PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
August 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM
10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018
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	42-1547151
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
239 Washington Street, Jersey City, New Jersey	07302
(Address of Principal Executive Offices)	(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 ý 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 ý NO ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ý	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller Reporting Company ¨
	Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý

As of August 1, 2018 there were 83,209,293 shares issued and 67,090,176 shares outstanding of the Registrant's Common Stock, par value $0.01 per share, including 267,261 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.
INDEX TO FORM 10-Q

2

PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.
PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
June 30, 2018 (Unaudited) and December 31, 2017
(Dollars in Thousands)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$91,192	$139,557
Short-term investments	50,761	51,277
Total cash and cash equivalents	141,953	190,834
Available for sale debt securities, at fair value	1,052,534	1,037,154
Held to maturity debt securities (fair value of $472,185 at June 30, 2018 (unaudited) and $485,039 at December 31, 2017)	473,825	477,652
Equity securities, at fair value	687	658
Federal Home Loan Bank stock	76,772	81,184
Loans	7,253,242	7,325,718
Less allowance for loan losses	58,819	60,195
Net loans	7,194,423	7,265,523
Foreclosed assets, net	6,537	6,864
Banking premises and equipment, net	60,348	63,185
Accrued interest receivable	29,735	29,646
Intangible assets	419,180	420,290
Bank-owned life insurance	192,082	189,525
Other assets	84,836	82,759
Total assets	$9,732,912	$9,845,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$4,953,994	$4,996,345
Savings deposits	1,070,397	1,083,012
Certificates of deposit of $100,000 or more	325,653	316,074
Other time deposits	323,905	318,735
Total deposits	6,673,949	6,714,166
Mortgage escrow deposits	30,106	25,933
Borrowed funds	1,641,539	1,742,514
Other liabilities	76,056	64,000
Total liabilities	8,421,650	8,546,613
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 66,780,853 shares outstanding at June 30, 2018 and 66,535,017 outstanding at December 31, 2017	832	832
Additional paid-in capital	1,017,256	1,012,908
Retained earnings	606,423	586,132
Accumulated other comprehensive loss	(19,912)	(7,465)
Treasury stock	(260,908)	(259,907)

Unallocated common stock held by the Employee Stock Ownership Plan	(32,429)	(33,839)
Common stock acquired by the Directors' Deferred Fee Plan	(4,840)	(5,175)
Deferred compensation – Directors' Deferred Fee Plan	4,840	5,175
Total stockholders' equity	1,311,262	1,298,661
Total liabilities and stockholders' equity	$9,732,912	$9,845,274

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Income
Three and six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest income:				
Real estate secured loans	$52,756	$ 47,009	$104,266	$ 93,020
Commercial loans	19,350	18,100	38,476	34,920
Consumer loans	4,945	5,196	9,850	10,210
Available for sale debt securities, equity securities and Federal Home Loan Bank Stock	7,682	6,548	14,933	13,111
Held to maturity debt securities	3,154	3,292	6,298	6,540
Deposits, Federal funds sold and other short-term investments	428	298	823	555
Total interest income	88,315	80,443	174,646	158,356
Interest expense:				
Deposits	6,996	4,653	13,231	9,105
Borrowed funds	7,039	6,735	13,858	13,161
Total interest expense	14,035	11,388	27,089	22,266
Net interest income	74,280	69,055	147,557	136,090
Provision for loan losses	15,500	1,700	20,900	3,200
Net interest income after provision for loan losses	58,780	67,355	126,657	132,890
Non-interest income:				
Fees	6,612	7,255	13,251	13,260
Wealth management income	4,602	4,509	9,002	8,722
Bank-owned life insurance	1,293	2,549	2,557	3,938
Net gain on securities transactions	—	11	1	11
Other income	1,330	495	2,333	1,353
Total non-interest income	13,837	14,819	27,144	27,284
Non-interest expense:				
Compensation and employee benefits	27,983	26,910	55,852	53,758
Net occupancy expense	6,383	6,195	13,128	13,150
Data processing expense	3,626	3,531	7,232	6,988
FDIC insurance	900	999	1,953	2,098
Amortization of intangibles	546	695	1,116	1,447
Advertising and promotion expense	847	945	1,814	1,802
Other operating expenses	8,521	8,065	14,621	14,221
Total non-interest expense	48,806	47,340	95,716	93,464
Income before income tax expense	23,811	34,834	58,085	66,710
Income tax expense	4,568	10,451	10,929	18,819
Net income	$19,243	$ 24,383	$47,156	$ 47,891
Basic earnings per share	$0.30	$ 0.38	$0.73	$ 0.75
Weighted average basic shares outstanding	64,911,916	64,357,684	64,840,843	64,263,065
Diluted earnings per share	$0.30	$ 0.38	$0.73	$ 0.74
Weighted average diluted shares outstanding	65,099,603	64,541,071	65,024,917	64,455,873

