

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2017

☐ **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 001-11713

OceanFirst Financial Corp.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

975 Hooper Avenue, Toms River, NJ
(Address of principal executive offices)

22-3412577
(I.R.S. Employer
Identification No.)

08753
(Zip Code)

Registrant's telephone number, including area code: (732) 240-4500

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 12 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 Website, 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 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large Accelerated Filer	☒	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 ☒

As of August 4, 2017 there were 32,530,582 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

OceanFirst Financial Corp .

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
FINANCIAL SUMMARY
(dollars in thousands, except per share amounts)

	At or for the Quarters Ended		
	June 30, 2017	March 31, 2017	June 30, 2016
<u>SELECTED FINANCIAL CONDITION DATA:</u>			
Total assets	\$ 5,202,200	\$ 5,196,340	\$ 4,047,493
Loans receivable, net	3,868,805	3,825,600	3,130,046
Deposits	4,176,909	4,198,663	3,206,262
Stockholders' equity	587,303	582,680	409,258
<u>SELECTED OPERATING DATA:</u>			
Net interest income	42,174	41,483	30,014
Provision for loan losses	1,165	700	662
Other income	6,973	5,995	4,883
Operating expenses	37,133	30,961	28,646
Net income	7,679	12,018	3,661
Diluted earnings per share	0.23	0.36	0.16
<u>SELECTED FINANCIAL RATIOS:</u>			
Stockholders' equity per common share	18.05	17.95	15.89
Tangible stockholders' equity per common share ⁽¹⁾	13.19	13.07	13.14
Cash dividend per share	0.15	0.15	0.13
Stockholders' equity to total assets	11.29%	11.21%	10.11%
Tangible stockholders' equity to total tangible assets ⁽¹⁾	8.51	8.43	8.51
Return on average assets ⁽²⁾⁽³⁾	0.59	0.94	0.40
Return on average stockholders' equity ⁽²⁾⁽³⁾	5.25	8.42	3.79
Return on average tangible stockholders' equity ⁽¹⁾⁽²⁾⁽³⁾	7.19	11.50	4.32
Net interest rate spread	3.48	3.47	3.47
Net interest margin	3.57	3.56	3.57
Operating expenses to average assets ⁽²⁾⁽³⁾	2.86	2.41	3.16
Efficiency ratio ⁽³⁾⁽⁴⁾	75.55	65.21	82.09
Loan to deposit ratio	92.62	91.11	97.62
<u>ASSET QUALITY:</u>			
Non-performing loans	\$ 16,261	\$ 21,679	\$ 15,330
Non-performing assets	25,159	30,453	25,121
Allowance for loan losses as a percent of total loans receivable	0.42%	0.42%	0.53%
Allowance for loan losses as a percent of total non-performing loans	101.82	74.50	108.79
Non-performing loans as a percent of total loans receivable	0.42	0.56	0.48
Non-performing assets as a percent of total assets	0.48	0.59	0.62

(1) Tangible stockholders' equity is calculated by excluding intangible assets relating to goodwill and core deposit intangible.

(2) Ratios are annualized.

(3) Performance ratios include the adverse impact of merger related and branch consolidation expenses of \$8.6 million , or \$5.6 million , net of tax benefit, for the quarter ended June 30, 2017 ; \$1.5 million, or \$1.0 million, net of tax benefit, for the quarter ended March 31, 2017 ; and \$7.2 million , or \$5.0 million , net of tax benefit, for the quarter ended June 30, 2016 .

(4) Efficiency ratio represents the ratio of operating expenses to the aggregate of other income and net interest income.

Summary

OceanFirst Financial Corp. is the holding company for OceanFirst Bank (the "Bank"), a community bank headquartered in Ocean County, New Jersey, serving business and retail customers in the central and southern New Jersey region. The term "Company" refers to OceanFirst Financial Corp., OceanFirst Bank and all of the Bank's subsidiaries on a consolidated basis. The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from bankcard services, wealth management, deposit accounts, the sale of investment products, loan originations, loan sales, and other fees. The Company's operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, Federal deposit insurance, data processing and general and administrative expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and the actions of regulatory agencies.

Interest-earning assets, both loans and securities, are generally priced against longer-term indices, while interest-bearing liabilities, primarily deposits and borrowings, are generally priced against shorter-term indices. The Company has attempted to mitigate the adverse impact of relatively low absolute levels of interest rates by focusing on commercial loan and core deposit growth.

Over the past two years the Company has grown significantly through acquisitions, acquiring Cape Bancorp ("Cape") and Ocean City Home Bank ("Ocean Shore") (the "Acquisition Transactions"). The Acquisition Transactions added \$2.5 billion in assets and \$2.1 billion in deposits. In addition, on June 30, 2017, the Company announced it had entered into a definitive agreement (the "merger agreement") to acquire Sun Bancorp, Inc. ("Sun"). At June 30, 2017, Sun had total assets of \$2.2 billion, total loans of \$1.6 billion and total deposits of \$1.7 billion. The acquisition of Sun is expected to close in the first quarter of 2018, subject to each company receiving the required approval of its shareholders, receipt of all required regulatory approvals and fulfillment of other customary closing conditions.

Highlights of the Company's financial results and corporate activities for the three months ended June 30, 2017 were as follows:

Total loans grew \$47.5 million, including \$26.6 million in consumer loan growth and \$20.9 million in commercial loan growth, while asset quality improved as non-performing loans decreased \$5.4 million, or 25%, to \$16.3 million, and non-performing loans as a percentage of total loans decreased to 0.42%, as compared to 0.56% in the prior linked quarter.

The Company maintained a loan to deposit ratio of 92.6% while cost of deposits increased one basis point from the prior linked quarter to 0.28%.

The Company successfully completed the consolidation of 15 branches, five of which occurred early in the third quarter, with total expected annualized cost savings of \$6.1 million.

Net income for the quarter ended June 30, 2017, was \$7.7 million, or \$0.23 per diluted share, as compared to \$3.7 million, or \$0.16 per diluted share, for the corresponding prior year period. Net income for the quarter ended June 30, 2017, includes merger related and branch consolidation expenses. These items decreased net income, net of tax benefit, for the three months ended June 30, 2017, by \$5.6 million. Net income increased over the prior year period primarily due to the Acquisition Transactions.

Net interest income for the three months ended June 30, 2017 increased to \$42.2 million, as compared to \$30.0 million for the corresponding prior year period reflecting an increase in interest-earning assets primarily due to the Acquisition Transactions.

Other income increased to \$7.0 million for the three months ended June 30, 2017, as compared to \$4.9 million for the same prior year period. The increase was primarily due to the impact of the Acquisition Transactions, which added \$1.7 million to other income. Operating expenses increased to \$37.1 million for the three months ended June 30, 2017, as compared to \$28.6 million in the same prior year period. Operating expenses for the three months ended June 30, 2017 included \$8.6 million of merger related and branch consolidation expenses, as compared to \$7.2 million in the prior year period. Excluding the impact of merger and branch consolidation expenses, the increase in operating expenses over the prior year was primarily due to the operations of the Cape and Ocean Shore, which added \$5.9 million for the three months ended June 30, 2017.

The Company declared a quarterly cash dividend on common stock. The dividend for the quarter ended June 30, 2017 of \$0.15 per share will be paid on August 18, 2017 to stockholders of record on August 7, 2017.

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following tables set forth certain information relating to the Company for the three and six months ended June 30, 2017 and June 30, 2016. The yields and costs are derived by dividing the income or expense by the average balance of the related assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees which are considered adjustments to yields.

FOR THE THREE MONTHS ENDED,						
June 30, 2017			June 30, 2016			
AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	
(dollars in thousands)						
Assets:						
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ 114,019	\$ 211	0.74%	\$ 40,567	\$ 41	0.41%
Securities ⁽¹⁾ and FHLB stock	786,964	4,060	2.07	571,463	2,579	1.82
Loans receivable, net ⁽²⁾						
Commercial	1,850,737	22,057	4.78	1,471,159	17,783	4.86
Residential	1,718,413	17,304	4.04	1,076,557	10,225	3.82
Home Equity	283,124	3,225	4.57	236,937	2,498	4.24
Other	1,161	22	7.60	1,011	15	5.97
Allowance for loan loss net of deferred loan fees	(12,518)	—	—	(13,146)	—	—
Loans Receivable, net	3,840,917	42,608	4.45	2,772,518	30,521	4.43
Total interest-earning assets	4,741,900	46,879	3.97	3,384,548	33,141	3.94
Non-interest-earning assets	473,736			262,554		
Total assets	\$ 5,215,636			\$ 3,647,102		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing checking	\$ 1,716,930	\$ 1,038	0.24%	\$ 1,166,298	\$ 503	0.17%
Money market	422,439	281	0.27	298,530	180	0.24
Savings	679,806	97	0.06	434,438	41	0.04
Time deposits	624,020	1,498	0.96	417,301	1,047	1.01
Total	3,443,195	2,914	0.34	2,316,567	1,771	0.31
Securities sold under agreements to repurchase	73,574	25	0.14	76,907	26	0.14
FHLB Advances	259,291	1,118	1.73	287,171	1,201	1.68
Other borrowings	56,456	648	4.60	22,500	129	2.31
Total interest-bearing liabilities	3,832,516	4,705	0.49	2,703,145	3,127	0.47
Non-interest-bearing deposits	772,739			529,230		
Non-interest-bearing liabilities	23,260			26,033		
Total liabilities	4,628,515			3,258,408		
Stockholders' equity	587,121			388,694		
Total liabilities and equity	\$ 5,215,636			\$ 3,647,102		
Net interest income		\$ 42,174			\$ 30,014	
Net interest rate spread ⁽³⁾			3.48%			3.47%
Net interest margin ⁽⁴⁾			3.57%			3.57%
Total cost of deposits (including non-interest-bearing deposits)			0.28%			0.25%

FOR THE SIX MONTHS ENDED,							
June 30, 2017				June 30, 2016			
AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST		AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	
(dollars in thousands)							
Assets:							
Interest-earning assets:							
Interest-earning deposits and short-term investments	\$ 163,815	\$ 620	0.76%	\$ 44,533	\$ 70	0.32%	
Securities ⁽¹⁾ and FHLB stock	745,568	7,923	2.14	508,590	4,588	1.81	
Loans receivable, net ⁽²⁾							
Commercial	1,840,745	43,197	4.73	1,221,604	28,780	4.74	
Residential	1,711,263	34,643	4.08	954,059	18,265	3.85	
Home Equity	285,208	6,470	4.57	214,146	4,488	4.21	
Other	1,215	40	6.64	756	23	6.12	
Allowance for loan loss net of deferred loan fees	(12,322)	—	—	(13,396)	—	—	
Loans Receivable, net	3,826,109	84,350	4.45	2,377,169	51,556	4.36	
Total interest-earning assets	4,735,492	92,893	3.96	2,930,292	56,214	3.86	
Non-interest-earning assets	477,874			195,768			
Total assets	\$ 5,213,366			\$ 3,126,060			
Liabilities and Stockholders' Equity:							
Interest-bearing liabilities:							
Interest-bearing checking	\$ 1,692,820	\$ 1,913	0.23%	\$ 1,033,091	\$ 808	0.16%	
Money market	433,750	591	0.27	227,428	250	0.22	
Savings	677,278	227	0.07	375,293	67	0.04	
Time deposits	632,099	2,964	0.95	340,511	1,917	1.13	
Total	3,435,947	5,695	0.33	1,976,323	3,042	0.31	
Securities sold under agreements to repurchase	74,955	52	0.14	80,207	54	0.14	
FHLB Advances	254,840	2,186	1.73	276,547	2,284	1.66	
Other borrowings	56,424	1,303	4.66	22,500	261	2.33	
Total interest-bearing liabilities	3,822,166	9,236	0.49	2,355,577	5,641	0.48	
Non-interest-bearing deposits	781,888			436,300			
Non-interest-bearing liabilities	26,312			19,836			
Total liabilities	4,630,366			2,811,713			
Stockholders' equity	583,000			314,347			
Total liabilities and equity	\$ 5,213,366			\$ 3,126,060			
Net interest income		\$ 83,657			\$ 50,573		
Net interest rate spread ⁽³⁾			3.47%			3.38%	
Net interest margin ⁽⁴⁾			3.56%			3.47%	
Total cost of deposits (including non-interest-bearing deposits)			0.27%			0.25%	

(1) Amounts are recorded at average amortized cost.

(2) Amount is net of deferred loan fees, undisbursed loan funds, discounts and premiums and estimated loss allowances and includes loans held for sale and non-performing loans.

(3) Net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average interest-earning assets.

Comparison of Financial Condition at June 30, 2017 and December 31, 2016

Total assets increased by \$35.1 million to \$5.202 billion at June 30, 2017, from \$5.167 billion at December 31, 2016. Cash and due from banks decreased by \$193.7 million, to \$107.7 million at June 30, 2017, from \$301.4 million at December 31, 2016, as these funds were deployed into higher-yielding securities which increased \$171.8 million. Loans receivable, net, increased by \$65.4 million, to \$3.869 billion at June 30, 2017 from \$3.803 billion at December 31, 2016. Premises and equipment decreased \$11.9 million at June 30, 2017, as compared to December 31, 2016, due to the consolidation of 15 branches, of which 5 were closed in early July. The premises and equipment at these locations were written down to their net realizable value and the remaining balance of \$5.8 million was reclassified to assets held for sale.

Deposits decreased by \$10.8 million, to \$4.177 billion at June 30, 2017, from \$4.188 billion at December 31, 2016. The loan-to-deposit ratio at June 30, 2017 was 92.6%, as compared to 90.8% at December 31, 2016.

Stockholders' equity increased to \$587.3 million at June 30, 2017, as compared to \$572.0 million at December 31, 2016. At June 30, 2017, there were 1.8 million shares available for repurchase under the Company's stock repurchase programs. In the six months ended June 30, 2017, the Company did not repurchase any shares under these repurchase programs. Tangible stockholders' equity per common share increased to \$13.19 at June 30, 2017, as compared to \$12.95 at December 31, 2016.

Comparison of Operating Results for the three and six months ended June 30, 2017 and June 30, 2016

General

On May 2, 2016, the Company completed its acquisition of Cape and its results of operations are included in the consolidated results for the three and six months ended June 30, 2017, but are excluded from the results of operations for the period from January 1, 2016 to May 1, 2016.

On November 30, 2016, the Company completed its acquisition of Ocean Shore and its results of operations are included in the consolidated results for the three and six months ended June 30, 2017, but are excluded from the results of operations for the three and six months ended June 30, 2016.

Net income for the quarter ended June 30, 2017, was \$7.7 million, or \$0.23 per diluted share, as compared to \$3.7 million, or \$0.16 per diluted share, for the corresponding prior year period. Net income for the six months ended June 30, 2017 was \$19.7 million, or \$0.59 per diluted share, as compared to net income of \$7.9 million, or \$0.39 per diluted share, for the corresponding prior year period. Net income for the three and six months ended June 30, 2017 include merger related and branch consolidation expenses and for the six months ended June 30, 2017, also includes the acceleration of stock award expense from a director retirement. These items decreased net income, net of tax benefit, for the three and six months ended June 30, 2017, by \$5.6 million and \$6.7 million, respectively. Net income for the three and six months ended June 30, 2016 include merger related expenses of \$7.2 million and \$8.6 million, respectively, a Federal Home Loan Bank prepayment fee of \$136,000 and a loss on the sale of investment securities available-for-sale of \$12,000. The after-tax impact of these items reduced diluted earnings per share by \$0.17 and \$0.21 for the three and six months ended June 30, 2017, respectively, and by \$0.22 and \$0.29, respectively, for the same prior year periods. Net income for the three and six months ended June 30, 2017 increased over the prior year periods primarily due to the Acquisition Transactions. In addition, in the first quarter of 2017, the Company adopted Accounting Standards Update ("ASU") 2016-09 "Compensation - Stock Compensation" which resulted in decreases in income tax expense for the three and six months ended June 30, 2017, of \$172,000 and \$1.5 million, respectively.

