

**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 September 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 | <input checked="" type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-accelerated Filer | <input type="checkbox"/> | Smaller Reporting Company | <input type="checkbox"/> |
| | | Emerging Growth Company | <input type="checkbox"/> |

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 November 3, 2017 there were 32,582,472 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 | | |
|---|-------------------------------------|----------------------|---------------------------|
| | September 30, 2017 | June 30, 2017 | September 30, 2016 |
| <u>SELECTED FINANCIAL CONDITION DATA:</u> | | | |
| Total assets | \$ 5,383,912 | \$ 5,202,200 | \$ 4,151,017 |
| Loans receivable, net | 3,870,109 | 3,868,805 | 3,028,696 |
| Deposits | 4,350,259 | 4,176,909 | 3,324,681 |
| Stockholders' equity | 596,252 | 587,303 | 417,244 |
| <u>SELECTED OPERATING DATA:</u> | | | |
| Net interest income | 43,056 | 42,174 | 33,935 |
| Provision for loan losses | 1,165 | 1,165 | 888 |
| Other income | 7,359 | 6,973 | 5,896 |
| Operating expenses | 30,733 | 37,133 | 25,026 |
| Net income | 12,817 | 7,679 | 9,128 |
| Diluted earnings per share | 0.39 | 0.23 | 0.35 |
| <u>SELECTED FINANCIAL RATIOS:</u> | | | |
| Stockholders' equity per common share | 18.31 | 18.05 | 16.14 |
| Tangible stockholders' equity per common share ⁽¹⁾ | 13.47 | 13.19 | 13.42 |
| Cash dividend per share | 0.15 | 0.15 | 0.13 |
| Stockholders' equity to total assets | 11.07% | 11.29% | 10.05% |
| Tangible stockholders' equity to total tangible assets ⁽¹⁾ | 8.39 | 8.51 | 8.50 |
| Return on average assets ⁽²⁾⁽³⁾ | 0.95 | 0.59 | 0.88 |
| Return on average stockholders' equity ⁽²⁾⁽³⁾ | 8.60 | 5.25 | 8.77 |
| Return on average tangible stockholders' equity ⁽¹⁾⁽²⁾⁽³⁾ | 11.74 | 7.19 | 10.58 |
| Net interest rate spread | 3.41 | 3.48 | 3.49 |
| Net interest margin | 3.50 | 3.57 | 3.56 |
| Operating expenses to average assets ⁽²⁾⁽³⁾ | 2.29 | 2.86 | 2.43 |
| Efficiency ratio ⁽³⁾⁽⁴⁾ | 60.96 | 75.55 | 62.83 |
| Loan to deposit ratio | 88.96 | 92.62 | 91.10 |
| <u>ASSET QUALITY:</u> | | | |
| Non-performing loans | \$ 15,121 | \$ 16,261 | \$ 16,507 |
| Non-performing assets | 24,455 | 25,159 | 25,614 |
| Allowance for loan losses as a percent of total loans receivable | 0.42% | 0.42% | 0.51% |
| Allowance for loan losses as a percent of total non-performing loans | 109.68 | 101.82 | 94.61 |
| Non-performing loans as a percent of total loans receivable | 0.39 | 0.42 | 0.54 |
| Non-performing assets as a percent of total assets | 0.45 | 0.48 | 0.62 |

(1) Tangible stockholders' equity and tangible assets exclude 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 \$3.2 million, or \$2.1 million, net of tax benefit, for the quarter ended September 30, 2017; \$8.6 million, or \$5.6 million, net of tax benefit, for the quarter ended June 30, 2017; and \$1.3 million, or \$1.1 million, net of tax benefit, for the quarter ended September 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 regions. 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, Inc. (“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 September 30, 2017, Sun had total assets of \$2.2 billion, total loans of \$1.6 billion and total deposits of \$1.7 billion. On October 24 and 25, 2017, Sun and the Company received their respective requisite stockholder approvals for the merger. Regulatory approval of the merger was received from the Federal Reserve Bank of Philadelphia on October 17, 2017. The regulatory application for the transaction remains under review by the Office of the Comptroller of the Currency (“OCC”). Subject to receipt of OCC approval and other customary closing conditions, the Company expects to close the transaction in January 2018 and anticipates full integration of Sun’s branches and core operating systems in the second quarter of 2018.