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Three and six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$19,243	$24,383	$47,156	$47,891
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on securities available for sale:				
Net unrealized (losses) gains arising during the period	(3,438)	1,228	(13,077)	1,999
Reclassification adjustment for gains included in net income	—	—	—	—
Total	(3,438)	1,228	(13,077)	1,999
Unrealized gains (losses) on derivatives	148	(3)	678	52
Amortization related to post-retirement obligations	74	37	136	69
Total other comprehensive (loss) income	(3,216)	1,262	(12,263)	2,120
Total comprehensive income	$16,027	$25,645	$34,893	$50,011

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2016	$832	$1,005,777	$550,768	$(3,397)	$(264,221)	$(37,978)	$(5,846)	$5,846	$1,251,781
Net income	—	—	47,891	—	—	—	—	—	47,891
Other comprehensive income, net of tax	—	—	—	2,120	—	—	—	—	2,120
Cash dividends paid	—	—	(25,309)	—	—	—	—	—	(25,309)
Distributions from DDFP	—	114	—	—	—	—	335	(335)	114
Purchases of treasury stock	—	—	—	—	(443)	—	—	—	(443)
Purchase of employee restricted shares to fund statutory tax withholding	—	—	—	—	(709)	—	—	—	(709)
Shares issued dividend reinvestment plan	—	284	—	—	626	—	—	—	910
Stock option exercises	—	(1,017)	—	—	3,532	—	—	—	2,515
Allocation of ESOP shares	—	710	—	—	—	1,410	—	—	2,120
Allocation of SAP shares	—	2,514	—	—	—	—	—	—	2,514
Allocation of stock options	—	97	—	—	—	—	—	—	97
Balance at June 30, 2017	$832	$1,008,479	$573,350	$(1,277)	$(261,215)	$(36,568)	$(5,511)	$5,511	$1,283,601

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Six months ended June 30, 2018 and 2017 (Unaudited) (Continued)
(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2017	$832	$1,012,908	$586,132	$(7,465)	$(259,907)	$(33,839)	$(5,175)	$5,175	$1,298,661
Net income	—	—	47,156	—	—	—	—	—	47,156
Other comprehensive loss, net of tax	—	—	—	(12,263)	—	—	—	—	(12,263)
Cash dividends paid	—	—	(27,049)	—	—	—	—	—	(27,049)
Effect of adopting Accounting Standards Update ("ASU") No. 2016-01	—	—	184	(184)	—	—	—	—	—
Distributions from DDFP	—	81	—	—	—	—	335	(335)	81
Purchases of treasury stock	—	—	—	—	—	—	—	—	—
Purchase of employee restricted shares to fund statutory tax withholding	—		—	—	(1,847)	—	—	—	(1,847)
Shares issued dividend reinvestment plan	—	305	—	—	554	—	—	—	859
Stock option exercises	—	(85)	—	—	292	—	—	—	207
Allocation of ESOP shares	—	795	—	—	—	1,410	—	—	2,205
Allocation of SAP shares	—	3,159	—	—	—	—	—	—	3,159
	—	93	—	—	—	—	—	—	93