Interest Income

Interest income for the three and six months ended June 30, 2017 increased to \$46.9 million and \$92.9 million, respectively, as compared to \$33.1 million and \$56.2 million, respectively, in the corresponding prior year periods. Average interest-earning assets increased \$1.357 billion and \$1.805 billion, respectively, for the three and six months ended June 30, 2017, as compared to the same prior year periods. The averages for the three and six months ended June 30, 2017, were favorably impacted by the Acquisition Transactions. The yield on average interest-earning assets increased to 3.97% and 3.96%, respectively, for the three and six months ended June 30, 2017, as compared to 3.94% and 3.86%, respectively, for the same prior year periods. The yields on average interest-earning assets for the three and six months ended June 30, 2017 benefited from an increase in the accretion of purchase accounting adjustments of \$632,000 and \$2.6 million, respectively, and the generally higher interest rate environment.

Interest Expense

Interest expense for the three and six months ended June 30, 2017 was \$4.7 million and \$9.2 million, respectively, as compared to \$3.1 million and \$5.6 million, respectively, in the corresponding prior year periods. Average interest-bearing liabilities increased \$1.129 billion and \$1.467 billion, respectively, for the three and six months ended June 30, 2017, as compared to the same prior year periods. For both the three and six months ended June 30, 2017, the cost of average interest-bearing liabilities increased to 0.49%, from 0.47% and 0.48%, respectively, in the corresponding prior year periods. The total cost of deposits (including non-

interest bearing deposits) was 0.28% and 0.27% , respectively, for the three and six months ended June 30, 2017 , as compared to 0.25% for both the three and six months ending June 30, 2016 .

Net Interest Income

Net interest income for the three and six months ended June 30, 2017 increase d to \$42.2 million and \$83.7 million , respectively, as compared to \$30.0 million and \$50.6 million , respectively, for the same prior year periods, reflecting an increase in interest-earning assets. The net interest margin remained stable at 3.57% for both the three months ended June 30, 2017 and 2016, and increased to 3.56% for the six months ended June 30, 2017 , from 3.47% for the same prior year period.

Provision for Loan Losses

For the three and six months ended June 30, 2017 , the provision for loan losses was \$1.2 million and \$1.9 million , respectively, as compared to \$662,000 and \$1.2 million , respectively, for the corresponding prior year periods. Net loan charge-offs were \$759,000 and \$491,000 , respectively, for the three and six months ended June 30, 2017 , as compared to net loan charge-offs of \$198,000 and \$1.3 million, respectively, in the corresponding prior year periods. Non-performing loans increase d to \$16.3 million at June 30, 2017 , as compared to \$13.6 million at December 31, 2016 . This increase was primarily due to the addition of a single commercial real estate relationship with a balance of \$4.2 million, which was partly offset by the payoff of two non-performing commercial loans totaling \$1.7 million.

Other Income

For the three and six months ended June 30, 2017 , other income increase d to \$7.0 million , and \$13.0 million , respectively, as compared to \$4.9 million and \$8.3 million , respectively, in the same prior year periods. The increase s were primarily due to the impact of the Acquisition Transactions, which added \$1.7 million and \$3.8 million, respectively, to other income for the three and six months ended June 30, 2017 , as compared to the same prior year periods. Excluding the Acquisition Transactions, the remaining increase in other income was primarily related to higher deposit related fees of \$389,000 and \$902,000, respectively, for the three and six months ended June 30, 2017 , as compared to the same prior year periods.

Operating Expenses

Operating expenses increase d to \$37.1 million and \$68.1 million , respectively, for the three and six months ended June 30, 2017 , as compared to \$28.6 million and \$45.4 million , respectively, in the same prior year periods. Operating expenses for the three and six months ended June 30, 2017 included \$8.6 million and \$10.1 million, respectively, of merger related and branch consolidation expenses, as compared to \$7.2 million and \$8.6 million, respectively, in the prior year periods. Excluding the impact of merger and branch consolidation expenses, the increase in operating expenses over the prior year was primarily due to the operations of the Cape and Ocean Shore, which added \$5.9 million and \$17.3 million for the three and six months ended June 30, 2017, respectively. For the three months ended June 30, 2017 , excluding the Acquisition Transaction expenses, there were increases in salary compensation, equipment expenses and professional fees. For the six months ended June 30, 2017 , excluding the Acquisition Transaction expenses, there were increases in salary compensation, stock plan expense, equipment expenses and professional fees.

Provision for Income Taxes

The provision for income taxes was \$3.2 million and \$7.0 million , respectively, for the three and six months ended June 30, 2017 , as compared to \$1.9 million and \$4.4 million , respectively, for the same prior year periods. The effective tax rate was 29.2% and 26.1% , respectively, for the three and six months ended June 30, 2017 , as compared to 34.5% and 35.8% , respectively, for the same prior year periods. The lower effective tax rate for the three and six months ended June 30, 2017 resulted from the adoption of ASU 2016-09 "Compensation - Stock Compensation," which decreased income tax expense by \$172,000 and \$1.5 million, respectively. Excluding the impact of ASU 2016-09, the effective tax rate would have been 30.8% and 31.9% for the three and six months ended June 30, 2017, respectively. Under the ASU, the tax benefits of exercised stock options and vested stock awards are recognized as a benefit to income tax expense in the reporting period in which they occur. The tax benefit relating to the Company's stock plans was \$62,000 for the year ended December 31, 2016, which was recorded directly into stockholders equity. The elevated tax benefit for the three and six months ended June 30, 2017 was related to the exercise of options assumed in the acquisitions of Cape and Ocean Shore and the increase in the Company's stock price.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, Federal Home Loan Bank (FHLB) advances and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and loan prepayments are greatly influenced by interest rates, economic conditions and competition.

At June 30, 2017, the company had \$23.0 million in outstanding overnight borrowings from the FHLB as compared to none outstanding at December 31, 2016. The Company utilizes overnight borrowings from time-to-time to fund short-term liquidity needs. The Company had total FHLB borrowings, including overnight borrowings, of \$277.5 million and \$250.5 million, respectively, at June 30, 2017 and December 31, 2016.

The Company's cash needs for the six months ended June 30, 2017 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from maturities and calls of investment securities, and increased borrowings. The cash was principally utilized for loan originations, the purchase of loans receivable and the purchase of securities. The Company's cash needs for the six months ended June 30, 2016 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale, proceeds from maturities and calls of investment securities, proceeds from the sale of available-for-sale securities and deposit growth. The cash was principally utilized for loan originations, the purchase of loans receivable, and to reduce borrowings.

In the normal course of business, the Company routinely enters into various off-balance-sheet commitments. At June 30, 2017, outstanding undrawn lines of credit totaled \$514.1 million and outstanding commitments to originate loans totaled \$137.0 million. The Company expects to have sufficient funds available to meet current commitments arising in the normal course of business.

Time deposits scheduled to mature in one year or less totaled \$338.6 million at June 30, 2017. Based upon historical experience, management estimates that a significant portion of such time deposits will remain with the Company.

The Company has a detailed contingency funding plan and comprehensive reporting of funding trends on a monthly and quarterly basis which are reviewed by management. Management also monitors cash on a daily basis to determine the liquidity needs of the Bank. Additionally, management performs multiple liquidity stress test scenarios on a quarterly basis. The Bank continues to maintain significant liquidity under all stress scenarios.

Under the Company's common stock repurchase programs, shares of OceanFirst Financial Corp. common stock may be purchased in the open market and through privately-negotiated transactions, from time-to-time, depending on market conditions. The repurchased shares are held as treasury stock for general corporate purposes. For the six months ended June 30, 2017 and 2016, the Company did not repurchase any shares of common stock. At June 30, 2017, there were 1,754,804 shares available to be repurchased under the stock repurchase programs authorized in July of 2014 and April of 2017.

Cash dividends on common stock declared and paid during the first six months of 2017 were \$9.6 million, as compared to \$5.5 million in the same prior year period. The increase in dividends was a result of the additional shares issued in the Acquisition Transactions. On July 27, 2017, the Company's Board of Directors declared a quarterly cash dividend of fifteen cents (\$0.15) per common share. The dividend is payable on August 18, 2017 to stockholders of record at the close of business on August 7, 2017.

The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of OceanFirst Bank, are capital distributions from the bank subsidiary and the issuance of preferred and common stock and debt. During the first quarter of 2017, the Company received notice from the Federal Reserve Bank of Philadelphia that it did not object to the payment of \$32.0 million in dividends from the Bank to the Company over the year, although the Federal Reserve Bank reserved the right to revoke the notice of non-objection at any time if a safety and soundness concern arises. For the six months ended June 30, 2017, the Company received a dividend payment of \$8.0 million from the Bank and \$24.0 remained to be paid. The Company's ability to continue to pay dividends will be largely dependent upon capital distributions from the Bank, which may be adversely affected by capital constraints imposed by the applicable regulations. The Company cannot predict whether the Bank will be permitted under applicable regulations to pay a dividend to the Company. If the Bank is unable to pay dividends to the Company, the Company may not have the liquidity necessary to pay a dividend in the future or pay a dividend at the same rate as historically paid, or be able to meet current debt obligations. At June 30, 2017, OceanFirst Financial Corp. held \$20.3 million in cash.

As of June 30, 2017 and December 31, 2016 , the Company and the Bank exceed all regulatory capital requirements currently applicable as follows (in thousands):

As of June 30, 2017		Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action	
Bank:	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Tier 1 capital (to average assets)	\$ 461,085	9.10%	\$ 202,698	4.000%	\$ 253,372	5.00%	
Common equity Tier 1 (to risk-weighted assets)	461,085	12.95	204,685	5.750 ⁽¹⁾	231,383	6.50	
Tier 1 capital (to risk-weighted assets)	461,085	12.95	258,081	7.250 ⁽¹⁾	284,780	8.00	
Total capital (to risk-weighted assets)	478,269	13.44	329,276	9.250 ⁽¹⁾	355,974	10.00	
OceanFirst Financial Corp:							
Tier 1 capital (to average assets)	\$ 450,472	8.88%	\$ 202,922	4.000%	N/A	N/A	
Common equity Tier 1 (to risk-weighted assets)	438,041	12.29	204,912	5.750 ⁽¹⁾	N/A	N/A	
Tier 1 capital (to risk-weighted assets)	450,472	12.64	258,367	7.250 ⁽¹⁾	N/A	N/A	
Total capital (to risk-weighted assets)	502,656	14.10	329,640	9.250 ⁽¹⁾	N/A	N/A	

As of December 31, 2016		Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action	
Bank:	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Tier 1 capital (to average assets)	\$ 450,414	10.19% ⁽³⁾	\$ 176,856	4.000%	\$ 221,070	5.00%	
Common equity Tier 1 (to risk-weighted assets)	450,414	12.81	180,178	5.125 ⁽²⁾	228,519	6.50	
Tier 1 capital (to risk-weighted assets)	450,414	12.81	232,913	6.625 ⁽²⁾	281,254	8.00	
Total capital (to risk-weighted assets)	466,224	13.26	303,227	8.625 ⁽²⁾	351,567	10.00	
OceanFirst Financial Corp:							
Tier 1 capital (to average assets)	\$ 440,552	9.96% ⁽³⁾	\$ 176,897	4.000%	N/A	N/A	
Common equity Tier 1 (to risk-weighted assets)	426,855	12.12	180,512	5.125 ⁽²⁾	N/A	N/A	
Tier 1 capital (to risk-weighted assets)	440,552	12.51	233,345	6.625 ⁽²⁾	N/A	N/A	
Total capital (to risk-weighted assets)	491,362	13.95	303,788	8.625 ⁽²⁾	N/A	N/A	

(1) Includes the Capital Conservation Buffer of 1.25%.

(2) Includes the Capital Conservation Buffer of 0.625%.

(3) Tier 1 capital ratios are calculated based on outstanding capital at the end of the quarter divided by average assets for the quarter. The Tier 1 capital ratios for the Bank and the Company based on total assets as of the end of the period were 8.85% and 8.75%, respectively.

The Company and the Bank satisfy the criteria to be “well-capitalized” under the Prompt Corrective Action Regulations.

At June 30, 2017 , the Company maintained tangible common equity of \$429.0 million , for a tangible common equity to assets ratio of 8.51% . At December 31, 2016 , the Company maintained tangible common equity of \$416.1 million , for a tangible common equity to assets ratio of 8.30% .

Off-Balance-Sheet Arrangements and Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding. These financial instruments and commitments include undrawn lines of credit and commitments to extend credit.

The Company enters into loan sale agreements with investors in the normal course of business. The loan sale agreements generally require the Company to repurchase loans previously sold in the event of a violation of various representations and warranties customary to the mortgage banking industry. The Company is also obligated under a loss sharing arrangement with the FHLB relating to loans sold into the Mortgage Partnership Finance program. In the opinion of management, the potential exposure related to the loan sale agreements and loans sold to the FHLB is adequately provided for in the reserve for repurchased loans and loss sharing obligations included in other liabilities. At June 30, 2017 and December 31, 2016, the reserve for repurchased loans and loss sharing obligations amounted to \$763,000 and \$846,000, respectively.

The following table shows the contractual obligations of the Company by expected payment period as of June 30, 2017 (in thousands):

Contractual Obligations	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Debt Obligations	\$ 409,214	\$ 139,990	\$ 162,601	\$ 50,000	\$ 56,623
Commitments to Fund Undrawn Lines of Credit					
Commercial	309,907	309,907	—	—	—
Consumer/Construction	204,218	204,218	—	—	—
Commitments to Originate Loans	136,991	136,991	—	—	—

Debt obligations include advances from the FHLB and other borrowings and have defined terms.

Commitments to fund undrawn lines of credit and commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's exposure to credit risk is represented by the contractual amount of the instruments.

Non-Performing Assets

The following table sets forth information regarding the Company's non-performing assets consisting of non-performing loans and OREO. It is the policy of the Company to cease accruing interest on loans 90 days or more past due or in the process of foreclosure.

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Non-performing loans:		
Commercial and industrial	\$ 68	\$ 441
Commercial real estate – owner occupied	943	2,414
Commercial real estate – investor	5,608	521
Residential mortgage	7,936	8,126
Home equity loans and lines	1,706	2,064
Total non-performing loans	16,261	13,566
Other real estate owned	8,898	9,803
Total non-performing assets	\$ 25,159	\$ 23,369
Purchased credit impaired loans ("PCI")	\$ 4,969	\$ 7,575
Delinquent loans 30-89 days	\$ 25,224	\$ 22,598
Allowance for loan losses as a percent of total loans receivable	0.42%	0.40%
Allowance for loan losses as a percent of total non-performing loans	101.82	111.92
Non-performing loans as a percent of total loans receivable	0.42	0.35
Non-performing assets as a percent of total assets	0.48	0.45

The Company's non-performing loans totaled \$16.3 million at June 30, 2017, as compared to \$13.6 million at December 31, 2016. Included in the non-performing loans total was \$1.3 million and \$3.5 million of troubled debt restructured ("TDR") loans at June 30, 2017 and December 31, 2016, respectively. The increase in total non-performing loans was primarily due to the addition of a single commercial real estate relationship with a balance of \$4.2 million, which was partially offset by the payoff of two non-performing commercial loans totaling \$1.7 million. An increase in non-performing residential mortgage loans in the first quarter of 2017 was largely offset by the bulk sale of non-performing residential loans in the second quarter of 2017. Non-performing loans do not include \$5.0 million of PCI loans acquired from Ocean Shore, Cape, and Colonial American Bank ("Colonial American"). At June 30, 2017, the allowance for loan losses totaled \$16.6 million, or 0.42% of total loans, as compared to \$15.2 million, or 0.40% of total loans at December 31, 2016. These ratios exclude existing fair value credit marks on acquired loans of \$21.8 million and \$26.0 million, respectively, at June 30, 2017 and December 31, 2016. These loans were acquired at fair value with no related allowances for loan losses. OREO includes \$7.0 million relating to the hotel, golf and banquet facility located in New Jersey which the Company acquired in the fourth quarter of 2015.