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

The Company grew deposits \$173.4 million, reducing its loan to deposit ratio to 89.0%, while the cost of deposits increased only one basis point from the prior linked quarter to 0.29%.

Asset quality improved as non-performing loans decreased to \$15.1 million and non-performing loans as a percentage of total loans decreased to 0.39%.

Net income for the quarter ended September 30, 2017, was \$12.8 million, or \$0.39 per diluted share, as compared to \$9.1 million, or \$0.35 per diluted share, for the corresponding prior year period. Net income for the quarters ended September 30, 2017 and 2016, included merger related and branch consolidation expenses, which decreased net income, net of tax benefit, by \$2.1 million and by \$1.1 million, respectively, and reduced diluted earnings per share by \$0.06 and \$0.05, respectively. Net income increased over the prior year period primarily due to the Acquisition Transactions.

Net interest income for the three months ended September 30, 2017 increased to \$43.1 million, as compared to \$33.9 million for the corresponding prior year period reflecting an increase in interest-earning assets primarily due to the Acquisition Transactions.

Other income increased to \$7.4 million for the three months ended September 30, 2017, as compared to \$5.9 million for the corresponding prior year period. The increase was primarily due to the impact of the Acquisition Transactions, which added \$1.1 million to other income. Operating expenses increased to \$30.7 million for the three months ended September 30, 2017, as compared to \$25.0 million in the same prior year period. Operating expenses for the three months ended September 30, 2017 included \$3.2 million of merger related and branch consolidation expenses, as compared to \$1.3 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 Acquisition Transactions, which added \$2.4 million for the three months ended September 30, 2017.

The Company declared a quarterly cash dividend on common stock. The dividend for the quarter ended September 30, 2017 of \$0.15 per share will be paid on November 17, 2017 to stockholders of record on November 6, 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 nine months ended September 30, 2017 and September 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 | | | | | |
|--|----------------------------|-----------|---------------------------|--------------------|-----------|---------------------------|
| | September 30, 2017 | | | September 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 | \$ 183,514 | \$ 438 | 0.95% | \$ 168,045 | \$ 139 | 0.33% |
| Securities ⁽¹⁾ and FHLB stock | 817,867 | 4,263 | 2.07 | 533,809 | 2,561 | 1.91 |
| Loans receivable, net ⁽²⁾ | | | | | | |
| Commercial | 1,865,970 | 22,423 | 4.77 | 1,723,520 | 20,970 | 4.84 |
| Residential | 1,737,739 | 17,588 | 4.02 | 1,118,435 | 10,874 | 3.87 |
| Home Equity | 279,900 | 3,289 | 4.66 | 255,919 | 2,745 | 4.27 |
| Other | 1,112 | 29 | 10.35 | 1,163 | 18 | 6.16 |
| Allowance for loan loss net of deferred loan fees | (12,370) | — | — | (13,346) | — | — |
| Loans Receivable, net | 3,872,351 | 43,329 | 4.44 | 3,085,691 | 34,607 | 4.46 |
| Total interest-earning assets | 4,873,732 | 48,030 | 3.91 | 3,787,545 | 37,307 | 3.92 |
| Non-interest-earning assets | 460,795 | | | 316,290 | | |
| Total assets | \$ 5,334,527 | | | \$ 4,103,835 | | |
| Liabilities and Stockholders' Equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking | \$ 1,852,421 | 1,173 | 0.25% | \$ 1,425,350 | 583 | 0.16% |
| Money market | 389,035 | 299 | 0.30 | 386,490 | 295 | 0.30 |
| Savings | 672,548 | 59 | 0.03 | 488,749 | 49 | 0.04 |
| Time deposits | 620,308 | 1,595 | 1.02 | 477,496 | 1,156 | 0.96 |
| Total | 3,534,312 | 3,126 | 0.35 | 2,778,085 | 2,083 | 0.30 |
| Securities sold under agreements to repurchase | 74,285 | 30 | 0.16 | 68,540 | 24 | 0.14 |
| FHLB Advances | 264,652 | 1,153 | 1.73 | 264,213 | 1,067 | 1.61 |
| Other borrowings | 56,502 | 665 | 4.67 | 26,207 | 198 | 3.01 |
| Total interest-bearing liabilities | 3,929,751 | 4,974 | 0.50 | 3,137,045 | 3,372 | 0.43 |
| Non-interest-bearing deposits | 781,047 | | | 521,088 | | |
| Non-interest-bearing liabilities | 32,360 | | | 31,536 | | |
| Total liabilities | 4,743,158 | | | 3,689,669 | | |
| Stockholders equity | 591,369 | | | 414,166 | | |
| Total liabilities and equity | \$ 5,334,527 | | | \$ 4,103,835 | | |
| Net interest income | | \$ 43,056 | | | \$ 33,935 | |
| Net interest rate spread ⁽³⁾ | | | 3.41% | | | 3.49% |
| Net interest margin ⁽⁴⁾ | | | 3.50% | | | 3.56% |
| Total cost of deposits (including non-interest-bearing deposits) | | | 0.29% | | | 0.25% |