Allocation of stock options									
Balance at June 30, 2018	$832	$1,017,256	$606,423	$(19,912)	$(260,908)	$(32,429)	$(4,840)	$4,840	$1,311,262

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Six months ended June 30, 2018 and 2017 (Unaudited)
(Dollars in Thousands)

	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$47,156	$47,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	5,092	5,971
Provision for loan losses	20,900	3,200
Deferred tax expense	(22,111)	840
Income on Bank-owned life insurance	(2,557)	(3,938)
Net amortization of premiums and discounts on securities	4,458	4,911
Accretion of net deferred loan fees	(2,404)	(2,422)
Amortization of premiums on purchased loans, net	405	516
Net increase in loans originated for sale	(4,545)	(13,752)
Proceeds from sales of loans originated for sale	5,111	—
Proceeds from sales and paydowns of foreclosed assets	2,063	3,540
ESOP expense	2,205	2,120
Allocation of stock award shares	3,159	2,514
Allocation of stock options	93	97
Net gain on sale of loans	(566)	(348)
Net gain on securities transactions	(1)	(11)
Net gain on sale of premises and equipment	(25)	—
Net gain on sale of foreclosed assets	(559)	(501)
Decrease (increase) in accrued interest receivable	89	(8)
Decrease (increase) in other assets	3,223	(3,723)
Increase (decrease) in other liabilities	12,056	(6,674)
Net cash provided by operating activities	73,242	40,223
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of held to maturity debt securities	24,997	25,638
Purchases of held to maturity debt securities	(22,470)	(31,572)
Proceeds from maturities, calls and paydowns of available for sale debt securities	101,691	100,502
Purchases of available for sale debt securities	(138,020)	(99,268)
Proceeds from redemption of Federal Home Loan Bank stock	75,655	57,658
Purchases of Federal Home Loan Bank stock	(71,243)	(60,881)
Purchases of loans	(1,344)	—
Net decrease (increase) in loans	74,574	(13,922)
Proceeds from sales of premises and equipment	25	—
Purchases of premises and equipment	(1,139)	(1,108)
Net cash provided by (used in) investing activities	42,726	(22,953)
Cash flows from financing activities:		
Net decrease in deposits	(40,217)	(53,092)
Increase in mortgage escrow deposits	4,173	4,489
Cash dividends paid to stockholders	(27,049)	(25,309)
Shares issued through the dividend reinvestment plan	859	910

Purchases of treasury stock	—	(443)
Purchase of employee restricted shares to fund statutory tax withholding	(1,847)	(709)

	Six months ended June 30,	
	2018	2017
Stock options exercised	207	2,515
Proceeds from long-term borrowings	525,000	171,980
Payments on long-term borrowings	(410,834)	(202,019)
Net (decrease) increase in short-term borrowings	(215,141)	93,513
Net cash used in financing activities	(164,849)	(8,165)
Net (decrease) increase in cash and cash equivalents	(48,881)	9,105
Cash and cash equivalents at beginning of period	190,834	144,297
Cash and cash equivalents at end of period	$141,953	$153,402
Cash paid during the period for:		
Interest on deposits and borrowings	$26,925	$22,422
Income taxes	$4,128	$15,491
Non-cash investing activities:		
Transfer of loans receivable to foreclosed assets	$1,245	$2,019

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, 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 consolidated statements of financial condition and the consolidated statements of income 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 six months ended June 30, 2018 are not necessarily indicative of the results of operations that may be expected for all of 2018.
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. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.
These unaudited consolidated financial statements should be read in conjunction with the December 31, 2017 Annual Report to Stockholders on Form 10-K.
B. Earnings Per Share
The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the three and six months ended June 30, 2018 and 2017 (dollars in thousands, except per share amounts):