The Company classifies loans and other assets in accordance with regulatory guidelines as follows (in thousands):

	June 30, 2017	December 31, 2016
Special Mention	\$ 22,209	\$ 15,692
Substandard	60,752	70,543

Critical Accounting Policies

Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K"), as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at fair value or the lower of cost or estimated fair value. Policies with respect to the methodology used to determine the allowance for loan losses and judgments regarding securities and goodwill impairment are the most critical accounting policies because they are important to the presentation of the Company's financial condition and results of operations. These judgments and policies involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the results of operations or financial

condition. Goodwill will be evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. These critical accounting policies and their application are reviewed periodically, and at least annually, with the Audit Committee of the Board of Directors.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this quarterly report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “will,” “should,” “may,” “view,” “opportunity,” “potential,” or similar expressions or expressions of confidence. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, levels of unemployment in the Bank’s lending area, real estate market values in the Bank’s lending area, future natural disasters and increases to flood insurance premiums, the level of prepayments on loans and mortgage-backed securities, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company’s market area and accounting principles and guidelines and the Bank’s ability to successfully integrate acquired operations. These risks and uncertainties are further discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and subsequent securities filings and should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further description of the risks and uncertainties to the business are included in Item 1, Business, and Item 1A, Risk Factors, of the Company’s 2016 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's interest rate sensitivity is monitored through the use of an interest rate risk ("IRR") model. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at June 30, 2017, which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown.

At June 30, 2017, the Company's one-year gap was negative 2.40% as compared to negative 3.47% at December 31, 2016. These results were within Board approved policy guidelines.

At March 31, 2017	3 Months or Less	More than 3 Months to 1 Year	More than 1 Year to 3 Years	More than 3 Years to 5 Years	More than 5 Years	Total
(dollars in thousands)						
Interest-earning assets: ⁽¹⁾						
Interest-earning deposits and short-term investments	\$ 63,215	\$ 988	\$ 2,950	\$ —	\$ —	\$ 67,153
Investment securities	66,383	22,519	62,524	66,646	58,282	276,354
Mortgage-backed securities	34,531	71,787	153,602	117,179	138,000	515,099
FHLB stock	—	—	—	—	20,358	20,358
Loans receivable ⁽²⁾	607,197	809,192	1,244,109	677,591	543,076	3,881,165
Total interest-earning assets	771,326	904,486	1,463,185	861,416	759,716	4,760,129
Interest-bearing liabilities:						
Money market deposit accounts	23,730	26,040	60,446	49,301	219,021	378,538
Savings accounts	85,865	55,892	116,235	91,038	328,909	677,939
Interest-bearing checking accounts	1,038,044	59,246	128,821	96,766	404,951	1,727,828
Time deposits	101,088	237,533	175,570	102,764	5,592	622,547
FHLB advances	23,482	41,458	162,601	50,000	—	277,541
Securities sold under agreements to repurchase and other borrowings	97,550	—	—	34,123	—	131,673
Total interest-bearing liabilities	1,369,759	420,169	643,673	423,992	958,473	3,816,066
Interest sensitivity gap ⁽³⁾	\$ (598,433)	\$ 484,317	\$ 819,512	\$ 437,424	\$ (198,757)	\$ 944,063
Cumulative interest sensitivity gap	\$ (598,433)	\$ (114,116)	\$ 705,396	\$ 1,142,820	\$ 944,063	\$ 944,063
Cumulative interest sensitivity gap as a percent of total interest-earning assets	(12.58)%	(2.40)%	14.81%	24.00%	19.83%	19.83%

- (1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.
- (2) For purposes of the gap analysis, loans receivable includes loans held for sale and non-performing loans gross of the allowance for loan losses, unamortized discounts and deferred loan fees.
- (3) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

Additionally, the table below sets forth the Company's exposure to IRR as measured by the change in economic value of equity ("EVE") and net interest income under varying rate shocks as of June 30, 2017 and December 31, 2016. All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. The Company's interest rate sensitivity should be reviewed in conjunction with the financial statements and notes thereto contained in the 2016 Form 10-K.

Change in Interest Rates in Basis Points (Rate Shock) (dollars in thousands)	June 30, 2017						December 31, 2016				
	Economic Value of Equity			Net Interest Income			Economic Value of Equity			Net Interest Income	
	Amount	% Change	EVE Ratio	Amount	% Change		Amount	% Change	EVE Ratio	Amount	% Change
300	\$ 778,301	0.9 %	16.0%	\$ 155,902	(8.9)%		\$ 664,767	(1.1)%	14.1%	\$ 156,689	(1.0)%
200	794,196	3.0	15.9	161,909	(5.4)		678,347	1.0	14.0	158,078	(0.1)
100	792,289	2.7	15.5	167,171	(2.4)		683,492	1.7	13.7	158,840	0.3
Static	771,418	—	14.7	171,215	—		671,878	—	13.2	158,309	—
(100)	667,382	(13.5)	12.5	165,633	(3.3)		620,675	(7.6)	11.9	152,007	(4.0)

The increased interest rate sensitivity of net interest income in a rising interest rate environment at June 30, 2017, as compared to December 31, 2016, is primarily the result of reducing low yield cash and short term investment balances and investing in fixed-rate securities and loans. Another factor in the increased net interest income sensitivity is a change in the assumption regarding the interest rate sensitivity of certain deposits without maturity dates. This change was made to reflect the Company's reasonable expectation of the increased sensitivity of these deposits in the face of rising interest rates.

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission ("SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, there were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OceanFirst Financial Corp.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share amounts)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	<u>(Unaudited)</u>	
Assets		
Cash and due from banks	\$ 107,660	\$ 301,373
Securities available-for-sale, at estimated fair value	62,154	12,224
Securities held-to-maturity, net (estimated fair value of \$724,250 at June 30, 2017 and \$598,119 at December 31, 2016)	720,511	598,691
Federal Home Loan Bank of New York stock, at cost	20,358	19,313
Loans receivable, net	3,868,805	3,803,443
Loans held for sale	168	1,551
Interest and dividends receivable	13,036	11,989
Other real estate owned	8,898	9,803
Premises and equipment, net	59,509	71,385
Servicing asset	181	228
Bank Owned Life Insurance	133,572	132,172
Deferred tax asset	29,804	38,787
Assets held for sale	6,114	360
Other assets	13,110	9,745
Core deposit intangible	9,887	10,924
Goodwill	148,433	145,064
Total assets	<u>\$ 5,202,200</u>	<u>\$ 5,167,052</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 4,176,909	\$ 4,187,750
Securities sold under agreements to repurchase with retail customers	75,050	69,935
Federal Home Loan Bank advances	277,541	250,498
Other borrowings	56,623	56,559
Advances by borrowers for taxes and insurance	15,036	14,030
Other liabilities	13,738	16,242
Total liabilities	<u>4,614,897</u>	<u>4,595,014</u>
Stockholders' equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation preference, 5,000,000 shares authorized, no shares issued	—	—
Common stock, \$.01 par value, 55,000,000 shares authorized, 33,566,772 shares issued and 32,528,658 and 32,136,892 shares outstanding at June 30, 2017 and December 31, 2016, respectively	336	336
Additional paid-in capital	353,296	364,433
Retained earnings	258,470	238,192
Accumulated other comprehensive loss	(5,198)	(5,614)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(2,620)	(2,761)
Treasury stock, 1,038,114 and 1,429,880 shares at June 30, 2017 and December 31, 2016, respectively	(16,981)	(22,548)
Common stock acquired by Deferred Compensation Plan	(176)	(313)
Deferred Compensation Plan Liability	176	313
Total stockholders' equity	<u>587,303</u>	<u>572,038</u>
Total liabilities and stockholders' equity	<u>\$ 5,202,200</u>	<u>\$ 5,167,052</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

OceanFirst Financial Corp.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	\$ 42,608	\$ 30,521	\$ 84,350	\$ 51,556
Mortgage-backed securities	2,791	1,708	5,451	3,123
Investment securities and other	1,480	912	3,092	1,535
Total interest income	46,879	33,141	92,893	\$ 56,214
Interest expense:				
Deposits	2,914	1,771	5,695	3,042
Borrowed funds	1,791	1,356	3,541	2,599
Total interest expense	4,705	3,127	9,236	5,641
Net interest income	42,174	30,014	83,657	50,573
Provision for loan losses	1,165	662	1,865	1,225
Net interest income after provision for loan losses	41,009	29,352	81,792	49,348
Other income:				
Bankcard services revenue	1,837	1,211	3,416	2,062
Wealth management revenue	565	621	1,081	1,171
Fees and service charges	3,658	2,597	7,465	4,470
Net loss on sale of investment securities available-for-sale	—	(12)	—	(12)
Net gain on sales of loans available-for-sale	15	170	57	349
Net gain (loss) from other real estate operations	105	(313)	(628)	(719)
Income from Bank Owned Life Insurance	783	542	1,555	861
Other	10	67	23	77
Total other income	6,973	4,883	12,969	8,259
Operating expenses:				
Compensation and employee benefits	15,328	11,432	31,466	19,898
Occupancy	2,641	2,011	5,409	3,637
Equipment	1,703	1,184	3,400	2,153
Marketing	730	543	1,470	794
Federal deposit insurance	705	723	1,366	1,252
Data processing	2,046	1,881	4,442	3,146
Check card processing	815	505	1,768	925
Professional fees	1,095	700	2,055	1,198
Other operating expense	2,951	2,217	5,595	3,493
Federal Home Loan Bank prepayment fee	—	136	—	136
Amortization of core deposit intangible	513	125	1,037	138
Branch consolidation expenses	5,451	—	5,484	—
Merger related expenses	3,155	7,189	4,602	8,591
Total operating expenses	37,133	28,646	68,094	45,361
Income before provision for income taxes	10,849	5,589	26,667	12,246
Provision for income taxes	3,170	1,928	6,969	4,380
Net income	\$ 7,679	\$ 3,661	\$ 19,698	\$ 7,866
Basic earnings per share	\$ 0.24	\$ 0.16	\$ 0.62	\$ 0.40
Diluted earnings per share	\$ 0.23	\$ 0.16	\$ 0.59	\$ 0.39
Average basic shares outstanding	32,122	22,478	32,014	19,694
Average diluted shares outstanding	33,138	22,880	33,111	19,996

See accompanying Notes to Unaudited Consolidated Financial Statements.

OceanFirst Financial Corp.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net income	\$ 7,679	\$ 3,661	\$ 19,698	\$ 7,866
Other comprehensive income:				
Unrealized (loss) gain on securities (net of tax benefit of \$1 and tax expense of \$44 in 2017, and net of tax benefit of \$34 and tax expense of \$37 in 2016, respectively)	(1)	(49)	63	53
Accretion of unrealized loss on securities reclassified to held-to-maturity (net of tax expense of \$128 and \$244 in 2017 and net of tax expense of \$128 and \$277 in 2016, respectively)	185	186	353	402
Reclassification adjustment for losses included in net income (net of tax benefit of \$5 in 2016)	—	(12)	—	(12)
Total comprehensive income	<u>\$ 7,863</u>	<u>\$ 3,786</u>	<u>\$ 20,114</u>	<u>\$ 8,309</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

OceanFirst Financial Corp.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
(in thousands, except per share amounts)

Six Months Ended June 30, 2017 and 2016

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Employee Stock Ownership Plan	Treasury Stock	Common Stock Acquired by Deferred Compensation Plan	Deferred Compensation Plan Liability	Total
Balance at December 31, 2015	\$ —	\$ 336	\$ 269,757	\$ 229,140	\$ (6,241)	\$ (3,045)	\$ (251,501)	\$ (314)	\$ 314	\$238,446
Net income	—	—	—	7,866	—	—	—	—	—	7,866
Other comprehensive income, net of tax	—	—	—	—	443	—	—	—	—	443
Tax expense of stock plans	—	—	(260)	—	—	—	—	—	—	(260)
Stock awards	—	—	756	—	—	—	—	—	—	756
Treasury stock allocated to restricted stock plan	—	—	1,108	(114)	—	—	(994)	—	—	—
Issued 8,282,296 treasury shares to finance acquisition	—	—	36,940	—	—	—	128,961	—	—	165,901
Allocation of ESOP stock	—	—	159	—	—	142	—	—	—	301
Cash dividend \$0.26 per share	—	—	—	(5,481)	—	—	—	—	—	(5,481)
Exercise of stock options	—	—	—	(516)	—	—	1,802	—	—	1,286
Sale of stock for the deferred compensation plan	—	—	—	—	—	—	—	6	(6)	—
Balance at June 30, 2016	<u>\$ —</u>	<u>\$ 336</u>	<u>\$ 308,460</u>	<u>\$ 230,895</u>	<u>\$ (5,798)</u>	<u>\$ (2,903)</u>	<u>\$ (121,732)</u>	<u>\$ (308)</u>	<u>\$ 308</u>	<u>\$409,258</u>
Balance at December 31, 2016	\$ —	\$ 336	\$ 364,433	\$ 238,192	\$ (5,614)	\$ (2,761)	\$ (22,548)	\$ (313)	\$ 313	\$572,038
Net income	—	—	—	19,698	—	—	—	—	—	19,698
Other comprehensive income, net of tax	—	—	—	—	416	—	—	—	—	416
Effect of adopting Accounting Standards Update ("ASU") No. 2016-09	—	—	(11,129)	11,129	—	—	—	—	—	—
Stock awards	—	—	1,204	—	—	—	—	—	—	1,204
Treasury stock allocated to restricted stock plan	—	—	(1,544)	747	—	—	797	—	—	—
Allocation of ESOP stock	—	—	332	—	—	141	—	—	—	473
Cash dividend \$0.30 per share	—	—	—	(9,557)	—	—	—	—	—	(9,557)
Exercise of stock options	—	—	—	(1,739)	—	—	4,770	—	—	3,031
Sale of stock for the deferred compensation plan	—	—	—	—	—	—	—	137	(137)	—
Balance at June 30, 2017	<u>\$ —</u>	<u>\$ 336</u>	<u>\$ 353,296</u>	<u>\$ 258,470</u>	<u>\$ (5,198)</u>	<u>\$ (2,620)</u>	<u>\$ (16,981)</u>	<u>\$ (176)</u>	<u>\$ 176</u>	<u>\$587,303</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

OceanFirst Financial Corp.
Consolidated Statements of Cash Flows
(dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 19,698	\$ 7,866
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	3,111	2,131
Allocation of ESOP stock	473	301
Stock awards	1,204	756
Tax expense of stock plans	—	(260)
Net excess tax benefit on stock compensation	(1,543)	—
Amortization of servicing asset	47	87
Net premium amortization in excess of discount accretion on securities	1,190	849
Net amortization of deferred costs and discounts on borrowings	64	—
Amortization of core deposit intangible	1,037	138
Net accretion of purchase accounting adjustments	(4,061)	(1,431)
Net amortization of deferred costs and discounts on loans	172	26
Provision for loan losses	1,865	1,225
Net loss on sale of other real estate owned	379	145
Write down of fixed assets held for sale to net realizable value	4,982	—
Net loss on sale of fixed assets	7	—
Net loss on sales of available-for-sale securities	—	12
Net gain on sales of loans	(57)	(349)
Proceeds from sales of mortgage loans held for sale	2,830	19,555
Mortgage loans originated for sale	(1,390)	(21,819)
Increase in value of Bank Owned Life Insurance	(1,555)	(861)
Increase in interest and dividends receivable	(1,047)	(756)
Decrease in other assets	3,754	9,172
Decrease in other liabilities	(961)	(857)
Total adjustments	10,501	8,064
Net cash provided by operating activities	30,199	15,930
Cash flows from investing activities:		
Net (increase) decrease in loans receivable	(48,758)	9,648
Purchase of loans receivable	(16,627)	(12,942)
Purchase of investment securities available-for-sale	(49,812)	—
Purchase of investment securities held-to-maturity	(77,144)	—
Purchase of mortgage-backed securities held-to-maturity	(100,015)	—
Proceeds from maturities and calls of investment securities held-to-maturity	7,375	19,635
Proceeds from sales of securities available-for-sale	—	59,211
Principal repayments on mortgage-backed securities held-to-maturity	47,361	31,037
Proceeds from Bank Owned Life Insurance	155	155
Proceeds from the redemption of Federal Home Loan Bank of New York stock	3,740	26,559
Purchases of Federal Home Loan Bank of New York stock	(4,785)	(20,927)
Proceeds from sales of other real estate owned	1,500	1,714
Purchases of premises and equipment	(1,991)	(1,381)
Cash (received) acquired, net of cash consideration paid for acquisition	—	(477)
Cash acquired, net of cash paid for branch acquisition	—	16,727
Net cash (used in) provided by investing activities	(239,001)	128,959

OceanFirst Financial Corp.
Consolidated Statements of Cash Flows (Continued)
(dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
Cash flows from financing activities:		
(Decrease) increase in deposits	\$ (10,331)	\$ 24,496
Increase (decrease) in short-term borrowings	28,114	(116,400)
Proceeds from Federal Home Loan Bank advances	5,000	55,000
Repayments of Federal Home Loan Bank advances	(957)	(73,048)
Repayments of other borrowings	—	(10,000)
Increase in advances by borrowers for taxes and insurance	1,006	1,778
Exercise of stock options	3,031	1,286
Payment of employee taxes withheld from stock awards	(1,217)	(244)
Dividends paid	(9,557)	(5,481)
Net cash provided by (used in) financing activities	15,089	(122,613)
Net (decrease) increase in cash and due from banks	(193,713)	22,276
Cash and due from banks at beginning of period	301,373	43,946
Cash and due from banks at end of period	\$ 107,660	\$ 66,222
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 9,702	\$ 5,507
Income taxes	2	4,664
Non-cash activities:		
Accretion of unrealized loss on securities reclassified to held-to-maturity	565	679
Net loan charge-offs	491	1,269
Transfer of premises and equipment to assets held-for-sale	5,754	—
Transfer of loans receivable to other real estate owned	1,317	888
Acquisition:		
Non-cash assets acquired:		
Securities	\$ —	\$ 212,156
Federal Home Loan Bank of New York stock	—	6,782
Loans	—	1,156,980
Premises & equipment	—	21,723
Other real estate owned	—	1,935
Deferred tax asset	—	22,054
Other assets	—	61,793
Goodwill and other intangible assets, net	—	68,739
Total non-cash assets acquired	\$ —	\$ 1,552,162
Liabilities assumed:		
Deposits	\$ —	\$ 1,248,367
Federal Home Loan Bank advances	—	124,466
Other liabilities	—	12,951
Total liabilities assumed	\$ —	\$ 1,385,784

See accompanying Notes to Unaudited Consolidated Financial Statements.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of OceanFirst Financial Corp. (the “Company”) and its wholly-owned subsidiaries, OceanFirst Risk Management, Inc. and OceanFirst Bank (the “Bank”), and the Bank's subsidiaries.