| | FOR THE NINE MONTHS ENDED | | | | | |
|--|---------------------------|------------|---------------------------|--------------------|-----------|---------------------------|
| | September 30, 2017 | | | September 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 | \$ 180,821 | \$ 1,058 | 0.78% | \$ 86,007 | \$ 209 | 0.32% |
| Securities ⁽¹⁾ and FHLB stock | 769,932 | 12,186 | 2.12 | 517,051 | 7,149 | 1.85 |
| Loans receivable, net ⁽²⁾ | | | | | | |
| Commercial | 1,849,246 | 65,619 | 4.74 | 1,390,196 | 49,750 | 4.78 |
| Residential | 1,720,185 | 52,231 | 4.06 | 1,009,012 | 29,139 | 3.86 |
| Home Equity | 283,419 | 9,760 | 4.60 | 228,172 | 7,233 | 4.23 |
| Other | 1,180 | 69 | 7.82 | 893 | 41 | 6.13 |
| Allowance for loan loss net of deferred loan fees | (12,338) | — | — | (13,379) | — | — |
| Loans Receivable, net | 3,841,692 | 127,679 | 4.44 | 2,614,894 | 86,163 | 4.40 |
| Total interest-earning assets | 4,792,445 | 140,923 | 3.93 | 3,217,952 | 93,521 | 3.88 |
| Non-interest-earning assets | 461,752 | | | 236,399 | | |
| Total assets | \$ 5,254,197 | | | \$ 3,454,351 | | |
| Liabilities and Stockholders' Equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking | \$ 1,746,601 | 3,086 | 0.24% | \$ 1,181,110 | 1,391 | 0.16% |
| Money market | 418,681 | 891 | 0.28 | 280,836 | 546 | 0.26 |
| Savings | 675,684 | 285 | 0.06 | 413,388 | 117 | 0.04 |
| Time deposits | 628,126 | 4,559 | 0.97 | 386,505 | 3,071 | 1.06 |
| Total | 3,469,092 | 8,821 | 0.34 | 2,261,839 | 5,125 | 0.30 |
| Securities sold under agreements to repurchase | 74,729 | 82 | 0.15 | 76,289 | 78 | 0.14 |
| FHLB Advances | 258,147 | 3,340 | 1.73 | 272,405 | 3,351 | 1.64 |
| Other borrowings | 56,450 | 1,967 | 4.66 | 23,846 | 459 | 2.57 |
| Total interest-bearing liabilities | 3,858,418 | 14,210 | 0.49 | 2,634,379 | 9,013 | 0.46 |
| Non-interest-bearing deposits | 781,608 | | | 448,459 | | |
| Non-interest-bearing liabilities | 28,351 | | | 23,650 | | |
| Total liabilities | 4,668,377 | | | 3,106,488 | | |
| Stockholders equity | 585,820 | | | 347,863 | | |
| Total liabilities and equity | \$ 5,254,197 | | | \$ 3,454,351 | | |
| Net interest income | | \$ 126,713 | | | \$ 84,508 | |
| Net interest rate spread ⁽³⁾ | | | 3.44% | | | 3.42% |
| Net interest margin ⁽⁴⁾ | | | 3.54% | | | 3.51% |
| Total cost of deposits (including non-interest-bearing deposits) | | | 0.28% | | | 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 September 30, 2017 and December 31, 2016