	Three months ended June 30,					
	2018			2017		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	$19,243			$24,383		
Basic earnings per share:						
Income available to common stockholders	$19,243	64,911,919	$ 0.30	$24,383	64,357,684	$ 0.38
Dilutive shares		187,684			183,387	
Diluted earnings per share:						
Income available to common stockholders	$19,243	65,099,603	$ 0.30	$24,383	64,541,071	$ 0.38

10

	Six months ended June 30, 2018			2017		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	$47,156			$47,891		
Basic earnings per share:						
Income available to common stockholders	$47,156	64,840,843	$ 0.73	$47,891	64,263,065	$ 0.75
Dilutive shares		184,074			192,808	
Diluted earnings per share:						
Income available to common stockholders	$47,156	65,024,917	$ 0.73	$47,891	64,455,873	$ 0.74

Antidilutive stock options and awards at June 30, 2018 and 2017, totaling 420,544 shares and 437,904 shares, respectively, were excluded from the earnings per share calculations.

Note 2. Investment Securities

At June 30, 2018, the Company had $1.05 billion and $473.8 million in available for sale debt securities and held to maturity debt 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 ("OTTI") in future periods. The total number of available for sale and held to maturity debt securities in an unrealized loss position as of June 30, 2018, totaled 595, compared with 306 at December 31, 2017. All securities with unrealized losses at June 30, 2018 were analyzed for OTTI. Based upon this analysis, the Company believes that as of June 30, 2018, such securities with unrealized losses do not represent impairments that are other-than-temporary.

Available for Sale Debt Securities

The following tables present the amortized cost, gross unrealized gains, gross unrealized losses and the fair value for available for sale debt securities at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	5,003	—	(4)	4,999
Mortgage-backed securities	1,041,736	1,932	(24,542)	1,019,126
State and municipal obligations	3,237	81	—	3,318
Corporate obligations	25,043	200	(152)	25,091
	$1,075,019	2,213	(24,698)	1,052,534

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	19,014	—	(9)	19,005
Mortgage-backed securities	993,548	4,914	(10,095)	988,367
State and municipal obligations	3,259	129	—	3,388
Corporate obligations	26,047	359	(12)	26,394
	$1,041,868	5,402	(10,116)	1,037,154

The amortized cost and fair value of available for sale debt securities at June 30, 2018, 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, 2018	
	Amortized cost	Fair value
Due in one year or less	$—	—
Due after one year through five years	8,400	8,338
Due after five years through ten years	24,883	25,070
Due after ten years	—	—
	$33,283	33,408

Mortgage-backed securities totaling $1.04 billion at amortized cost and $1.02 billion at fair value are excluded from the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments.

For the three and six months ended June 30, 2018, no securities were sold or called from the available for sale debt securities portfolio. For the three and six months ended June 30, 2017, no securities were sold or called from the available for sale debt securities portfolio.

12

The following tables present the fair value and gross unrealized losses for available for sale debt securities with temporary impairment at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	4,999	(4)	—	—	4,999	(4)
Mortgage-backed securities	684,255	(14,301)	221,953	(10,241)	906,208	(24,542)
Corporate obligations	7,855	(152)	—	—	7,855	(152)
	$697,109	(14,457)	221,953	(10,241)	919,062	(24,698)

	December 31, 2017 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	$12,006	(8)	6,999	(1)	19,005	(9)
Mortgage-backed securities	420,746	(3,936)	235,056	(6,159)	655,802	(10,095)
Corporate obligations	—	—	989	(12)	989	(12)
	$432,752	(3,944)	243,044	(6,172)	675,796	(10,116)

The number of available for sale debt securities in an unrealized loss position at June 30, 2018 totaled 192, compared with 122 at December 31, 2017. The increase in the number of securities in an unrealized loss position at June 30, 2018, was due to higher current market interest rates compared to rates at December 31, 2017. All temporarily impaired securities were investment grade at June 30, 2018. At June 30, 2018, there were two private label mortgage-backed securities in an unrealized loss position, with an amortized cost of $39,000 and an unrealized loss of $1,000. These private label mortgage-backed securities were investment grade at June 30, 2018.