On May 18, 2017, a new subsidiary of the Company was incorporated under the name OceanFirst Risk Management, Inc. OceanFirst Risk Management, Inc. is a captive insurance subsidiary which insures various liability and property damage policies for the Company and its related subsidiaries.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results of operations that may be expected for all of 2017. In preparing the 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 period. Actual results could differ from these estimates.

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

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report to Stockholders on Form 10-K for the year ended December 31, 2016.

Note 2. Business Combinations

Branch Acquisition

On March 11, 2016, the Company completed its acquisition of an existing retail branch in the Toms River market. Under the terms of the Purchase and Assumption Agreement dated July 31, 2015, the Company paid a deposit premium of \$340,000, equal to 2.50% of core deposits; i.e., all deposits other than time deposits, government deposits, and fiduciary accounts.

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

The following table presents the assets acquired and liabilities assumed as of March 11, 2016 and the fair value estimates (in thousands):

	Fair Value
Assets acquired:	
Cash and cash equivalents	\$ 16,727
Loans	9
Other assets	15
Core deposit intangible	66
Total assets acquired	\$ 16,817
Liabilities assumed:	
Deposits	\$ 16,957
Other liabilities	138
Total liabilities assumed	\$ 17,095
Goodwill	\$ 278

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

Cape Bancorp Acquisition

On May 2, 2016, the Company completed its acquisition of Cape Bancorp, Inc. (“Cape”), which after purchase accounting adjustments added \$1.5 billion to assets, \$1.2 billion to loans, and \$1.2 billion to deposits. Total consideration paid for Cape was \$196.4 million, including cash consideration of \$30.5 million. Cape was merged with and into the Company as of the date of acquisition.

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

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

(in thousands)	At May 2, 2016	
	Fair Value	
Total Purchase Price:	\$	196,403
Assets acquired:		
Cash and cash equivalents	\$	30,025
Securities and Federal Home Loan Bank Stock		218,938
Loans		1,156,719
Premises and equipment		25,999
Other real estate owned		1,683
Deferred tax asset		17,826
Other assets		61,793
Core deposit intangible		3,718
Total assets acquired	\$	1,516,701
Liabilities assumed:		
Deposits	\$	(1,248,367)
Borrowings		(124,466)
Other liabilities		(12,767)
Total liabilities assumed	\$	(1,385,600)
Net assets acquired	\$	131,101
Goodwill recorded in the merger	\$	65,302

The calculation of goodwill is subject to change for up to one year after the date of acquisition as additional information relative to the closing date estimates and uncertainties becomes available. On May 2, 2017, the Company finalized its review of the acquired assets and liabilities and will not be recording any further adjustments to the carrying value.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

Ocean Shore Holding Co. Acquisition

On November 30, 2016, the Company completed its acquisition of Ocean Shore Holding Co. ("Ocean Shore"), which after purchase accounting adjustments added \$994.6 million to assets, \$773.9 million to loans, and \$875.1 million to deposits. Total consideration paid for Ocean Shore was \$180.7 million, including cash consideration of \$28.4 million. Ocean Shore was merged with and into the Company on the date of acquisition.

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

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

(in thousands)	At November 30, 2016	
	Estimated Fair Value	
Total Purchase Price:	\$	180,732
Assets acquired:		
Cash and cash equivalents	\$	60,871
Securities and Federal Home Loan Bank Stock		94,133
Loans		773,900
Premises and equipment		15,068
Other real estate owned		1,044
Deferred tax asset		6,724
Other assets		35,364
Core deposit intangible		7,506
Total assets acquired	\$	994,610
Liabilities assumed:		
Deposits	\$	(875,073)
Borrowings		(3,694)
Other liabilities		(16,166)
Total liabilities assumed	\$	(894,933)
Net assets acquired	\$	99,677
Goodwill recorded in the merger	\$	81,055

The calculation of goodwill is subject to change for up to one year after the date of acquisition as additional information relative to the closing date estimates and uncertainties become available. As the Company finalizes its review of the acquired assets and liabilities, certain adjustments to the recorded carrying values may be required.

Fair Value Measurement of Assets Assumed and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and liabilities assumed in the Cape and Ocean Shore acquisitions were as follows. Refer to Note 8, Fair Value Measurements, for a discussion of the fair value hierarchy.

Securities

The estimated fair values of the securities were calculated utilizing Level 2 inputs. The securities acquired are bought and sold in active markets. Prices for these instruments were obtained through security industry sources that actively participate in the buying and selling of securities.

Loans

The acquired loan portfolio was valued utilizing Level 3 inputs and included the use of present value techniques employing cash flow estimates and incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, the Company utilized three separate fair value analyses which a market participant would employ in estimating

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

the total fair value adjustment. The three separate fair valuation methodologies used were: 1) interest rate loan fair value analysis; 2) general credit fair value adjustment; and 3) specific credit fair value adjustment.

To prepare the interest rate fair value analysis, loans were grouped by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources and reviewed by Company management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment.

The general credit fair value adjustment was calculated using a two part general credit fair value analysis: 1) expected lifetime losses and 2) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using an average of historical losses of the acquired bank. The adjustment related to qualitative factors was impacted by general economic conditions and the risk related to lack of experience with the originator's underwriting process.

To calculate the specific credit fair value adjustment, the Company reviewed the acquired loan portfolio for loans meeting the definition of an impaired loan with deteriorated credit quality. Loans meeting these criteria were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value resulted in an accretable yield amount which will be recognized over the life of the loans on a level yield basis as an adjustment to yield.

Premises and Equipment

Fair values are based upon appraisals from independent third parties. In addition to owned properties, Cape operated eight properties subject to lease agreements, and Ocean Shore operated two properties subject to lease agreements.

Deposits and Core Deposit Premium

Core deposit premium represents the value assigned to non-interest-bearing demand deposits, interest-bearing checking, money market and saving accounts acquired as part of the acquisition. The core deposit premium value represents the future economic benefit, including the present value of future tax benefits, of the potential cost saving from acquiring the core deposits as part of an acquisition compared to the cost of alternative funding sources and is valued utilizing Level 2 inputs. The core deposit premium totaled \$66,000 , \$3.7 million , \$7.5 million , for the branch, Cape, and Ocean Shore acquisitions, respectively, and is being amortized over its estimated useful life of approximately 10 years using an accelerated method.

Time deposits are not considered to be core deposits as they are assumed to have a low expected average life upon acquisition. The fair value of time deposits represents the present value of the expected contractual payments discounted by market rates for similar time deposits and is valued utilizing Level 2 inputs.

Borrowings

Fair value estimates are based on discounting contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

Note 3. Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average shares issued net of Treasury shares	32,500	22,861	32,410	20,083
Less: Unallocated ESOP shares	(315)	(349)	(319)	(353)
Unallocated incentive award shares and shares held by deferred compensation plan	(63)	(34)	(77)	(36)
Average basic shares outstanding	32,122	22,478	32,014	19,694
Add: Effect of dilutive securities:				
Stock options	999	382	1,080	282
Shares held by deferred compensation plan	17	20	17	20
Average diluted shares outstanding	33,138	22,880	33,111	19,996

For the three months ended June 30, 2017 and 2016 , antidilutive stock options of 480,000 and 1,310,000 , respectively, were excluded from earnings per share calculations. For the six months ended June 30, 2017 and 2016 , antidilutive stock options of 200,000 and 1,317,000 , respectively, were excluded from earnings per share calculations.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

Note 4. Securities

The amortized cost and estimated fair value of securities available-for-sale and held-to-maturity at June 30, 2017 , and December 31, 2016 , are as follows (in thousands):

At June 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Investment securities:				
U.S. agency obligations	\$ 62,365	\$ 103	\$ (314)	\$ 62,154
Held-to-maturity:				
Investment securities:				
U.S. agency obligations	\$ 14,964	\$ 67	\$ —	\$ 15,031
State and municipal obligations	114,123	577	(402)	114,298
Corporate debt securities	76,041	325	(3,812)	72,554
Other investments	8,861	—	(191)	8,670
Total investment securities	213,989	969	(4,405)	210,553
Mortgage-backed securities:				
FHLMC	178,287	351	(1,752)	176,886
FNMA	245,469	1,903	(1,737)	245,635
GNMA	84,091	147	(393)	83,845
SBA	7,252	79	—	7,331
Total mortgage-backed securities	515,099	2,480	(3,882)	513,697
Total held-to-maturity	\$ 729,088	\$ 3,449	\$ (8,287)	\$ 724,250
Total securities	\$ 791,453	\$ 3,552	\$ (8,601)	\$ 786,404

At December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Investment securities:				
U.S. agency obligations	\$ 12,542	\$ —	\$ (318)	\$ 12,224
Held-to-maturity:				
Investment securities:				
U.S. agency obligations	\$ 19,960	\$ 69	\$ —	\$ 20,029
State and municipal obligations	39,155	10	(856)	38,309
Corporate debt securities	77,057	85	(6,001)	71,141
Other investments	8,778	—	(228)	8,550
Total investment securities	144,950	164	(7,085)	138,029
Mortgage-backed securities:				
FHLMC	144,016	195	(2,457)	141,754
FNMA	217,445	2,175	(2,524)	217,096
GNMA	92,475	119	(364)	92,230
SBA	8,947	28	—	8,975
Total mortgage-backed securities	462,883	2,517	(5,345)	460,055
Total held-to-maturity	\$ 607,833	\$ 2,681	\$ (12,430)	\$ 598,084
Total securities	\$ 620,375	\$ 2,681	\$ (12,748)	\$ 610,308

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

During the third quarter 2013, the Bank transferred \$536.0 million of previously designated available-for-sale securities to a held-to-maturity designation at estimated fair value. The securities transferred had an unrealized net loss of \$13.3 million at the time of transfer which continues to be reflected in accumulated other comprehensive loss on the consolidated balance sheet, net of subsequent amortization, which is being recognized over the life of the securities. The carrying value of the held-to-maturity investment securities at June 30, 2017, and December 31, 2016, are as follows (in thousands):

	June 30, 2017	December 31, 2016
Amortized cost	\$ 729,088	\$ 607,833
Net loss on date of transfer from available-for-sale	(13,347)	(13,347)
Accretion of net unrealized loss on securities reclassified as held-to-maturity	4,770	4,205
Carrying value	<u>\$ 720,511</u>	<u>\$ 598,691</u>

There were no realized gains or losses on the sale of securities for the three and six months ended June 30, 2017. There were \$75,000 in realized gains and \$87,000 in realized losses on the sale of available-for-sale securities for the three and six months ended June 30, 2016, respectively.

The amortized cost and estimated fair value of investment securities at June 30, 2017 by contractual maturity are shown below (in thousands). Actual maturities may differ from contractual maturities in instances where issuers have the right to call or prepay obligations with or without call or prepayment penalties. At June 30, 2017, investment securities with an amortized cost of \$60.5 million and estimated fair value of \$56.8 million were callable prior to the maturity date.

<u>June 30, 2017</u>	Amortized Cost	Estimated Fair Value
Less than one year	\$ 28,955	\$ 28,936
Due after one year through five years	132,163	132,089
Due after five years through ten years	76,375	75,343
Due after ten years	30,000	27,669
	<u>\$ 267,493</u>	<u>\$ 264,037</u>

Other investments which consist of two open-end funds are excluded from the above table since there are no contractual maturity dates. Mortgage-backed securities are excluded from the above table since their effective lives are expected to be shorter than the contractual maturity date due to principal prepayments.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

The estimated fair value and unrealized loss of securities available-for-sale and held-to-maturity at June 30, 2017 and December 31, 2016 , segregated by the duration of the unrealized loss, are as follows (in thousands):

At June 30, 2017						
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available-for-sale:						
Investment securities:						
U.S. agency obligations	\$ 37,272	\$ (314)	\$ —	\$ —	\$ 37,272	\$ (314)
Held-to-maturity:						
Investment securities:						
State and municipal obligations	61,001	(400)	250	(2)	61,251	(402)
Corporate debt securities	7,019	(31)	51,219	(3,781)	58,238	(3,812)
Other investments	8,670	(191)	—	—	8,670	(191)
Total investment securities	76,690	(622)	51,469	(3,783)	128,159	(4,405)
Mortgage-backed securities:						
FHLMC	84,056	(1,079)	25,232	(673)	109,288	(1,752)
FNMA	124,334	(1,454)	10,481	(283)	134,815	(1,737)
GNMA	63,965	(393)	—	—	63,965	(393)
Total mortgage-backed securities	272,355	(2,926)	35,713	(956)	308,068	(3,882)
Total held-to-maturity	349,045	(3,548)	87,182	(4,739)	436,227	(8,287)
Total securities	\$ 386,317	\$ (3,862)	\$ 87,182	\$ (4,739)	\$ 473,499	\$ (8,601)

At December 31, 2016						
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available-for-sale:						
Investment securities:						
U.S. agency obligations	\$ 12,224	\$ (318)	\$ —	\$ —	\$ 12,224	\$ (318)
Held-to-maturity:						
Investment securities:						
State and municipal obligations	32,995	(856)	—	—	32,995	(856)
Corporate debt securities	12,450	(120)	49,119	(5,881)	61,569	(6,001)
Other Investments	8,551	(228)	—	—	8,551	(228)
Total investment securities	53,996	(1,204)	49,119	(5,881)	103,115	(7,085)
Mortgage-backed securities:						
FHLMC	102,461	(1,665)	26,898	(792)	129,359	(2,457)
FNMA	124,403	(2,185)	8,925	(339)	133,328	(2,524)
GNMA	79,116	(364)	—	—	79,116	(364)
Total mortgage-backed securities	305,980	(4,214)	35,823	(1,131)	341,803	(5,345)
Total held-to-maturity	359,976	(5,418)	84,942	(7,012)	444,918	(12,430)
Total securities	\$ 372,200	\$ (5,736)	\$ 84,942	\$ (7,012)	\$ 457,142	\$ (12,748)

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

At June 30, 2017, the amortized cost, estimated fair value and credit rating of the individual corporate debt securities in an unrealized loss position for greater than one year are as follows (in thousands):

Security Description	Amortized Cost	Estimated Fair Value	Credit Rating Moody's/ S&P
BankAmerica Capital	\$ 15,000	\$ 14,038	Ba1/BB+
Chase Capital	10,000	9,425	Baa2/BBB-
Wells Fargo Capital	5,000	4,712	A1/BBB+
Huntington Capital	5,000	4,481	Baa2/BB
Keycorp Capital	5,000	4,619	Baa2/BB+
PNC Capital	5,000	4,687	Baa1/BBB-
State Street Capital	5,000	4,669	A3/BBB
SunTrust Capital	5,000	4,588	Not Rated/BB+
	<u>\$ 55,000</u>	<u>\$ 51,219</u>	

At June 30, 2017, the estimated fair value of each of the above corporate debt securities was below cost. However, the estimated fair value of these corporate debt securities has increased over the past several years. These corporate debt securities are issued by other financial institutions with credit ratings ranging from a high of A1 to a low of BB as rated by one of the internationally-recognized credit rating services. These floating-rate corporate debt securities were purchased in 1998 and have paid coupon interest continuously since issuance. Floating-rate corporate debt securities such as these pay a fixed interest rate spread over 90-day LIBOR. Following the purchase of these securities, the required interest rate spread increased for these types of securities causing a decline in the market price. The Company concluded that these corporate debt securities were only temporarily impaired at June 30, 2017. In concluding that the impairments were only temporary, the Company considered several factors in its analysis. The Company noted that each issuer made all the contractually due payments when required. There were no defaults on principal or interest payments and no interest payments were deferred. All of the financial institutions are also considered well-capitalized. Credit spreads have now decreased for these types of securities and market prices have improved. Based on management's analysis of each individual security, the issuers appear to have the ability to meet debt service requirements over the life of the security. Furthermore, the Company does not have the intent to sell these corporate debt securities and it is more likely than not that the Company will not be required to sell the securities. The Company has held the securities continuously since 1998 and expects to receive its full principal at maturity in 2028 or prior if called by the issuer. Historically, the Company has not utilized securities sales as a source of liquidity. The Company's long range liquidity plans indicate adequate sources of liquidity outside the securities portfolio.