Total assets increased by \$216.9 million to \$5.384 billion at September 30, 2017, from \$5.167 billion at December 31, 2016. Cash and due from banks decreased by \$46.1 million, to \$255.3 million at September 30, 2017, from \$301.4 million at December 31, 2016, as these funds were deployed into higher-yielding securities which increased \$199.1 million. Loans receivable, net, increased by \$66.7 million, to \$3.870 billion at September 30, 2017 from \$3.803 billion at December 31, 2016. Premises and equipment decreased \$7.0 million at September 30, 2017, as compared to December 31, 2016, due to the consolidation of 15 branches during the nine months ended September 30, 2017. The premises and equipment at these locations were written down to their net realizable value and the remaining balance was reclassified to assets held for sale.

Deposits increased by \$162.5 million, to \$4.350 billion at September 30, 2017, from \$4.188 billion at December 31, 2016. The loan-to-deposit ratio at September 30, 2017 was 89.0%, as compared to 90.8% at December 31, 2016.

Stockholders' equity increased to \$596.3 million at September 30, 2017, as compared to \$572.0 million at December 31, 2016. At September 30, 2017, there were 1.8 million shares available for repurchase under the Company's stock repurchase programs. In the nine months ended September 30, 2017, the Company did not repurchase any shares under these repurchase programs. Tangible stockholders' equity per common share increased to \$13.47 at September 30, 2017, as compared to \$12.95 at December 31, 2016.

Comparison of Operating Results for the three and nine months ended September 30, 2017 and September 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 nine months ended September 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 nine months ended September 30, 2017, but are excluded from the results of operations for the three and nine months ended September 30, 2016.

Net income for the quarter ended September 30, 2017, was \$12.8 million, or \$0.39 per diluted share, as compared to \$9.1 million, or \$0.35 per diluted share, for the corresponding prior year period. Net income for the nine months ended September 30, 2017 was \$32.5 million, or \$0.98 per diluted share, as compared to net income of \$17.0 million, or \$0.77 per diluted share, for the corresponding prior year period. Net income for the three and nine months ended September 30, 2017 includes merger related and branch consolidation expenses and for the nine months ended September 30, 2017, also includes the acceleration of stock award expense due to the retirement of a director. These items decreased net income, net of tax benefit, for the three and nine months ended September 30, 2017, by \$2.1 million and \$8.8 million, respectively. Net income for the three and nine months ended September 30, 2016 includes merger related expenses of \$1.3 million and \$9.9 million, respectively. The after-tax impact of these items reduced diluted earnings per share by \$0.06 and \$0.27 for the three and nine months ended September 30, 2017, respectively, and by \$0.05 and \$0.34, respectively, for the same prior year periods. Excluding these items, net income for the three and nine months ended September 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 nine months ended September 30, 2017, of \$158,000 and \$1.7 million, respectively.

Interest Income

Interest income for the three and nine months ended September 30, 2017 increased to \$48.0 million and \$140.9 million, respectively, as compared to \$37.3 million and \$93.5 million, respectively, in the corresponding prior year periods. Average interest-earning assets increased \$1.086 billion and \$1.574 billion, respectively, for the three and nine months ended September 30, 2017, as compared to the same prior year periods. The averages for the three and nine months ended September 30, 2017, were favorably impacted by the Acquisition Transactions. The yields on average interest-earning assets decreased to 3.91% and increased to 3.93%, respectively, for the three and nine months ended September 30, 2017, from 3.92% and 3.88%, respectively, for the same prior year periods.