The Company estimates the loss projections for each non-agency mortgage-backed 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 six months ended June 30, 2018. Based on its detailed review of the available for sale debt securities portfolio, the Company believes that as of June 30, 2018, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The Company does not have the intent to sell securities in a temporary loss position at June 30, 2018, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

Held to Maturity Debt Securities

The following tables present the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for held to maturity debt securities at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$4,987	—	(143)	4,844
Mortgage-backed securities	248	8	—	256
State and municipal obligations	458,624	4,074	(5,373)	457,325
Corporate obligations	9,966	1	(207)	9,760
	$473,825	4,083	(5,723)	472,185

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$4,308	—	(87)	4,221
Mortgage-backed securities	382	14	—	396
State and municipal obligations	462,942	9,280	(1,738)	470,484
Corporate obligations	10,020	1	(83)	9,938
	$477,652	9,295	(1,908)	485,039

The Company generally purchases securities for long-term investment purposes, and differences between amortized cost and fair values may fluctuate during the investment period. There were no sales of securities from the held to maturity debt securities portfolio for the three and six months ended June 30, 2018 and 2017. For the three and six months ended June 30, 2018, proceeds from calls on securities in the held to maturity debt securities portfolio totaled $195,000 and $20.5 million, respectively. There were no gross gains on calls for the three months ended June 30, 2018 and $1,000 for the six months ended June 30, 2018, and no gross losses in both the three and six month periods. For the three and six months ended June 30, 2017, proceeds from calls of securities in the held to maturity debt securities portfolio totaled $7.9 million and $20.7 million, respectively, with gross gains of $11,000 and no gross losses recognized in both the three and six month periods.

The amortized cost and fair value of investment securities in the held to maturity debt securities portfolio at June 30, 2018 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, 2018	
	Amortized cost	Fair value
Due in one year or less	$5,143	5,165
Due after one year through five years	75,121	75,177
Due after five years through ten years	261,417	260,745
Due after ten years	131,896	130,842
	$473,577	471,929

Mortgage-backed securities totaling $248,000 at amortized cost and $256,000 at fair value are excluded from the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments.

The following tables present the fair value and gross unrealized losses for held to maturity debt securities with temporary impairment at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	$4,475	(143)	—	—	4,475	(143)
State and municipal obligations	168,467	(2,667)	48,054	(2,706)	216,521	(5,373)
Corporate obligations	8,984	(207)	—	—	8,984	(207)
	$181,926	(3,017)	48,054	(2,706)	229,980	(5,723)

	December 31, 2017 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	$3,821	(87)	—	—	3,821	(87)

State and municipal obligations	37,317	(295)	49,488	(1,443)	86,805	(1,738)
Corporate obligations	9,662	(83)	—	—	9,662	(83)
	$50,800	(465)	49,488	(1,443)	100,288	(1,908)

14

The Company estimates the loss projections for each non-agency mortgage-backed 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 months ended June 30, 2018. Based on its detailed review of the held to maturity debt securities portfolio, the Company believes that as of June 30, 2018, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The Company does not have the intent to sell securities in a temporary loss position at June 30, 2018, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of held to maturity debt securities in an unrealized loss position at June 30, 2018 totaled 403, compared with 184 at December 31, 2017. The increase in the number of securities in an unrealized loss position at June 30, 2018, was due to higher current market interest rates compared to rates at December 31, 2017. All temporarily impaired investment securities were investment grade at June 30, 2018.