The mortgage-backed securities are issued and guaranteed by either the Federal Home Loan Mortgage Corporation ("FHLMC"), the Federal National Mortgage Association ("FNMA"), the Government National Mortgage Association ("GNMA"), or the Small Business Administration ("SBA") corporations which are chartered by the United States Government and whose debt obligations are typically rated AA+ by one of the internationally-recognized credit rating services. The Company considers the unrealized losses to be the result of changes in interest rates which over time can have both a positive and negative impact on the estimated fair value of the mortgage-backed securities. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost. As a result, the Company concluded that these securities were only temporarily impaired at June 30, 2017.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

Note 5. Loans Receivable, Net

Loans receivable, net at June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Commercial:		
Commercial and industrial	\$ 193,625	\$ 152,569
Commercial real estate – owner occupied	556,180	534,214
Commercial real estate – investor	1,120,942	1,132,075
Total commercial	1,870,747	1,818,858
Consumer:		
Residential mortgage	1,665,862	1,647,154
Residential construction	78,339	65,319
Home equity loans and lines	282,402	288,991
Other consumer	1,267	1,564
Total consumer	2,027,870	2,003,028
	3,898,617	3,821,886
Purchased credit impaired (“PCI”) loans	4,969	7,575
Total Loans	3,903,586	3,829,461
Loans in process	(22,589)	(14,249)
Deferred origination costs, net	4,365	3,414
Allowance for loan losses	(16,557)	(15,183)
Total loans, net	\$ 3,868,805	\$ 3,803,443

At June 30, 2017 and December 31, 2016, loans in the amount of \$16.3 million and \$13.6 million, respectively, were three or more months delinquent or in the process of foreclosure and the Company was not accruing interest income on these loans. There were no loans ninety days or greater past due and still accruing interest. Non-accrual loans include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans.

The recorded investment in mortgage and consumer loans collateralized by residential real estate which are in the process of foreclosure amounted to \$5.6 million at June 30, 2017. The amount of foreclosed residential real estate property held by the Company was \$811,000 at June 30, 2017.

The Company defines an impaired loan as non-accrual commercial real estate, multi-family, land, construction and commercial loans in excess of \$250,000. Impaired loans also include all loans modified as troubled debt restructurings. At June 30, 2017, the impaired loan portfolio totaled \$41.3 million for which there was a specific allocation in the allowance for loan losses of \$616,000. At December 31, 2016, the impaired loan portfolio totaled \$31.0 million for which there was a specific allocation in the allowance for loan losses of \$510,000. The average balance of impaired loans for the three and six months ended June 30, 2017 and 2016 was \$37.9 million and \$34.2 million, respectively and \$35.6 million and \$34.4 million, respectively, for the same prior year periods.

An analysis of the allowance for loan losses for the three and six months ended June 30, 2017 and 2016 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	\$ 16,151	\$ 16,214	\$ 15,183	\$ 16,722
Provision charged to operations	1,165	662	1,865	1,225
Charge-offs	(1,299)	(223)	(1,504)	(1,395)
Recoveries	540	25	1,013	126
Balance at end of period	\$ 16,557	\$ 16,678	\$ 16,557	\$ 16,678

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

The following table presents an analysis of the allowance for loan losses for the three and six months ended June 30, 2017 and 2016 and the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2017 and December 31, 2016, excluding PCI loans (in thousands):

	Residential Real Estate	Commercial Real Estate – Owner Occupied	Commercial Real Estate – Investor	Consumer	Commercial and Industrial	Unallocated	Total
For the three months ended June 30, 2017							
Allowance for loan losses:							
Balance at beginning of period	\$ 1,569	\$ 3,449	\$ 7,361	\$ 1,136	\$ 2,080	\$ 556	\$ 16,151
Provision (benefit) charged to operations	639	(342)	1,090	(244)	160	(138)	1,165
Charge-offs	(1,152)	(23)	(84)	(40)	—	—	(1,299)
Recoveries	436	13	—	78	13	—	540
Balance at end of period	<u>\$ 1,492</u>	<u>\$ 3,097</u>	<u>\$ 8,367</u>	<u>\$ 930</u>	<u>\$ 2,253</u>	<u>\$ 418</u>	<u>\$ 16,557</u>
For the three months ended June 30, 2016							
Allowance for loan losses:							
Balance at beginning of period	\$ 6,555	\$ 2,363	\$ 4,302	\$ 1,081	\$ 1,380	\$ 533	\$ 16,214
Provision (benefit) charged to operations	(480)	390	410	70	(127)	399	662
Charge-offs	(74)	(42)	—	(63)	(44)	—	(223)
Recoveries	5	—	1	19	—	—	25
Balance at end of period	<u>\$ 6,006</u>	<u>\$ 2,711</u>	<u>\$ 4,713</u>	<u>\$ 1,107</u>	<u>\$ 1,209</u>	<u>\$ 932</u>	<u>\$ 16,678</u>
For the six months ended June 30, 2017							
Allowance for loan losses:							
Balance at beginning of period	\$ 2,245	\$ 2,999	\$ 6,361	\$ 1,110	\$ 2,037	\$ 431	\$ 15,183
Provision (benefit) charged to operations	12	48	2,083	(224)	(41)	(13)	1,865
Charge-offs	(1,201)	(73)	(84)	(58)	(88)	—	(1,504)
Recoveries	436	123	7	102	345	—	1,013
Balance at end of period	<u>\$ 1,492</u>	<u>\$ 3,097</u>	<u>\$ 8,367</u>	<u>\$ 930</u>	<u>\$ 2,253</u>	<u>\$ 418</u>	<u>\$ 16,557</u>
For the six months ended June 30, 2016							
Allowance for loan losses:							
Balance at beginning of period	\$ 6,590	\$ 2,292	\$ 4,873	\$ 1,095	\$ 1,639	\$ 233	\$ 16,722
Provision (benefit) charged to operations	(491)	1,429	(170)	30	(272)	699	1,225
Charge-offs	(152)	(1,010)	—	(66)	(167)	—	(1,395)
Recoveries	59	—	10	48	9	—	126
Balance at end of period	<u>\$ 6,006</u>	<u>\$ 2,711</u>	<u>\$ 4,713</u>	<u>\$ 1,107</u>	<u>\$ 1,209</u>	<u>\$ 932</u>	<u>\$ 16,678</u>
June 30, 2017							
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	\$ —	\$ —	\$ 616	\$ —	\$ —	\$ —	\$ 616
Collectively evaluated for impairment	1,492	3,097	7,751	930	2,253	418	15,941
Total ending allowance balance	<u>\$ 1,492</u>	<u>\$ 3,097</u>	<u>\$ 8,367</u>	<u>\$ 930</u>	<u>\$ 2,253</u>	<u>\$ 418</u>	<u>\$ 16,557</u>
Loans:							
Loans individually evaluated for impairment	\$ 13,098	\$ 10,896	\$ 13,861	\$ 2,512	\$ 923	\$ —	\$ 41,290
Loans collectively evaluated for impairment	1,731,103	545,284	1,107,081	281,157	192,702	—	3,857,327
Total ending loan balance	<u>\$ 1,744,201</u>	<u>\$ 556,180</u>	<u>\$ 1,120,942</u>	<u>\$ 283,669</u>	<u>\$ 193,625</u>	<u>\$ —</u>	<u>\$ 3,898,617</u>

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

	Residential Real Estate	Commercial Real Estate – Owner Occupied	Commercial Real Estate – Investor	Consumer	Commercial and Industrial	Unallocated	Total
<u>December 31, 2016</u>							
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	\$ 266	\$ —	\$ 119	\$ 125	\$ —	\$ —	\$ 510
Collectively evaluated for impairment	1,979	2,999	6,242	985	2,037	431	14,673
Total ending allowance balance	<u>\$ 2,245</u>	<u>\$ 2,999</u>	<u>\$ 6,361</u>	<u>\$ 1,110</u>	<u>\$ 2,037</u>	<u>\$ 431</u>	<u>\$ 15,183</u>
Loans:							
Loans individually evaluated for impairment	\$ 13,306	\$ 11,123	\$ 3,789	\$ 2,556	\$ 268	\$ —	\$ 31,042
Loans collectively evaluated for impairment	1,699,167	523,091	1,128,286	287,999	152,301	—	3,790,844
Total ending loan balance	<u>\$ 1,712,473</u>	<u>\$ 534,214</u>	<u>\$ 1,132,075</u>	<u>\$ 290,555</u>	<u>\$ 152,569</u>	<u>\$ —</u>	<u>\$ 3,821,886</u>

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

A summary of impaired loans at June 30, 2017 , and December 31, 2016 , is as follows, excluding PCI loans (in thousands):

	June 30, 2017	December 31, 2016
Impaired loans with no allocated allowance for loan losses	\$ 36,729	\$ 25,228
Impaired loans with allocated allowance for loan losses	4,561	5,814
	<u>\$ 41,290</u>	<u>\$ 31,042</u>
Amount of the allowance for loan losses allocated	<u>\$ 616</u>	<u>\$ 510</u>

At June 30, 2017 , impaired loans included troubled debt restructured (“TDR”) loans of \$35.4 million , of which \$34.1 million were performing in accordance with their restructured terms for a minimum of six months and were accruing interest. At December 31, 2016 , impaired loans included TDR loans of \$30.5 million , of which \$27.0 million were performing in accordance with their restructured terms for a minimum of six months and were accruing interest.

The summary of loans individually evaluated for impairment by loan portfolio segment as of June 30, 2017 , and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016 , is as follows, excluding PCI loans (in thousands):

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
<u>As of June 30, 2017</u>			
With no related allowance recorded:			
Residential real estate	\$ 13,619	\$ 13,098	\$ —
Commercial real estate – owner occupied	11,578	10,896	—
Commercial real estate – investor	10,266	9,300	—
Consumer	2,995	2,512	—
Commercial and industrial	955	923	—
	<u>\$ 39,413</u>	<u>\$ 36,729</u>	<u>\$ —</u>
With an allowance recorded:			
Residential real estate	\$ —	\$ —	\$ —
Commercial real estate – owner occupied	—	—	—
Commercial real estate – investor	4,563	4,561	616
Consumer	—	—	—
Commercial and industrial	—	—	—
	<u>\$ 4,563</u>	<u>\$ 4,561</u>	<u>\$ 616</u>
<u>As of December 31, 2016</u>			
With no related allowance recorded:			
Residential real estate	\$ 9,848	\$ 9,694	\$ —
Commercial real estate – owner occupied	11,886	11,123	—
Commercial real estate – investor	2,239	1,897	—
Consumer	2,559	2,246	—
Commercial and industrial	300	268	—
	<u>\$ 26,832</u>	<u>\$ 25,228</u>	<u>\$ —</u>
With an allowance recorded:			
Residential real estate	\$ 3,998	\$ 3,612	\$ 266
Commercial real estate – owner occupied	—	—	—
Commercial real estate – investor	2,011	1,892	119
Consumer	581	310	125
Commercial and industrial	—	—	—
	<u>\$ 6,590</u>	<u>\$ 5,814</u>	<u>\$ 510</u>

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

Three Months Ended June 30,				
	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential real estate	\$ 10,929	\$ 187	\$ 12,852	\$ 135
Commercial real estate – owner occupied	10,830	24	15,711	154
Commercial real estate – investor	5,655	221	282	5
Consumer	2,375	42	1,948	29
Commercial and industrial	596	19	270	—
	<u>\$ 30,385</u>	<u>\$ 493</u>	<u>\$ 31,063</u>	<u>\$ 323</u>
With an allowance recorded:				
Residential real estate	\$ 2,156	\$ —	\$ 635	\$ 9
Commercial real estate – owner occupied	—	—	1,637	—
Commercial real estate – investor	5,249	13	726	—
Consumer	142	—	115	—
Commercial and industrial	—	—	—	—
	<u>\$ 7,547</u>	<u>\$ 13</u>	<u>\$ 3,113</u>	<u>\$ 9</u>
Six months ended June 30,				
	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Residential real estate	\$ 10,517	\$ 273	\$ 12,948	\$ 258
Commercial real estate – owner occupied	10,927	185	15,778	287
Commercial real estate – investor	4,402	247	314	7
Consumer	2,332	70	2,059	58
Commercial and industrial	486	24	270	—
	<u>\$ 28,664</u>	<u>\$ 799</u>	<u>\$ 31,369</u>	<u>\$ 610</u>
With an allowance recorded:				
Residential real estate	\$ 2,641	\$ 62	\$ 636	\$ 15
Commercial real estate – owner occupied	—	—	1,624	—
Commercial real estate – investor	4,130	68	684	—
Consumer	198	6	100	3
Commercial and industrial	—	—	—	—
	<u>\$ 6,969</u>	<u>\$ 136</u>	<u>\$ 3,044</u>	<u>\$ 18</u>

The following table presents the recorded investment in non-accrual loans by loan portfolio segment as of June 30, 2017 and December 31, 2016 , excluding PCI loans (in thousands):

	June 30, 2017	December 31, 2016
Residential real estate	\$ 7,936	\$ 8,126
Commercial real estate – owner occupied	943	2,414
Commercial real estate – investor	5,608	521
Consumer	1,706	2,064
Commercial and industrial	68	441
	<u>\$ 16,261</u>	<u>\$ 13,566</u>

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

The following table presents the aging of the recorded investment in past due loans as of June 30, 2017 and December 31, 2016 by loan portfolio segment, excluding PCI loans (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
June 30, 2017						
Residential real estate	\$ 8,685	\$ 1,970	\$ 6,730	\$ 17,385	\$ 1,726,816	\$ 1,744,201
Commercial real estate – owner occupied	682	4,898	849	6,429	549,751	556,180
Commercial real estate – investor	2,732	4,506	5,522	12,760	1,108,182	1,120,942
Consumer	1,756	497	1,178	3,431	280,238	283,669
Commercial and industrial	165	275	228	668	192,957	193,625
	<u>\$ 14,020</u>	<u>\$ 12,146</u>	<u>\$ 14,507</u>	<u>\$ 40,673</u>	<u>\$ 3,857,944</u>	<u>\$ 3,898,617</u>
December 31, 2016						
Residential real estate	\$ 9,532	\$ 3,038	\$ 7,159	\$ 19,729	\$ 1,692,744	\$ 1,712,473
Commercial real estate – owner occupied	3,962	1,032	890	5,884	528,330	534,214
Commercial real estate – investor	—	—	521	521	1,131,554	1,132,075
Consumer	1,519	436	1,963	3,918	286,637	290,555
Commercial and industrial	5,548	181	384	6,113	146,456	152,569
	<u>\$ 20,561</u>	<u>\$ 4,687</u>	<u>\$ 10,917</u>	<u>\$ 36,165</u>	<u>\$ 3,785,721</u>	<u>\$ 3,821,886</u>

The Company categorizes all commercial and commercial real estate loans, except for small business loans, into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation and current economic trends, among other factors. The Company uses the following definitions for risk ratings:

Pass: Loans classified as Pass are well protected by the paying capacity and net worth of the borrower.