Interest Expense

Interest expense for the three and nine months ended September 30, 2017 was \$5.0 million and \$14.2 million, respectively, as compared to \$3.4 million and \$9.0 million, respectively, in the corresponding prior year periods. Average interest-bearing liabilities increased \$792.7 million and \$1.224 billion, respectively, for the three and nine months ended September 30, 2017, as compared to the same prior year periods. For the three and nine months ended September 30, 2017, the cost of average interest-bearing liabilities increased to 0.50% and 0.49%, respectively, from 0.43% and 0.46%, respectively, in the corresponding prior year periods.

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The total cost of deposits (including non-interest bearing deposits) was 0.29% and 0.28% , respectively, for the three and nine months ended September 30, 2017 , as compared to 0.25% for both the three and nine months ended September 30, 2016 .

Net Interest Income

Net interest income for the three and nine months ended September 30, 2017 increase d to \$43.1 million and \$126.7 million , respectively, as compared to \$33.9 million and \$84.5 million , respectively, for the same prior year periods, reflecting an increase in interest-earning assets. The net interest margin for the three and nine months ended September 30, 2017 decreased to 3.50% and increased to 3.54% , respectively, from 3.56% and 3.51% , respectively, for the same prior year periods.

Provision for Loan Losses

For the three and nine months ended September 30, 2017 , the provision for loan losses was \$1.2 million and \$3.0 million , respectively, as compared to \$888,000 and \$2.1 million , respectively, for the corresponding prior year periods. Net loan charge-offs were \$1.1 million and \$1.6 million , respectively, for the three and nine months ended September 30, 2017 , as compared to net loan charge-offs of \$1.9 million and \$3.2 million , respectively, in the corresponding prior year periods. Non-performing loans increase d to \$15.1 million at September 30, 2017 , as compared to \$13.6 million at December 31, 2016 . The increase was primarily due to the addition of two commercial real estate relationships totaling \$7.4 million, partially offset by the payoff of two non-performing loans totaling \$1.7 million. An increase in non-performing residential mortgage loans was offset by the bulk sale of \$7.8 million in non-performing residential loans in the second and third quarters of 2017.

Other Income

For the three and nine months ended September 30, 2017 , other income increase d to \$7.4 million and \$20.3 million , respectively, as compared to \$5.9 million and \$14.2 million , respectively, for the corresponding prior year periods. The increase s were primarily due to the impact of the Acquisition Transactions, which added \$1.1 million and \$4.9 million, respectively, to other income for the three and nine months ended September 30, 2017 , as compared to the same prior year periods. Excluding the Acquisition Transactions, the remaining increase in other income for the three months ended September 30, 2017 , was primarily due to higher deposit and bank card related fees of \$272,000 and \$71,000, respectively, as compared to the same prior year period. In addition, income from other real estate operations, excluding the Acquisition Transactions, increased \$364,000 which was offset by a decrease in the net gain on the sale of loans available for sale (included in other income) of \$360,000. For the nine months ended September 30, 2017 , excluding the Acquisition Transactions, the increase in other income was primarily due to higher deposit and bank card related fees of \$1.0 million and \$153,000, respectively, as compared to the same prior year period. Excluding the Acquisition Transactions, an increase in income from other real estate operations of \$609,000 was offset by a decrease in the net gain on the sale of loans (included in other income) of \$697,000.

Operating Expenses

Operating expenses increase d to \$30.7 million and \$98.8 million , respectively, for the three and nine months ended September 30, 2017 , as compared to \$25.0 million and \$70.4 million , respectively, in the same prior year periods. Operating expenses for the three and nine months ended September 30, 2017 included \$3.2 million and \$13.2 million , respectively, of merger related and branch consolidation expenses, as compared to \$1.3 million and \$9.9 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 Acquisition Transactions, which added \$2.4 million and \$18.9 million for the three and nine months ended September 30, 2017 , respectively. For the three months ended September 30, 2017 , excluding the Acquisition Transaction expenses, there were increases in marketing expense and loan related expenses. For the nine months ended September 30, 2017 , excluding the Acquisition Transaction expenses, there were increases in compensation and employee benefits expense, equipment expense, marketing expense and professional fees.

