, 2013 and December 31, 2012.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair values as of June 30, 2013 and December 31, 2012, by level within the fair value hierarchy.

	Fair Value Measurements at Reporting Date Using:			
	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Securities available for sale:				
Agency obligations	\$ 94,407	94,407		
Mortgage-backed securities	1,068,309		1,068,309	
State and municipal obligations	11,709		11,709	
Equity securities	353	353		
	\$ 1,174,778	94,760	1,080,018	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral				
	\$ 37,808			37,808
Foreclosed assets	13,740			13,740
	\$ 51,548			51,548

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(Dollars in thousands)	Fair Value Measurements at Reporting Date Using:			
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Securities available for sale:				
Agency obligations	\$ 91,017	91,017		
Mortgage-backed securities	1,162,325		1,162,325	
State and municipal obligations	10,316		10,316	
Equity securities	344	344		
	\$ 1,264,002	91,361	1,172,641	
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	\$ 43,251			43,251
Foreclosed assets	12,473			12,473
	\$ 55,724			55,724

There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2013.

Other Fair Value Disclosures

The Company is required to disclose estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. The following is a description of valuation methodologies used for those assets and liabilities.

Cash and Cash Equivalents

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

Investment Securities Held to Maturity

For investment securities held to maturity, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also holds debt instruments issued by the U.S. government and U.S. government agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 within the fair value hierarchy.

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FHLB-NY Stock

The carrying value of FHLB-NY stock was its cost. The fair value of FHLB-NY stock is based on redemption at par value. The Company classifies the estimated fair value as Level 1 within the fair value hierarchy.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, residential mortgage, commercial, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories. The fair value of performing loans was estimated using a combination of techniques, including a discounted cash flow model that utilizes a discount rate that reflects the Company's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Company classifies the estimated fair value of its loan portfolio as Level 3.

The fair value for significant non-performing loans was based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows and estimated selling costs. The Company classifies the estimated fair value of its non-performing loan portfolio as Level 3.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits and savings deposits, was equal to the amount payable on demand and classified as Level 1. The estimated fair value of certificates of deposit was based on the discounted value of contractual cash flows. The discount rate was estimated using the Company's current rates offered for deposits with similar remaining maturities. The Company classifies the estimated fair value of its certificates of deposit portfolio as Level 2.

Borrowed Funds

The fair value of borrowed funds was estimated by discounting future cash flows using rates available for debt with similar terms and maturities and is classified by the Company as Level 2 within the fair value hierarchy.

Commitments to Extend Credit and Letters of Credit

The fair value of commitments to extend credit and letters of credit was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value estimates of commitments to extend credit and letters of credit are deemed immaterial.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are

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subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Significant assets and liabilities that are not considered financial assets or liabilities include goodwill and other intangibles, deferred tax assets and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following tables present the Company's financial instruments at their carrying and fair values as of June 30, 2013 and December 31, 2012. Fair values are presented by level within the fair value hierarchy.

(Dollars in thousands)	Carrying value	Fair value	Fair Value Measurements at June 30, 2013 Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 80,505	80,505	80,505		
Securities available for sale:					
Agency obligations	94,407	94,407	94,407		
Mortgage-backed securities	1,068,309	1,068,309		1,068,309	
State and municipal obligations	11,709	11,709		11,709	
Equity securities	353	353	353		
Total securities available for sale	\$ 1,174,778	1,174,778	94,760	1,080,018	
Investment securities held to maturity:					
Agency obligations	\$ 5,500	5,442	5,442		
Mortgage-backed securities	7,370	7,706		7,706	
State and municipal obligations	328,523	329,912		329,912	
Corporate obligations	10,443	10,434		10,434	
Total securities held to maturity	\$ 351,836	353,494	5,442	348,052	
FHLB-NY stock	47,052	47,052	47,052		
Loans, net of allowance for loan losses	4,931,342	5,076,556			5,076,556
Financial liabilities:					
Deposits other than certificates of deposits	\$ 4,365,938	4,365,938	4,365,938		
Certificates of deposit	882,974	892,776		892,776	
	5,248,912	5,258,714	4,365,646	892,776	
Borrowings	\$ 969,123	989,506		989,506	

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(Dollars in thousands)	Fair Value Measurements at December 31, 2012 Using:				
	Carrying value	Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 103,823	103,823	103,823		
Securities available for sale:					
Agency obligations	91,017	91,017	91,017		
Mortgage-backed securities	1,162,325	1,162,325		1,162,325	
State and municipal obligations	10,316	10,316		10,316	
Equity securities	344	344	344		
Total securities available for sale	\$ 1,264,002	1,264,002	91,361	1,172,641	
Investment securities held to maturity:					
Agency obligations	\$ 4,705	4,739	4,739		
Mortgage-backed securities	11,123	11,583		11,583	
State and municipal obligations	336,078	350,825		350,825	
Corporate obligations	7,558	7,769		7,769	
Total securities held to maturity	\$ 359,464	374,916	4,739	370,177	
FHLB-NY stock	37,543	37,543	37,543		
Loans, net of allowance for loan losses	4,834,351	5,025,700			5,025,700
Financial liabilities:					
Deposits other than certificates of deposits	\$ 4,470,798	4,470,483	4,470,483		
Certificates of deposit	957,473	968,668		968,668	
Total deposits	\$ 5,428,271	5,439,151	4,470,483	968,668	
Borrowings	\$ 803,264	834,244		834,244	

Note 8. Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) both gross and net of tax, for the three and six months ended June 30, 2013 and 2012 (in thousands):

	Before Tax	Three months ended June 30,			Before Tax	After Tax
		2013 Tax Effect	After Tax	2012 Tax Effect		
Components of Other Comprehensive Income (Loss):						
Unrealized gains and losses on securities available for sale:						
Net (losses) gains arising during the period	\$ (21,239)	8,677	(12,562)	\$ 208	(85)	123
Reclassification adjustment for gains included in net income	(423)	173	(250)	(1)		(1)
Total	(21,662)	8,850	(12,812)	207	(85)	122
Amortization related to post retirement obligations	342	(140)	202	360	(148)	212
Total other comprehensive (loss) income	\$ (21,320)	8,710	(12,610)	\$ 567	(233)	334

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	Six months ended June 30,					
	Before Tax	2013 Tax Effect	After Tax	Before Tax	2012 Tax Effect	After Tax
Components of Other Comprehensive Income (Loss):						
Unrealized gains and losses on securities available for sale:						
Net (losses) gains arising during the period	\$ (23,977)	9,795	(14,182)	\$ 2,615	(1,068)	1,547
Reclassification adjustment for gains included in net income	(934)	382	(552)	(2,184)	892	(1,292)
Total	(24,910)	10,176	(14,734)	431	(176)	255
Amortization related to post retirement obligations	781	(320)	461	(297)	121	(176)
Total other comprehensive (loss) income	\$ (24,130)	9,857	(14,273)	\$ 134	(55)	79

The following table presents the changes in the components of acc