Special Mention: Loans classified as Special Mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank’s credit position at some future date.

Substandard: Loans classified as Substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

As of June 30, 2017 and December 31, 2016, and based on the most recent analysis performed, the risk category of loans by loan portfolio segment follows, excluding PCI loans (in thousands) is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2017					
Commercial real estate – owner occupied	\$ 534,237	\$ 4,419	\$ 17,524	\$ —	\$ 556,180
Commercial real estate – investor	1,087,710	10,749	22,483	—	1,120,942
Commercial and industrial	187,021	3,547	3,057	—	193,625
	<u>\$ 1,808,968</u>	<u>\$ 18,715</u>	<u>\$ 43,064</u>	<u>\$ —</u>	<u>\$ 1,870,747</u>
December 31, 2016					
Commercial real estate – owner occupied	\$ 501,652	\$ 7,680	\$ 24,882	\$ —	\$ 534,214
Commercial real estate – investor	1,106,747	713	24,615	—	1,132,075
Commercial and industrial	150,474	757	1,338	—	152,569
	<u>\$ 1,758,873</u>	<u>\$ 9,150</u>	<u>\$ 50,835</u>	<u>\$ —</u>	<u>\$ 1,818,858</u>

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of June 30, 2017 and December 31, 2016, excluding PCI loans (in thousands):

	Residential Real Estate	
	Residential	Consumer
<u>June 30, 2017</u>		
Performing	\$ 1,736,265	\$ 281,963
Non-performing	7,936	1,706
	<u>\$ 1,744,201</u>	<u>\$ 283,669</u>
<u>December 31, 2016</u>		
Performing	\$ 1,704,347	\$ 288,491
Non-performing	8,126	2,064
	<u>\$ 1,712,473</u>	<u>\$ 290,555</u>

The Company classifies certain loans as troubled debt restructurings when credit terms to a borrower in financial difficulty are modified. The modifications may include a reduction in rate, an extension in term, the capitalization of past due amounts and/or the restructuring of scheduled principal payments. Included in the non-accrual loan total at June 30, 2017 and December 31, 2016 were \$1.3 million and \$3.5 million of troubled debt restructurings. At June 30, 2017, the Company had no specific reserves allocated to loans that are classified as troubled debt restructurings. At December 31, 2016, the Company had allocated \$510,000 of specific reserves to loans that are classified as troubled debt restructurings. Non-accrual loans which become troubled debt restructurings are generally returned to accrual status after six months of performance. In addition to the troubled debt restructurings included in non-accrual loans, the Company also has loans classified as accruing troubled debt restructurings at June 30, 2017 and December 31, 2016, which totaled \$34.1 million and \$27.0 million, respectively. Troubled debt restructurings are considered in the allowance for loan losses similar to other impaired loans.

The following table presents information about troubled debt restructurings which occurred during the three and six months ended June 30, 2017 and 2016, and troubled debt restructurings modified within the previous year and which defaulted during the three and six months ended June 30, 2017 and 2016, (dollars in thousands):

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
<u>Three Months Ended June 30, 2017</u>			
Troubled Debt Restructurings:			
Residential real estate	2	\$ 658	\$ 658
Commercial real estate - owner occupied	1	966	966
Commercial real estate - investor	2	5,036	5,011
Commercial and industrial	1	665	665
	Number of Loans	Recorded Investment	
Troubled Debt Restructurings			
Which Subsequently Defaulted:		None	None
	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
<u>Six months ended June 30, 2017</u>			
Troubled Debt Restructurings:			
Residential real estate	4	\$ 1,026	\$ 999
Commercial real estate - owner occupied	3	2,609	2,609
Commercial real estate – investor	3	5,662	5,784
Commercial and industrial	1	665	665
	Number of Loans	Recorded Investment	
Troubled Debt Restructurings			
Which Subsequently Defaulted:		None	None

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
Three Months Ended June 30, 2016			
Troubled Debt Restructurings:			
Residential real estate	1	\$ 29	\$ 29
Consumer	2	63	63

	Number of Loans	Recorded Investment
Troubled Debt Restructurings		
Which Subsequently Defaulted:	None	None

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
Six months ended June 30, 2016			
Troubled Debt Restructurings:			
Residential real estate	2	\$ 219	\$ 218
Commercial real estate – investor	1	256	270
Consumer	2	63	63

	Number of Loans	Recorded Investment
Troubled Debt Restructurings		
Which Subsequently Defaulted:	None	None

As part of the Cape, Ocean Shore and Colonial American acquisitions, PCI loans were acquired at a discount primarily due to deteriorated credit quality. PCI loans are accounted for at fair value, based upon the present value of expected future cash flows, with no related allowance for loan losses.

The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected and the estimated fair value of the PCI loans acquired from Ocean Shore at December 1, 2016, Cape at May 2, 2016, and Colonial American at July 31, 2015 (in thousands):

	Ocean Shore December 1, 2016	Cape May 2, 2016	Colonial American July 31, 2015
Contractually required principal and interest	\$ 7,385	\$ 21,345	\$ 3,263
Contractual cash flows not expected to be collected (non-accretable discount)	(4,666)	(12,387)	(1,854)
Expected cash flows to be collected at acquisition	2,719	8,958	1,409
Interest component of expected cash flows (accretable yield)	(401)	(576)	(109)
Fair value of acquired loans	\$ 2,318	\$ 8,382	\$ 1,300

The following table summarizes the changes in accretable yield for PCI loans during the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30, 2017	Six months ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Beginning balance	\$ 693	\$ 749	\$ 66	\$ 75
Acquisition	—	—	1,040	1,040
Accretion	(152)	(314)	(95)	(104)
Reclassification from non-accretable difference	924	1,030	—	—
Ending balance	\$ 1,465	\$ 1,465	\$ 1,011	\$ 1,011

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

Note 6. Deposits

The major types of deposits at June 30, 2017 and December 31, 2016 were as follows (in thousands):

Type of Account	June 30, 2017	December 31, 2016
Non-interest-bearing	\$ 770,057	\$ 782,504
Interest-bearing checking	1,727,828	1,626,713
Money market deposit	378,538	458,911
Savings	677,939	672,519
Time deposits	622,547	647,103
Total deposits	<u>\$ 4,176,909</u>	<u>\$ 4,187,750</u>

Included in time deposits at June 30, 2017 and December 31, 2016 , is \$262.0 million and \$269.0 million , respectively, in deposits of \$100,000 and over.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements (Continued)

Note 7. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are in the scope of other standards. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Company's revenue is comprised of net interest income on interest earning assets and liabilities and non-interest income. The scope of guidance excludes net interest income as well as other revenues associated with financial assets and liabilities, including loans, leases, and securities. Accordingly, the adoption of this update is not expected to have a material impact on the Company's consolidated financial statements as the majority of the Company's revenues will not be affected.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities." The main objective in developing this new ASU is to enhance the reporting model for financial instruments to provide users of financial statements with more useful information. The update requires equity investments to be measured at fair value with changes in fair value recognized in net income. It simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a quantitative assessment to identify impairment. The amendment eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Financial assets and financial liabilities are to be presented separately by measurement category and the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated with other deferred tax assets. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently assessing the impact that the guidance will have on the Company's consolidated financial statements. The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. To date, the Company has identified its leased real estate as within the scope of the guidance. The Company continues to evaluate the impact of the guidance, including determining whether other contracts exist that are deemed to be in scope. As such, no conclusions have yet been reached regarding the potential impact of adoption on the Company's consolidated financial statements. Further, to date, no guidance has been issued by either the Company's or the Bank's primary regulator with respect to how the impact of the amended standard is to be treated for regulatory capital purposes.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718)." The objective of the Update is to simplify accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the Update, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current accounting) or account for forfeitures when they occur. Within the Cash Flow Statement, excess tax benefits should be classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. The amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this ASU on January 1, 2017 and it did not have a material impact on the Company's consolidated financial statements, resulting in a balance sheet reclassification.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner

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similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has begun its evaluation of the amended guidance including the potential impact on its consolidated financial statements. As a result of the required change in approach toward determining estimated credit losses from the current "incurred loss" model to one based on estimated cash flows over a loan's contractual life, adjusted for prepayments (a "life of loan" model), the Company expects that the new guidance will result in an increase in the allowance for loan losses, particularly for longer duration loan portfolios. The Company also expects that the new guidance may result in an allowance for debt securities. In both cases, the extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time. Further, to date, no guidance has been issued by either the Company's or the Bank's primary regulator with respect to how the impact of the amended standard is to be treated for regulatory purposes.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." This ASU is intended to reduce diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted, including adoption in an interim period. A retrospective transition method should be applied to each period presented, unless it is impracticable to apply the amendments retrospectively for some of the issues, then the amendments for those issues would be applied prospectively as of the earliest date practicable. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business." This ASU narrows the definition of a business and clarifies that, to be considered a business, the fair value of the gross assets acquired (or disposed of) may not be substantially all concentrated in a single identifiable asset or group of similar assets. In addition, in order to be considered a business, a set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. This ASU is effective for fiscal years beginning after December 15, 2017; early adoption is permitted on a limited basis. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment." This ASU intends to simplify the subsequent measurement of goodwill, eliminating Step 2 from the goodwill impairment test. Instead, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge by which the carrying amount exceeds the reporting unit's fair value; however the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. ASU No. 2017-04 is effective for fiscal years beginning after December 15, 2019; early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities." This ASU requires the amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates. This ASU does not impact securities held as a discount, as the discount continues to be amortized to the contractual maturity. The guidance is effective for fiscal years beginning December 15, 2018, with early adoption permitted, including adoption in an interim period. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

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Note 8. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or the most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The Company uses valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability and developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability and developed based on the best information available in the circumstances. In that regard, a fair value hierarchy has been established for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Movements within the fair value hierarchy are recognized at the end of the applicable reporting period. There were no transfers between the levels of the fair value hierarchy for the three and six months ended June 30, 2017. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlations or other means.

Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

Assets and Liabilities Measured at Fair Value

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Securities Available-For-Sale

Securities classified as available-for-sale are reported at fair value. Fair value for these securities, all of which are U. S. agency obligations, is determined using a quoted price in an active market or exchange (Level 1) or estimated by using inputs other than quoted prices that are based on market observable information (Level 2). Level 2 securities are priced through third-party pricing services or security industry sources that actively participate in the buying and selling of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.

Other Real Estate Owned and Impaired Loans

Other real estate owned and loans measured for impairment based on the fair value of the underlying collateral are recorded at estimated fair value, less estimated selling costs. Fair value is based on independent appraisals.

The following table summarizes financial assets and financial liabilities measured at fair value as of June 30, 2017 and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

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June 30, 2017	Total Fair Value	Fair Value Measurements at Reporting Date Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Items measured on a recurring basis:				
Investment securities available-for-sale:				
U.S. agency obligations	\$ 62,154	\$ —	\$ 62,154	\$ —
Items measured on a non-recurring basis:				
Other real estate owned	8,898	—	—	8,898
Loans measured for impairment based on the fair value of the underlying collateral	8,136	—	—	8,136

December 31, 2016	Total Fair Value	Fair Value Measurements at Reporting Date Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Items measured on a recurring basis:				
Investment securities available-for-sale:				
U.S. agency obligations	\$ 12,224	\$ —	\$ 12,224	\$ —
Items measured on a non-recurring basis:				
Other real estate owned	9,803	—	—	9,803
Loans measured for impairment based on the fair value of the underlying collateral	2,419	—	—	2,419

Assets and Liabilities Disclosed at Fair Value

A description of the valuation methodologies used for assets and liabilities disclosed at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy is set forth below.

Cash and Due from Banks

For cash and due from banks, the carrying amount approximates fair value.

Securities Held-to-Maturity

Securities classified as held-to-maturity are carried at amortized cost, as the Company has the positive intent and ability to hold these securities to maturity. The Company determines the fair value of the securities utilizing Level 1, Level 2 and, infrequently, Level 3 inputs. In general, fair value is based upon quoted market prices, where available. Most of the Company's investment and mortgage-backed securities, however, are fixed income instruments that are not quoted on an exchange, but are bought and sold in active markets. Prices for these instruments are obtained through third-party pricing vendors or security industry sources that actively participate in the buying and selling of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.

Fair value estimates are made at a point in time, based on relevant market data as well as the best information available about the security. Illiquid credit markets have resulted in inactive markets for certain of the Company's securities. As a result, there is limited observable market data for these assets. Fair value estimates for securities for which limited observable market data is available are based on judgments regarding current economic conditions, liquidity discounts, credit and interest rate risks, and other factors. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realizable in a current sale or immediate settlement of the security.

The Company utilizes third-party pricing services to obtain fair values for most of its securities held-to-maturity. Management's policy is to obtain and review all available documentation from the third-party pricing service relating to their fair value determinations, including their methodology and summary of inputs. Management reviews this documentation, makes inquiries of the third-party pricing service and makes a determination as to the level of the valuation inputs. Based on the Company's review of the available documentation from the third-party pricing service, management concluded that Level 2 inputs were utilized for all securities except for certain state and municipal obligations known as bond anticipation notes ("BANs") where management utilized Level 3 inputs. In the case of the Level 2 securities, the significant observable inputs include benchmark yields, reported

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trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, other market information and observations of equity and credit default swap curves related to the issuer. Management based its fair value estimate of the BANs on the local nature of the issuing entities, the short-term life of the security and current economic conditions.

Federal Home Loan Bank of New York Stock

The fair value for Federal Home Loan Bank of New York stock is its carrying value since this is the amount for which it could be redeemed. There is no active market for this stock and the Company is required to maintain a minimum investment based upon the outstanding balance of mortgage related assets and outstanding borrowings.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, consumer and commercial. Each loan category is further segmented into fixed and adjustable rate interest terms.

Fair value of performing and non-performing loans was estimated by discounting the future cash flows, net of estimated prepayments, at a rate for which similar loans would be originated to new borrowers with similar terms. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Deposits Other than Time Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, interest-bearing checking accounts, money market accounts and saving accounts are, by definition, equal to the amount payable on demand. The related insensitivity of the majority of these deposits to interest rate changes creates a significant inherent value which is not reflected in the fair value reported.

Time Deposits

The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold Under Agreements to Repurchase with Retail Customers

Fair value approximates the carrying amount as these borrowings are payable on demand and the interest rate adjusts monthly.