Provision for Income Taxes

The provision for income taxes was \$5.7 million and \$12.7 million , respectively, for the three and nine months ended September 30, 2017 , as compared to \$4.8 million and \$9.2 million , respectively, for the same prior year periods. The effective tax rate was 30.8% and 28.0% , respectively, for the three and nine months ended September 30, 2017 , as compared to 34.4% and 35.0% , respectively, for the same prior year periods. The lower effective tax rate for the three and nine months ended September 30, 2017 resulted from the adoption of ASU 2016-09 "Compensation - Stock Compensation," which decreased income tax expense by \$158,000 and \$1.7 million, respectively. Excluding the impact of ASU 2016-09, the effective tax rate would have been 31.6% and 31.8% for the three and nine months ended September 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 nine months ended September 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. Excluding the tax benefit of exercised stock options and vested stock awards, the lower effective tax rate for the three and nine months ended September 30, 2017, as compared to the same prior year periods, was primarily due to the deductibility of merger related expenses and an increase in tax exempt income.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, Federal Home Loan Bank (FHLB) advances and other borrowings and, to a lesser extent, investment maturities and proceeds from the sale of loans. 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 September 30, 2017 and December 31, 2016, the company had no outstanding overnight borrowings from the FHLB. 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 \$259.2 million and \$250.5 million, respectively, at September 30, 2017 and December 31, 2016.

The Company's cash needs for the nine months ended September 30, 2017 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from maturities and calls of investment securities, deposit growth, 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 nine months ended September 30, 2016 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and the sale of higher risk loans, proceeds from maturities and calls of investment securities, proceeds from sale of available-for-sale securities, deposit growth and the issuance of subordinated notes. 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 September 30, 2017, outstanding undrawn lines of credit totaled \$550.5 million and outstanding commitments to originate loans totaled \$111.5 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 \$322.7 million at September 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 nine months ended September 30, 2017 and 2016, the Company did not repurchase any shares of common stock. At September 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 nine months of 2017 were \$14.4 million, as compared to \$8.8 million in the same prior year period. The increase in dividends was a result of the additional shares issued in the Acquisition Transactions. On October 25, 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 November 17, 2017 to stockholders of record at the close of business on November 6, 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 nine months ended September 30, 2017, the Company received a dividend payment of \$24.0 million from the Bank and \$8.0 million 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

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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 September 30, 2017, OceanFirst Financial Corp. held \$31.1 million in cash.

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

| As of September 30, 2017 | Actual | | For capital adequacy purposes | | To be well-capitalized under prompt corrective action | |
|--|------------|-------|-------------------------------|----------------------|---|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Bank: | | | | | | |
| Tier 1 capital (to average assets) | \$ 460,836 | 8.91% | \$ 206,958 | 4.000% | \$ 258,698 | 5.00% |
| Common equity Tier 1 (to risk-weighted assets) | 460,836 | 12.82 | 206,710 | 5.750 ⁽¹⁾ | 233,672 | 6.50 |
| Tier 1 capital (to risk-weighted assets) | 460,836 | 12.82 | 260,635 | 7.250 ⁽¹⁾ | 287,597 | 8.00 |
| Total capital (to risk-weighted assets) | 478,047 | 13.30 | 332,534 | 9.250 ⁽¹⁾ | 359,496 | 10.00 |
| OceanFirst Financial Corp: | | | | | | |
| Tier 1 capital (to average assets) | \$ 467,540 | 9.02% | \$ 207,380 | 4.000% | N/A | N/A |
| Common equity Tier 1 (to risk-weighted assets) | 448,307 | 12.46 | 206,951 | 5.750 ⁽¹⁾ | N/A | N/A |
| Tier 1 capital (to risk-weighted assets) | 467,540 | 12.99 | 260,938 | 7.250 ⁽¹⁾ | N/A | N/A |
| Total capital (to risk-weighted assets) | 519,751 | 14.44 | 332,921 | 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 | |
|--|------------|-----------------------|-------------------------------|----------------------|---|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Bank: | | | | | | |
| Tier 1 capital (to average assets) | \$ 450,414 | 10.19% ⁽²⁾ | \$ 176,856 | 4.000% | \$ 221,070 | 5.00% |
| Common equity Tier 1 (to risk-weighted assets) | 450,414 | 12.81 | 180,178 | 5.125 ⁽³⁾ | 228,519 | 6.50 |
| Tier 1 capital (to risk-weighted assets) | 450,414 | 12.81 | 232,913 | 6.625 ⁽³⁾ | 281,254 | 8.00 |
| Total capital (to risk-weighted assets) | 466,224 | 13.26 | 303,227 | 8.625 ⁽³⁾ | 351,567 | 10.00 |
| OceanFirst Financial Corp: | | | | | | |
| Tier 1 capital (to average assets) | \$ 440,552 | 9.96% ⁽²⁾ | \$ 176,897 | 4.000% | N/A | N/A |
| Common equity Tier 1 (to risk-weighted assets) | 426,855 | 12.12 | 180,512 | 5.125 ⁽³⁾ | N/A | N/A |
| Tier 1 capital (to risk-weighted assets) | 440,552 | 12.51 | 233,345 | 6.625 ⁽³⁾ | N/A | N/A |
| Total capital (to risk-weighted assets) | 491,362 | 13.95 | 303,788 | 8.625 ⁽³⁾ | N/A | N/A |