Note 3. Loans Receivable and Allowance for Loan Losses

Loans receivable at June 30, 2018 and December 31, 2017 are summarized as follows (in thousands):

	June 30, 2018	December 31, 2017
Mortgage loans:		
Residential	$1,118,140	1,142,347
Commercial	2,185,339	2,171,056
Multi-family	1,405,805	1,403,885
Construction	406,893	392,580
Total mortgage loans	5,116,177	5,109,868
Commercial loans	1,688,477	1,745,138
Consumer loans	451,920	473,957
Total gross loans	7,256,574	7,328,963
Purchased credit-impaired ("PCI") loans	928	969
Premiums on purchased loans	3,668	4,029
Unearned discounts	(35)	(36)
Net deferred fees	(7,893)	(8,207)
Total loans	$7,253,242	7,325,718

The following tables summarize the aging of loans receivable by portfolio segment and class of loans, excluding PCI loans (in thousands):

June 30, 2018	30-59 Days	60-89 Days	Non-accrual	Recorded Investment > 90 days accruing	Total Past Due	Current	Total Loans Receivable
Mortgage loans:							
Residential	$4,696	2,924	8,984	—	16,604	1,101,536	1,118,140
Commercial	1,116	59	4,149	—	5,324	2,180,015	2,185,339
Multi-family	—	400	—	—	400	1,405,405	1,405,805
Construction	—	—	—	—	—	406,893	406,893
Total mortgage loans	5,812	3,383	13,133	—	22,328	5,093,849	5,116,177
Commercial loans	2,589	28	17,517	—	20,134	1,668,343	1,688,477
Consumer loans	2,113	368	1,960	—	4,441	447,479	451,920
Total gross loans	$10,514	3,779	32,610	—	46,903	7,209,671	7,256,574

December 31, 2017	30-59 Days	60-89 Days	Non-accrual	Recorded Investment > 90 days accruing	Total Past Due	Current	Total Loans Receivable
Mortgage loans:							
Residential	$7,809	4,325	8,105	—	20,239	1,122,108	1,142,347
Commercial	1,486	—	7,090	—	8,576	2,162,480	2,171,056
Multi-family	—	—	—	—	—	1,403,885	1,403,885
Construction	—	—	—	—	—	392,580	392,580
Total mortgage loans	9,295	4,325	15,195	—	28,815	5,081,053	5,109,868
Commercial loans	551	406	17,243	—	18,200	1,726,938	1,745,138
Consumer loans	2,465	487	2,491	—	5,443	468,514	473,957
Total gross loans	$12,311	5,218	34,929	—	52,458	7,276,505	7,328,963

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 $32.6 million and $34.9 million at June 30, 2018 and December 31, 2017, respectively. Included in non-accrual loans were $8.7 million and $11.5 million of loans which were less than 90 days past due at June 30, 2018 and December 31, 2017, respectively. There were no loans 90 days or greater past due and still accruing interest at June 30, 2018 or December 31, 2017.

The Company defines an impaired loan as a non-homogeneous 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; (2) if a loan is collateral dependent, the fair value of collateral; or (3) the fair value 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 analysis 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 generally 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 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 in the recognition of changes in collateral values as a result of this process.

At June 30, 2018, there were 152 impaired loans totaling $55.5 million. Included in this total were 128 TDRs related to 124 borrowers totaling $38.0 million that were performing in accordance with their restructured terms and which continued to accrue interest at June 30, 2018. At December 31, 2017, there were 149 impaired loans totaling $52.0 million. Included in this total were 125 TDRs to 121 borrowers totaling $31.7 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2017.

The following table summarizes loans receivable by portfolio segment and impairment method, excluding PCI loans (in thousands):

	June 30, 2018			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$24,737	28,509	2,263	55,509
Collectively evaluated for impairment	5,091,440	1,659,968	449,657	7,201,065
Total gross loans	$5,116,177	1,688,477	451,920	7,256,574

	December 31, 2017			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$28,459	21,223	2,359	52,041
Collectively evaluated for impairment	5,081,409	1,723,915	471,598	7,276,922

Total gross loans	$5,109,868	1,745,138	473,957	7,328,963

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

	June 30, 2018			
	Mortgage loans	Commercial loans	Consumer loans	Total
Individually evaluated for impairment	$1,200	874	66	2,140
Collectively evaluated for impairment	25,961	28,620	2,098	56,679
Total gross loans	$27,161	29,494	2,164	58,819

	December 31, 2017			
	Mortgage loans	Commercial loans	Consumer loans	Total
Individually evaluated for impairment	$1,486	1,134	70	2,690
Collectively evaluated for impairment	26,566	28,680	2,259	57,505
Total gross loans	$28,052	29,814	2,329	60,195

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.