Borrowed Funds

Fair value estimates are based on discounting contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

The book value and estimated fair value of the Bank's significant financial instruments not recorded at fair value as of June 30, 2017 and December 31, 2016 are presented in the following tables (in thousands):

June 30, 2017	Book Value	Fair Value Measurements at Reporting Date Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial Assets:				
Cash and due from banks	\$ 107,660	\$ 107,660	\$ —	\$ —
Securities held-to-maturity	720,511	8,670	711,924	3,656
Federal Home Loan Bank of New York stock	20,358	—	—	20,358
Loans receivable, net and mortgage loans held for sale	3,868,973	—	—	3,932,367
Financial Liabilities:				
Deposits other than time deposits	3,554,362	—	3,554,362	—
Time deposits	622,547	—	618,396	—
Securities sold under agreements to repurchase with retail customers	75,050	75,050	—	—
Federal Home Loan Bank advances and other borrowings	334,164	—	332,729	—

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December 31, 2016	Book Value	Fair Value Measurements at Reporting Date Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial Assets:				
Cash and due from banks	\$ 301,373	\$ 301,373	\$ —	\$ —
Securities held-to-maturity	598,691	8,550	586,504	3,030
Federal Home Loan Bank of New York stock	19,313	—	—	19,313
Loans receivable and mortgage loans held for sale	3,804,994	—	—	3,834,677
Financial Liabilities:				
Deposits other than time deposits	3,540,647	—	3,540,647	—
Time deposits	647,103	—	644,354	—
Securities sold under agreements to repurchase with retail customers	69,935	69,935	—	—
Federal Home Loan Bank advances and other borrowings	307,057	—	304,901	—

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 a limited 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 significant unobservable inputs. These estimates are 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 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 premises and equipment, Bank Owned Life Insurance, deferred tax assets and goodwill. 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.

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Note 9. Subsequent Event

On June 30, 2017, the Company announced an agreement to acquire Sun Bancorp, Inc. (“Sun”), headquartered in Mount Laurel, New Jersey, in a transaction valued at approximately \$487 million . Under the terms of the agreement, Sun stockholders will be entitled to receive \$3.78 in cash and 0.7884 shares of OceanFirst common stock, for each share of Sun common stock. The transaction is expected to close in the first quarter of 2018, subject to certain conditions, including approval by stockholders of each company, receipt of all required regulatory approvals and customary closing conditions.

The Company will be acquiring real estate in Monmouth County, New Jersey related to a back-office consolidation initiative at a purchase price of \$42.5 million . The transaction is expected to close in the fourth quarter of 2017 and occupancy is expected in the first half of 2018.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to routine legal proceedings within the normal course of business. Such routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

Item 1A. Risk Factors

In addition to the risk factors relevant to the Company set forth in Part I, Item 1A, "Risk Factors," in the 2016 Form 10-K stockholders and investors of the Company should consider the following risk factors related to the pending merger with Sun. For more information regarding the pending merger with Sun, stockholders and investors of the Company should read the joint proxy statement/prospectus that will be included in the registration statement on Form S-4 that will be filed in connection with such pending merger. There were no other material changes to risk factors relevant to the Company's operations since December 31, 2016.

Because the market price of the Company's common stock may fluctuate, neither the Company's stockholders nor Sun shareholders can be certain of the market value of the stock portion of the merger consideration that will be payable by the Company to the Sun shareholders. At the time of the completion of the merger of Mercury Merger Sub Corp. into Sun (the "first-step merger"), each outstanding share of Sun common stock, except for certain shares of Sun common stock owned by Sun or the Company, will be converted into the right to receive the "merger consideration" which is either (i) the cash consideration, which is an amount in cash equal to the sum of (A) \$3.78 plus (B) the product of 0.7884 multiplied by the volume weighted-average trading price of shares of common stock of the Company for the five trading days immediately prior to the effective time of the first-step merger (the "Company share closing price"), or (ii) the stock consideration, which will be a number of shares of Company common stock equal to the exchange ratio, which is the quotient of (A) the cash consideration divided by (B) the Company share closing price. The right to receive the cash consideration or the stock consideration will be made at the election of each holder of shares of Sun common stock, subject to the allocation and proration provisions of the merger agreement. The merger agreement provides that the aggregate amount of cash consideration will not exceed the product of (x) \$3.78 and (y) the total number of shares of Sun common stock issued and outstanding immediately prior to the effective time of the first-step merger (the "effective time"). There will be a lapse of time between each of the date of this report, the date of the Company special meeting of its stockholders relating to the issuance of shares of Company common stock in connection with the proposed transaction with Sun (the "Company special meeting"), the date of the Sun special meeting of its shareholders in connection with the proposed transaction with the Company and the date on which the first-step merger is completed. The market value of the Company common stock may fluctuate during these periods as a result of a variety of factors, including general market and economic conditions, changes in the Company's businesses, operations and prospects and regulatory considerations. Many of these factors are outside of the control of the Company.

Because the merger consideration is primarily based on the Company share closing price, any changes in the market price of Company common stock prior to the completion of the first-step merger will have a corresponding effect on the amount of per share cash consideration payable by the Company and will affect the value of the stock consideration. There will be no adjustment to the computation of the merger consideration for changes in the market price of either shares of Company common stock or shares of Sun common stock.

In addition, because the date when the proposed transactions will be completed will be later than the date of the Company special meeting, the Company stockholders will not know at the time they vote at the Company special meeting the exact value of the Company common stock that will determine the merger consideration and be issued as stock consideration. Accordingly, if the Company share closing price is higher than the market price of Company common stock on the date of the Company special meeting, the merger consideration will be greater than what the merger consideration would have been at the time the Company stockholders vote at the Company special meeting.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the proposed transaction with Sun. Before the proposed transaction with Sun can be completed, the Company and Sun must obtain approvals from the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency. Other approvals, as well as waivers or consents, from regulators may also be required. In determining whether to grant these approvals, waivers and consents the regulators consider a variety of factors, including, among others, the regulatory standing of each party. An adverse development in either party's regulatory standing or these factors could result in an inability to obtain approval or delay their receipt. These regulators may impose conditions on the completion of the proposed transaction or require changes to the terms of the proposed transaction. Such conditions or changes could have the effect of delaying or preventing completion of the proposed transaction with Sun or imposing additional costs on or limiting the revenues of the combined company following the completion of the proposed transaction, any of which might have an adverse effect on the combined company following the completion of the proposed transaction. However, under the terms of the merger agreement, in connection with obtaining such regulatory approvals or waivers, neither party is required to take any action, or commit to take any action, or agree to any condition or restriction, that would reasonably be expected to have a material adverse effect (measured on a scale relative to Sun) on any of the Company, Sun or the surviving corporation, after giving effect to the proposed transaction. In addition, subject to approval from the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, prior to the completion of the proposed transaction, OceanFirst Bank intends to convert from a federal savings association into a national banking association, and the Company intends to cease being a savings and loan holding company and become a bank holding company. The approval process for the conversion application could delay the completion of the proposed transaction with Sun.

Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the proposed transaction with Sun may not be realized. The Company and Sun have operated and, until the completion of the proposed transaction, will continue to operate, independently. The success of the proposed transaction with Sun, including anticipated benefits and cost savings, will depend, in part, on the Company's ability to successfully combine and integrate the businesses of the Company and Sun in a manner that permits growth opportunities and does not materially disrupt existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors, employees and other constituents or to achieve the anticipated benefits and cost savings of the proposed transaction with Sun. The loss of key employees could adversely affect the Company's ability to successfully conduct its business, which could have an adverse effect on the Company's financial results and the value of its common stock. If the Company experiences difficulties with the integration process, the anticipated benefits of the proposed transaction with Sun may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause the Company and/or Sun to lose customers or cause customers to remove their accounts from the Company and/or Sun and move their business to competing financial institutions. Integration efforts between the two companies, as well as the Company's ongoing integration efforts relating to the Cape acquisition and the Ocean Shore acquisition, will also divert management attention and resources. These integration matters could have an adverse effect on each of Sun and the Company during this transition period and for an undetermined period after completion of the proposed transaction on the combined company. In addition, the actual cost savings of the proposed transaction could be less than anticipated.

Termination of the merger agreement could negatively impact the Company. If the merger agreement is terminated, there may be various consequences. For example, the Company's businesses may have been impacted adversely by the failure to pursue other opportunities due to management's focus on the proposed transaction with Sun, without realizing any of the anticipated benefits of completing the proposed transaction. Additionally, if the merger agreement is terminated, the market price of the Company common stock could decline to the extent that the current market prices reflect a market assumption that the proposed transaction will be completed. If the merger agreement is terminated under certain circumstances, Sun or the Company may be required to pay to the other party a termination fee of \$17.045 million.

The Company will be subject to business uncertainties and contractual restrictions while the proposed transaction is pending. Uncertainty about the effect of the proposed transaction with Sun on employees and customers may have an adverse effect on the Company. These uncertainties may impair the Company's ability to attract, retain and motivate key personnel until the proposed transaction is completed, and could cause customers and others that deal with the Company to seek to change existing business relationships with the Company. Retention of certain employees by the Company may be challenging while the proposed transaction is pending, as certain employees may experience uncertainty about their future roles with the Company. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the Company, the Company's business could be harmed. In addition, subject to certain exceptions, the Company has agreed to certain restrictive covenants.

Litigation relating to the proposed transaction with Sun could require us to incur significant costs and suffer management distraction, as well as delay and/or enjoin the proposed transaction. On July 18, 2017, three purported Sun shareholders filed purported shareholder class actions in the Superior Court of New Jersey, Burlington County, Chancery Division challenging the transaction captioned Oswald v. Sun Bancorp, Inc., C 000070 17; Rumsey v. Sun Bancorp, Inc., et al., C 000071 17 and Chetcuti v. Sun Bancorp, Inc., et al., C 000072 17. The actions generally allege that members of the Sun board breached their fiduciary duties by approving the merger agreement because the transaction is procedurally flawed and financially inadequate. Plaintiffs further allege that the Company and Mercury Merger Sub Corp. aided and abetted such alleged breaches. The actions seek to enjoin the proposed transaction with Sun, as well as unspecified money damages, costs and attorneys' fees and expense. The Company and Sun believe these allegations are without merit and they intend to vigorously defend against all claims asserted.

If the proposed transaction with Sun is not completed, the Company will have incurred substantial expenses without realizing the expected benefits of the proposed transaction. The Company has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement, as well as the costs and expenses of filing, printing and mailing the joint proxy statement/prospectus and all filing and other fees paid to the SEC in connection with the first-step merger. If the proposed transaction with Sun is not completed, the Company would have to recognize these expenses without realizing the expected benefits of the proposed transaction.

The Company has an unqualified obligation to submit to the Company stockholders for consideration the proposal with respect to the issuance of shares of the Company common stock in the proposed transaction with Sun. Sun has a similar obligation with respect to the proposal that its shareholders approve the first-step merger. In addition, the merger agreement requires each company to pay a termination fee of \$17.045 million under limited circumstances. Unless the merger agreement has been terminated in accordance with its terms, each party has an unqualified obligation to submit their respective stockholder proposals to their stockholders at the applicable special meeting. The merger agreement also provides that the Company or Sun must pay a termination fee in the amount of \$17.045 million in the event that the merger agreement is terminated under certain circumstances.

Holders of Company common stock will have a reduced ownership and voting interest after the first-step merger and will exercise less influence over management. Holders of Company common stock currently have the right to vote in the election of the board of directors of the Company and on other matters affecting the Company. Upon the completion of the first-step merger, each Sun shareholder who receives the stock consideration (either because such Sun shareholder elects to receive stock consideration or because of the allocation and proration provisions of the merger agreement) will become a Company stockholder. It is currently expected that the former Sun shareholders as a group will receive shares in the first-step merger constituting approximately 32% of the outstanding shares of Company common stock immediately after the first-step merger. As a result, current Company stockholders as a group will own approximately 68% of the outstanding shares of Company common stock immediately after the first-step merger. Because of this reduced ownership percentage, Company stockholders may have less influence on the management and policies of the Company than they now have on the management and policies of the Company. Upon consummation of the proposed transaction with Sun, the Company has agreed to increase the size of the board of directors of the Company and the board of directors of OceanFirst Bank to fourteen members and appoint two current members of the board of directors of Sun, to be selected by the Leadership Committee of the Company in consultation with the board of directors of the Company and the board of directors of Sun, to the board of directors of the Company and the board of directors of OceanFirst Bank. Each such appointee will be appointed to a class of the board of directors of the Company and the board of directors of OceanFirst Bank to be selected by the Company in its discretion (provided that such appointees shall be allocated among the classes as evenly as possible).

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

On July 24, 2014, the Company announced the authorization of the Board of Directors to repurchase up to 5% of the Company's outstanding common stock, or 867,923 shares of which 154,804 shares remain available for repurchase. On April 27, 2017, the Company announced the authorization of the Board of Directors to repurchase up to an additional 5% of the Company's outstanding common stock, or 1.6 million shares of which all shares authorized for repurchase remain available at June 30, 2017. Information regarding the Company's common stock repurchases for the three month period ended June 30, 2017 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2017 through April 30, 2017	—	—	—	1,754,804
May 1, 2017 through May 31, 2017	—	—	—	1,754,804
June 1, 2017 through June 30, 2017	—	—	—	1,754,804

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

The Company will be acquiring real estate in Monmouth County, New Jersey related to a back-office consolidation initiative at a purchase price of \$42.5 million. The transaction is expected to close in the fourth quarter of 2017 and occupancy is expected in the first half of 2018.

Item 6. Exhibits

Exhibits:

- 2.1 Agreement and Plan of Merger, dated as of June 30, 2017, by and among OceanFirst Financial Corp., Sun Bancorp, Inc. and Mercury Merger Sub Corp. ⁽¹⁾
- 3.1 Amended Bylaws of OceanFirst
- 10.1 Agreement by and between John R. Garbarino and the Registrant ⁽²⁾
- 10.2 OceanFirst Financial Corp. two year change-in-control agreement dated December 5, 2016 by and between Registrant and Angela Ho ⁽³⁾
- 10.3 OceanFirst Bank two year change-in-control agreement dated December 5, 2016 by and between Registrant and Angela Ho ⁽³⁾
- 10.35A Form of First Amendment to Confidentiality and Executive Restriction Agreement Employment between OceanFirst Financial Corp. and certain executive officers, including Christopher D. Maher, Michael J. Fitzpatrick, Joseph R. Iantosca, Joseph J. Lebel III, and Steven J. Tsimbinos ⁽⁴⁾
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.0 Certification pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002
- 101.0 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements

(1) Incorporated by reference from Exhibit 2.1 to current report on Form 8-K filed July 3, 2017.

(2) Incorporated by reference from Exhibit 10.1 to current report on Form 8-K filed March 30, 2017.

(3) Incorporated by reference from Exhibit 10.2 and 10.3, respectively, to current report on Form 8-K filed March 7, 2017.

(4) Incorporated by reference from Exhibit 10.35A to current report on Form 8-K filed on June 27, 2017.

SIGNATURES

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

DATE: August 9, 2017

OceanFirst Financial Corp.
Registrant

/s/ Christopher D. Maher
Christopher D. Maher
Chairman, President and Chief Executive Officer

DATE: August 9, 2017

/s/ Michael J. Fitzpatrick
Michael J. Fitzpatrick
Executive Vice President and Chief Financial Officer

Exhibit Index

Exhibit	Description
3.1	Amended Bylaws of OceanFirst
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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OceanFirst Financial Corp .**BYLAWS****ARTICLE I - STOCKHOLDERS****Section 1. Annual Meeting.**

An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen (13) months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

Section 2. Special Meetings.

Subject to the rights of the holders of any class or series of Preferred Stock of the Corporation, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors which the Corporation would have if there were no vacancies on the Board of Directors (hereinafter the "Whole Board").

Section 3. Notice of Meetings.

Written notice of the place, date, and time of all meetings of the stockholders shall be given, not less than ten (10) nor more than sixty (60) days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation).

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 4. Quorum.

At any meeting of the stockholders, the holders of a majority of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy (after giving effect to the provisions of Article FOURTH of the Corporation's Certificate of Incorporation), shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law. Where a separate vote by a class or classes is required, a majority of the shares of such class or classes present in person or represented by proxy (after giving effect to the provisions of Article FOURTH of the Corporation's Certificate of Incorporation) shall constitute a quorum entitled to take action with respect to that vote on that matter.

If a quorum shall fail to attend any meeting, the chairman of the meeting or the holders of a majority of the shares of stock entitled to vote who are present, in person or by proxy, may adjourn the meeting to another place, date, or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present in person or by proxy constituting a quorum, then except as otherwise required by law, those present in person or by proxy at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

Section 5. Organization.

Such person as the Board of Directors may have designated or, in the absence of such a person, the Chairman of the Board of the Corporation or, in his or her absence, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the Corporation, the secretary of the meeting shall be such person as the chairman appoints.