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

(2) 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.

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

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

At September 30, 2017, the Company maintained tangible common equity of \$438.7 million, for a tangible common equity to assets ratio of 8.39%. 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 September 30, 2017 and December 31, 2016, the reserve for repurchased loans and loss sharing obligations amounted to \$463,000 and \$846,000, respectively.

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

| Contractual Obligations | Total | Less than one year | 1-3 years | 3-5 years | More than 5 years |
|---|--------------|-------------------------------|------------------|------------------|------------------------------|
| Debt Obligations | \$ 390,978 | \$ 130,326 | \$ 159,060 | \$ 45,126 | \$ 56,466 |
| Commitments to Fund Undrawn Lines of Credit | | | | | |
| Commercial | 346,159 | 346,159 | — | — | — |
| Consumer/Construction | 204,292 | 204,292 | — | — | — |
| Commitments to Originate Loans | 111,525 | 111,525 | — | — | — |

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 other real estate owned. 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.

| | September 30, 2017 | December 31, 2016 |
|--|------------------------|-------------------|
| | (dollars in thousands) | |
| Non-performing loans: | | |
| Commercial and industrial | \$ 63 | \$ 441 |
| Commercial real estate – owner occupied | 923 | 2,414 |
| Commercial real estate – investor | 8,720 | 521 |
| Residential mortgage | 3,551 | 8,126 |
| Home equity loans and lines | 1,864 | 2,064 |
| Total non-performing loans | 15,121 | 13,566 |
| Other real estate owned | 9,334 | 9,803 |
| Total non-performing assets | \$ 24,455 | \$ 23,369 |
| Purchased credit impaired loans (“PCI”) | \$ 4,867 | \$ 7,575 |
| Delinquent loans 30-89 days | \$ 24,548 | \$ 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 | 109.68 | 111.92 |
| Non-performing loans as a percent of total loans receivable | 0.39 | 0.35 |
| Non-performing assets as a percent of total assets | 0.45 | 0.45 |

The Company's non-performing loans totaled \$15.1 million at September 30, 2017, as compared to \$13.6 million at December 31, 2016. Included in the non-performing loans total was \$270,000 and \$3.5 million of troubled debt restructured (“TDR”) loans at September 30, 2017 and December 31, 2016, respectively. The increase in non-performing loans was primarily due to the addition of two commercial real estate relationships totaling \$7.4 million, partially offset by the payoff of two non-performing loans totaling \$1.7 million. An increase in non-performing residential mortgage loans was offset by the bulk sale of \$7.8 million in non-performing residential loans in the second and third quarters of 2017. Non-performing loans do not include \$4.9 million of PCI loans acquired in the Acquisition Transactions. At September 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 \$19.8 million and \$26.0 million, respectively, at September 30, 2017 and December 31, 2016. These loans were acquired at fair value with no related allowances for loan losses. Other real estate owned 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):

| | September 30, 2017 | December 31, 2016 |
|-----------------|--------------------|-------------------|
| Special Mention | \$ 25,778 | \$ 15,692 |
| Substandard | 58,939 | 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 September 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 September 30, 2017, the Company's one-year gap was negative 4.38% as compared to negative 3.47% at December 31, 2016. These results were within the approved policy guidelines.