The following tables present the number of loans modified as TDRs during the three and six months ended June 30, 2018 and 2017, along with their balances immediately prior to the modification date and post-modification as of June 30, 2018 and 2017.

	For the three months ended					
	June 30, 2018			June 30, 2017		
Troubled Debt Restructurings	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
	($ in thousands)					
Mortgage loans:						
Residential	1	$ 118	103	3	$ 1,836	$ 1,796
Total mortgage loans	1	118	103	3	1,836	1,796
Total restructured loans	1	$ 118	103	3	$ 1,836	$ 1,796

Troubled Debt Restructurings	For the six months ended June 30, 2018 Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	June 30, 2017 Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Mortgage loans:						
Residential	1	$ 118	103	6	$ 2,838	$ 2,774
Total mortgage loans	1	118	103	6	2,838	2,774
Commercial loans	5	8,126	9,179	1	1,300	1,240
Consumer loans	—	—	—	2	240	232
Total restructured loans	6	$ 8,244	$ 9,282	9	$ 4,378	$ 4,246

All TDRs are impaired loans, which are individually evaluated for impairment, as previously discussed. During the three and six months ended June 30, 2018, $428,000 and $2.0 million of charge-offs were recorded on collateral dependent impaired loans. There were no charge-offs recorded on collateral dependent impaired loans during the three months ended June 30, 2017. For the six months ended June 30, 2017, $1.2 million of charge-offs were recorded on collateral dependent impaired loans. For the three and six months ended June 30, 2018, the allowance for loan losses associated with the TDRs presented in the preceding tables totaled $0 and $706,650, 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, 2018, the TDRs presented in the preceding tables had a weighted average modified interest rate of approximately 6.13% and 5.62%, respectively, compared to a weighted average rate of 6.13% and 5.18% prior to modification, respectively.

The following table presents loans modified as TDRs within the previous 12 months from June 30, 2018 and 2017, and for which there was a payment default (90 days or more past due) at the quarter ended June 30, 2018 and 2017.

Troubled Debt Restructurings Subsequently Defaulted	June 30, 2018 Number of Loans	Outstanding Recorded Investment	June 30, 2017 Number of Loans	Outstanding Recorded Investment
	($ in thousands)			
Mortgage loans:				
Total mortgage loans	—	—	—	—
Commercial loans	3	1,344	—	$ —
Consumer loans	—	—	—	—
Total restructured loans	3	$ 1,344	—	$ —

There were three payment defaults on one borrower (90 days or more past due) for loans modified as TDRs within the 12 month period ending June 30, 2018. There were no payment defaults (90 days or more past due) for loans modified as TDRs within the 12 month period ending June 30, 2017. 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.

PCI loans are loans acquired at a discount primarily due to deteriorated credit quality. These loans are accounted for at fair value, based upon the present value of expected future cash flows, with no related allowance for loan losses. PCI loans totaled $928,000 at June 30, 2018 and $969,000 at December 31, 2017.

The following table summarizes the changes in the accretable yield for PCI loans during the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Beginning balance	$112	172	101	200
Accretion	(9)	(96)	(29)	(145)
Reclassification from non-accretable discount	13	82	44	103
Ending balance	$116	158	116	158

The activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2018 and 2017 was as follows (in thousands):

Three months ended June 30,	Mortgage loans	Commercial loans	Consumer loans	Total
2018				
Balance at beginning of period	$28,001	32,326	2,194	62,521
Provision (credited) charged to operations	(782)	16,436	(154)	15,500
Recoveries of loans previously charged-off	44	105	213	362
Loans charged-off	(102)	(19,373)	(89)	(19,564)
Balance at end of period	$27,161	29,494	2,164	58,819
2017				
Balance at beginning of period	$29,318	29,786	3,051	62,155
Provision (credited) charged to operations	(292)	1,777	215	1,700
Recoveries of loans previously charged-off	7	73	225	305
Loans charged-off	(207)	(551)	(540)	(1,298)
Balance at end of period	$28,826	31,085	2,951	62,862