Section 6. Conduct of Business.

(a) The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

(b) At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 6(b). For business to be properly brought before an annual meeting by a stockholder, the business must relate to a proper subject matter for stockholder action and the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal executive offices of the Corporation not less than ninety (90) days prior to the date of the annual meeting; provided, however, that in the event that less than one hundred (100) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder, and (iv) any material interest of such stockholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be brought before or conducted at an annual meeting except in accordance with the provisions of this Section 6(b). The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 6(b), and if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

(c) Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders at which directors are to be elected only: (i) by or at the direction of the Board of Directors, or (ii) by any stockholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 6(c). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the Corporation not less than ninety (90) days prior to the date of the meeting; provided, however, that in the event that less than one hundred (100) days notice or prior disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth: (i) as to each person whom such stockholder proposes to nominate

for election or re-election as a director, all information relating to such person that would indicate such person's qualification under Article II, Section 1, including an affidavit that such person would not be disqualified under the provisions of Section 1(d), and such information that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), and (ii) as to the stockholder giving the notice (x) the name and address, as they appear on the Corporation's books, of such stockholder, and (y) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 6(c). The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she shall so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Section 7. Proxies and Voting.

At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing filed in accordance with the procedure established for the meeting. Any facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

All voting, including on the election of directors but excepting where otherwise required by law or by the governing documents of the Corporation, may be made by a voice vote; provided, however, that upon demand therefor by a stockholder entitled to vote or his or her proxy, a stock vote shall be taken. Every stock vote shall be taken by ballot, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedures established for the meeting. The Corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law or the Certificate of Incorporation, all other matters shall be determined by a majority of the votes cast.

Section 8. Stock List.

A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in his or her name, shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held.

The stock list shall also be kept at the place of the meeting during the whole time thereof and shall be open to the examination of any such stockholder who is present. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

Section 9 . Consent of Stockholders in Lieu of Meeting .

Subject to the rights of the holders of any class or series of Preferred Stock of the Corporation, any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

ARTICLE II - BOARD OF DIRECTORS

Section 1 . General Powers, Number and Term of Office and Qualifications .

(a) *General Powers.* The business and affairs of the Corporation shall be under the direction of its Board of Directors. The Board of Directors shall annually elect a Chairman of the Board from among its members who shall, when present, preside at its meetings.

(b) *Number.* The number of directors who shall constitute the Whole Board shall be such number as the Board of Directors shall from time to time have designated, except that in the absence of such designation shall be nine (9).

(c) *Term of Office.* The directors, other than those who may be elected by the holders of any class or series of Preferred Stock, shall be divided, with respect to the time for which they severally hold office, into three classes, with the term of office of the first class to expire at the first annual meeting of stockholders, the term of office of the second class to expire at the annual meeting of stockholders one year thereafter and the term of office of the third class to expire at the annual meeting of stockholders two years thereafter, with each director to hold office until his or her successor shall have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

(d) *Qualifications.* To be eligible for election or appointment to the Board of Directors, a person must maintain a residence in the State of New Jersey (although such residence need not be such person's primary domicile). In addition, no person shall be eligible for election or appointment to the Board of Directors: (i) if such person has, within the previous 10 years, been the subject of supervisory action by a financial regulatory agency that resulted in a cease and desist order or an agreement or other written statement subject to public disclosure under 12 U.S.C. 1818(u), or any successor provision; (ii) if such person has been convicted of a crime involving dishonesty or breach of trust which is punishable by imprisonment for a term exceeding one year under state or federal law; (iii) if such person is currently charged in any information, indictment, or other complaint with the commission of or participation in such a crime. No person may serve on the Board of Directors and at the same time be a director or officer of another co-operative bank, credit union, savings bank, savings and loan association, trust company, bank holding company or banking association (in each case whether chartered by a state, the federal government or any other jurisdiction) or any affiliate thereof. No person shall be eligible for election to the Board of Directors if such person is the representative or agent of a person or acting in concert (as that term is used to describe relationships involved in either presumptive or actual concerted action under 12 C.F.R. Section 174.4 (d)) with respect to the Corporation or its subsidiaries, with a person who is ineligible for election to the Board of Directors under this Subsection 1(d). No nomination of any individual who would not be qualified to be elected or appointed to or serve as a member of the Board of Directors under this Article II, Section 1(d) shall be valid, accepted or voted upon. The Board of Directors shall have the power to construe and apply the provisions of this Section 1(d) and to make all determinations necessary to implement such provisions, including but not limited to determinations as to whether any persons are a group acting in concert, as defined by this Section 1(d). The Board may request from a nominee information it deems relevant to assessing a nominee's satisfaction of the requirements of this Section 1(d).

Section 2. Vacancies and Newly Created Directorships.

Subject to the rights of the holders of any class or series of Preferred Stock, and unless the Board of Directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the whole Board shall shorten the term of any incumbent director.

Section 3. Regular Meetings.

Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

Section 4. Special Meetings.

Special meetings of the Board of Directors may be called by one-third (1/3) of the directors then in office (rounded up to the nearest whole number), by the Chairman of the Board or the President and shall be held at such place, on such date, and at such time as they, or he or she, shall fix. Notice of the place, date, and time of each such special meeting shall be given each director by whom it is not waived by mailing written notice not less than five (5) days before the meeting, or by overnight delivery sent not less than three (3) days before the meeting, or by telegraphing, telexing, facsimile transmission or e-mail with a confirmation of receipt, of the same not less than twenty-four (24) hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 5. Quorum.

At any meeting of the Board of Directors, a majority of the Whole Board shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date, or time, without further notice or waiver thereof.

Section 6. Participation in Meetings By Conference Telephone or Electronic Means.

Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

Section 7. Conduct of Business.

At any meeting of the Board of Directors, business shall be transacted in such order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

Section 8. Powers.

The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, including, without limiting the generality of the foregoing, the unqualified power:

- (1) To declare dividends from time to time in accordance with law;
- (2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;
- (3) To authorize the creation, making and issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;
- (4) To remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being;
- (5) To confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents;
- (6) To adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine;
- (7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and,
- (8) To adopt from time to time regulations, not inconsistent with these Bylaws, for the management of the Corporation's business and affairs.

Section 9. Compensation of Directors.

Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors.

Section 10. Retirement/Director Emeritus

No individual director shall stand for re-election to the Board of Directors following his or her 72nd birthday.

Any Director of this Company who ceases to be such Director and who has attained the age of 72 years with 12 years of continuous service with the Company or any of its affiliates, or has become incapacitated before the age of 72, may be elected by the Board of Directors as 'Director Emeritus' and such persons who accept such election shall serve for life or until removed as advisors and consultants to the Board of Directors of this Company, and, when invited, may sit with the Board of Directors at regular meetings and discuss any questions under consideration provided, however, that such Director Emeritus shall cast no vote.

ARTICLE III - COMMITTEES

Section 1. Committees of the Board of Directors.

The Board of Directors, by a vote of a majority of the Board of Directors, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure

of the Board and shall, for these committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law if the resolution which designates the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his or her place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2. Conduct of Business.

Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third (1/3) of the members, but no less than two members, shall constitute a quorum unless the committee shall consist of one (1) or two (2) members, in which event one (1) member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

Section 3. Nominating Committee.

The Board of Directors shall appoint a Nominating Committee of the Board, consisting of not less than three (3) members. The Nominating Committee shall have authority: (a) to review any nominations for election to the Board of Directors made by a stockholder of the Corporation pursuant to Section 6(c)(ii) of Article I of these Bylaws in order to determine compliance with such Bylaw, and (b) to recommend to the Whole Board nominees for election to the Board of Directors to replace those directors whose terms expire at the annual meeting of stockholders next ensuing.

ARTICLE IV - CHAIRMAN AND OFFICERS

Section 1. Generally.

(a) The Board of Directors as soon as may be practicable after the annual meeting of stockholders shall choose a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer and from time to time may choose such other officers as it may deem proper. The Chairman of the Board shall be chosen from among the directors. Any number of offices may be held by the same person.

(b) The term of office of all officers shall be until the next annual election of officers and until their respective successors are chosen but any officer may be removed from office at any time by the affirmative vote of a majority of the authorized number of directors then constituting the Board of Directors.

(c) All officers chosen by the Board of Directors shall have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this ARTICLE IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof.

Section 2. Chairman of the Board of Directors.

The Chairman of the Board shall, subject to the provisions of these Bylaws and to the direction of the Board of Directors, unless the Board has designated another person, when present, preside at all meetings of the stockholders of the Corporation. The Chairman of the Board shall perform all duties and have all powers which are commonly incident to the office of the Chairman of the Board or which are delegated to him or her by the Board of Directors, but

shall not be an executive officer of the Company solely by virtue of such position. He or she shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized.

Section 3. Chief Executive Officer and President.

The Chief Executive Officer shall have general responsibility for the management and control of the business and affairs of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of Chief Executive Officer or which are delegated to him or her by the Board of Directors. Subject to the direction of the Board of Directors, the Chief Executive Officer shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision of all of the other officers (other than the Chairman of the Board, if he or she is an officer), employees and agents of the Corporation.

The Corporation shall have a President. If the Chief Executive Officer is not the President, the President shall perform all duties and have all powers which are commonly incident to the office of President or which are delegated to him or her by the Chief Executive Officer. Subject to the direction of the Chief Executive Officer, the President shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision of all of the other officers (other than the Chief Executive Officer), employees and agents of the Corporation.

Section 4. Vice President.

The Vice President or Vice Presidents shall perform the duties of the Chief Executive Officer and/or President in their absence or during the inability of either to act. In addition, the Vice Presidents shall perform the duties and exercise the powers usually incident to their respective offices and/or such other duties and powers as may be properly assigned to them by the Board of Directors, the Chief Executive Officer or the President. A Vice President or Vice Presidents may be designated as Executive Vice President or Senior Vice President.

Section 5. Secretary.

The Secretary or Assistant Secretary shall issue notices of meetings, shall keep their minutes, shall have charge of the seal and the corporate books, shall perform such other duties and exercise such other powers as are usually incident to such office and/or such other duties and powers as are properly assigned thereto by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or the President. Subject to the direction of the Board of Directors, the Secretary shall have the power to sign all stock certificates.

Section 6. Treasurer.

The Treasurer shall be the Comptroller of the Corporation and shall have the responsibility for maintaining the financial records of the Corporation. He or she shall make such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions and of the financial condition of the Corporation. The Treasurer shall also perform such other duties as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe. Subject to the direction of the Board of Directors, the Treasurer shall have the power to sign all stock certificates.

Section 7. Assistant Secretaries and Other Officers.

The Board of Directors may appoint one or more assistant secretaries and such other officers who shall have such powers and shall perform such duties as are provided in these Bylaws or as may be assigned to them by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or the President.

Section 8. Action with Respect to Securities of Other Corporations.

Unless otherwise directed by the Board of Directors, the Chief Executive Officer, the President or any officer of the Corporation authorized by the Chief Executive Officer or the President shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.

ARTICLE V - STOCK

Section 1. Certificates of Stock.

Each stockholder shall be entitled to a certificate signed by, or in the name of the Corporation by, the Chairman of the Board, the Chief Executive Officer or the President, and by the Secretary or an Assistant Secretary, or any Treasurer or Assistant Treasurer, certifying the number of shares owned by him or her. Any or all of the signatures on the certificate may be by facsimile.

Section 2. Transfers of Stock.

Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 4 of Article V of these Bylaws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

Section 3. Record Date.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of any meeting of stockholders, nor more than sixty (60) days prior to the time for such other action as hereinbefore described; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the next day preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment or rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 4. Lost, Stolen or Destroyed Certificates.

In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 5. Regulations.

The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VI - NOTICES

Section 1. Notices.

Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such notice in the mails, postage paid, or by sending such notice by prepaid telegram or mailgram or other courier. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his or her last known address as the same appears on the books of the Corporation. The time when such notice is received, if hand delivered, or dispatched, if delivered through the mails or by telegram or mailgram or other courier, shall be the time of the giving of the notice.

Section 2. Waivers.

A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver.

ARTICLE VII - MISCELLANEOUS

Section 1. Facsimile Signatures.

In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 2. Corporate Seal.

The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. If and when so directed by the Board of Directors or a committee thereof, duplicates of the seal may be kept and used by the Treasurer or by an Assistant Secretary or an assistant to the Treasurer.

Section 3. Reliance Upon Books, Reports and Records.

Each Director, each member of any committee designated by the Board of Directors, and each officer of the Corporation shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors so designated, or by any other person as to matters which such director or committee member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 4. Fiscal Year.

The fiscal year of the Corporation shall be as fixed by the Board of Directors.

Section 5 . Time Periods .

In applying any provision of these Bylaws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

ARTICLE VIII - AMENDMENTS

The Board of Directors may amend, alter or repeal these Bylaws at any meeting of the Board, provided notice of the proposed change was given not less than two days prior to the meeting. The stockholders shall also have power to amend, alter or repeal these Bylaws at any meeting of stockholders provided notice of the proposed change was given in the notice of the meeting; provided, however, that, notwithstanding any other provisions of the Bylaws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the voting stock required by law, the Certificate of Incorporation, any Preferred Stock designation or these Bylaws, the affirmative votes of the holders of at least 80% of the voting power of all the then-outstanding shares of the Voting Stock, voting together as a single class, shall be required to alter, amend or repeal any provisions of these Bylaws.

ARTICLE IX - FORUM FOR ADJUDICATION OF CERTAIN DISPUTES

Unless the Corporation consents in writing to the selection of an alternative forum (an "Alternative Forum Consent"), the Court of Chancery of the State of Delaware shall be, to the fullest extent permitted by law, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, stockholder, employee or agent of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation or any director, officer, stockholder, employee or agent of the Corporation arising out of or relating to any provision of the Delaware General Corporation Law or the Corporation's Certificate of Incorporation or these Bylaws or (iv) any action asserting a claim against the Corporation or any director, officer, stockholder, employee or agent of the Corporation governed by the internal affairs doctrine of the State of Delaware; provided, however, that, in the event that the Court of Chancery of the State of Delaware lacks subject matter jurisdiction over any such action or proceeding, the sole and exclusive forum for such action or proceeding shall be another court of the State of Delaware, or if no court of the State of Delaware has jurisdiction, the federal district court for the District of Delaware, in each such case, unless the Court of Chancery (or such other state or federal court located within the State of Delaware, as applicable) has dismissed a prior action by the same plaintiff asserting the same claims because such court lacked personal jurisdiction over an indispensable party named as a defendant therein. Failure to enforce the foregoing provisions would cause the Corporation irreparable harm and the Corporation shall be entitled to equitable relief, including injunctive relief and specific performance, to enforce the foregoing provision, including, without limitation, an anti-suit injunction to enforce Article IX and to preclude suit in any other forum. Any person or entity holding, purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and to consent to (i) the personal jurisdiction of the Court of Chancery of the State of Delaware (or if the Court of Chancery does not have jurisdiction, another court of the State of Delaware, or if no court of the State of Delaware has jurisdiction, the federal district court for the District of Delaware) in any proceeding brought to enjoin, or otherwise enforce this Article IX with respect to, any action by that person or entity that is inconsistent with the exclusive jurisdiction provided for in this Article IX (an "Inconsistent Action") and (ii) having service of process made upon such person or entity in any such proceeding by service upon such person's or entity's counsel in such Inconsistent Action as agent for such person or entity.

The above Bylaws are effective as of November 21, 1995, the date of incorporation of Ocean Financial Corp., as amended June 16, 1999, May 17, 2000, January 22, 2003, April 19, 2015 and June 29, 2017.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher D. Maher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OceanFirst Financial Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Christopher D. Maher

Christopher D. Maher

Chairman, President and Chief Executive Officer

(principal executive officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Fitzpatrick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OceanFirst Financial Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick

Executive Vice President and Chief Financial Officer
(principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADDED BY SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OceanFirst Financial Corp. (the “Company”) on Form 10-Q for the period ending June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Christopher D. Maher

Christopher D. Maher

Chairman, President and Chief Executive Officer

August 9, 2017

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick

Executive Vice President and Chief Financial Officer

August 9, 2017