Six months ended June 30,	Mortgage loans	Commercial loans	Consumer loans	Total
2018				
Balance at beginning of period	$28,052	29,814	2,329	60,195
Provision (credited) charged to operations	(804)	21,825	(121)	20,900
Recoveries of loans previously charged-off	132	232	392	756
Loans charged-off	(219)	(22,377)	(436)	(23,032)
Balance at end of period	$27,161	29,494	2,164	58,819
2017				
Balance at beginning of period	$29,626	29,143	3,114	61,883
Provision (credited) charged to operations	(423)	3,394	229	3,200
Recoveries of loans previously charged-off	61	531	401	993
Loans charged-off	(438)	(1,983)	(793)	(3,214)
Balance at end of period	$28,826	31,085	2,951	62,862

The following table presents loans individually evaluated for impairment by class and loan category, excluding PCI loans (in thousands):

	June 30, 2018					December 31, 2017				
	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	$14,083	11,325	—	11,405	282	13,239	10,477	—	10,552	479
Commercial	1,550	1,546	—	1,546	—	5,037	4,908	—	5,022	12
Total	15,633	12,871	—	12,951	282	18,276	15,385	—	15,574	491
Commercial loans	42,720	17,761	—	37,064	209	19,196	14,984	—	15,428	395
Consumer loans	1,536	985	—	1,019	37	1,582	1,041	—	1,150	69
Total impaired loans	$59,889	31,617	—	51,034	528	39,054	31,410	—	32,152	955
Loans with an allowance recorded										
Mortgage loans:										
Residential	$11,851	10,814	1,123	10,880	221	13,052	12,010	1,351	12,150	475
Commercial	1,052	1,052	77	1,064	26	1,064	1,064	135	1,076	54
Total	12,903	11,866	1,200	11,944	247	14,116	13,074	1,486	13,226	529
Commercial loans	12,035	10,748	874	10,159	170	7,097	6,239	1,134	7,318	208
Consumer loans	1,289	1,278	66	1,305	36	1,329	1,318	70	1,349	64
Total impaired loans	$26,227	23,892	2,140	23,408	453	22,542	20,631	2,690	21,893	801
Total impaired loans										
Mortgage loans:										
Residential	$25,934	22,139	1,123	22,285	503	26,291	22,487	1,351	22,702	954
Commercial	2,602	2,598	77	2,610	26	6,101	5,972	135	6,098	66
Total	28,536	24,737	1,200	24,895	529	32,392	28,459	1,486	28,800	1,020
Commercial loans	54,755	28,509	874	47,223	379	26,293	21,223	1,134	22,746	603
Consumer loans	2,825	2,263	66	2,324	73	2,911	2,359	70	2,499	133
Total impaired loans	$86,116	55,509	2,140	74,442	981	61,596	52,041	2,690	54,045	1,756

Specific allocations of the allowance for loan losses attributable to impaired loans totaled $2.1 million at June 30, 2018 and $2.7 million at December 31, 2017. At June 30, 2018 and December 31, 2017, impaired loans for which there was no related allowance for loan losses totaled $31.6 million and $31.4 million, respectively. The average balance of impaired loans for the six months ended June 30, 2018 and December 31, 2017 was $74.4 million and $54.0 million.

The Company utilizes an internal nine-point risk rating system to summarize its loan portfolio into categories with similar risk characteristics. Loans deemed to be “acceptable quality” are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to 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 the Credit Department. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third-party. Reports by the independent third-party are presented directly to the Audit Committee of the Board of Directors.

21

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

	At June 30, 2018							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	$2,924	15,556	—	—	18,480	22,614	368	41,462
Substandard	8,984	15,268	236	—	24,488	48,615	1,959	75,062
Doubtful	—	—	—	—	—	480	—	