| At September 30, 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 | \$ 174,079 | \$ 971 | \$ 2,713 | \$ — | \$ — | \$ 177,763 |
| Investment securities | 66,168 | 28,181 | 85,296 | 58,300 | 71,492 | 309,437 |
| Mortgage-backed securities | 33,735 | 71,473 | 156,030 | 118,022 | 129,833 | 509,093 |
| FHLB stock | — | — | — | — | 18,472 | 18,472 |
| Loans receivable ⁽²⁾ | 596,331 | 813,588 | 1,217,892 | 694,223 | 560,352 | 3,882,386 |
| Total interest-earning assets | 870,313 | 914,213 | 1,461,931 | 870,545 | 780,149 | 4,897,151 |
| Interest-bearing liabilities: | | | | | | |
| Money market deposit accounts | 27,938 | 26,132 | 60,662 | 49,481 | 219,893 | 384,106 |
| Savings accounts | 83,497 | 51,208 | 115,685 | 90,608 | 327,372 | 668,370 |
| Interest-bearing checking accounts | 1,278,133 | 56,591 | 123,083 | 92,490 | 342,535 | 1,892,832 |
| Time deposits | 103,322 | 219,578 | 183,652 | 112,287 | 5,069 | 623,908 |
| FHLB advances | — | 55,000 | 159,060 | 45,126 | — | 259,186 |
| Securities sold under agreements to repurchase and other borrowings | 97,826 | — | — | 33,966 | — | 131,792 |
| Total interest-bearing liabilities | 1,590,716 | 408,509 | 642,142 | 423,958 | 894,869 | 3,960,194 |
| Interest sensitivity gap ⁽³⁾ | \$ (720,403) | \$ 505,704 | \$ 819,789 | \$ 446,587 | \$ (114,720) | \$ 936,957 |
| Cumulative interest sensitivity gap | \$ (720,403) | \$ (214,699) | \$ 605,090 | \$ 1,051,677 | \$ 936,957 | \$ 936,957 |
| Cumulative interest sensitivity gap as a percent of total interest-earning assets | (14.71)% | (4.38)% | 12.36% | 21.48% | 19.13% | 19.13% |

(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 September 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) | September 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 | \$ 778,489 | (0.4)% | 15.4% | \$ 155,106 | (9.2)% | | \$ 664,767 | (1.1)% | 14.1% | \$ 156,689 | (1.0)% |
| 200 | 797,951 | 2.0 | 15.4 | 161,134 | (5.7) | | 678,347 | 1.0 | 14.0 | 158,078 | (0.1) |
| 100 | 799,982 | 2.3 | 15.1 | 166,414 | (2.6) | | 683,492 | 1.7 | 13.7 | 158,840 | 0.3 |
| Static | 781,958 | — | 14.4 | 170,833 | — | | 671,878 | — | 13.2 | 158,309 | — |
| (100) | 733,571 | (6.2) | 13.2 | 164,993 | (3.4) | | 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 September 30, 2017 , as compared to December 31, 2016 , is primarily the result of increased holdings 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 September 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)

| | September 30, 2017 | December 31, 2016 |
|--|---------------------|---------------------|
| | (Unaudited) | |
| Assets | | |
| Cash and due from banks | \$ 255,258 | \$ 301,373 |
| Securities available-for-sale, at estimated fair value | 67,133 | 12,224 |
| Securities held-to-maturity, net (estimated fair value of \$746,497 at September 30, 2017 and \$598,119 at December 31, 2016) | 742,886 | 598,691 |
| Federal Home Loan Bank of New York stock, at cost | 18,472 | 19,313 |
| Loans receivable, net | 3,870,109 | 3,803,443 |
| Loans held for sale | 338 | 1,551 |
| Interest and dividends receivable | 13,627 | 11,989 |
| Other real estate owned | 9,334 | 9,803 |
| Premises and equipment, net | 64,350 | 71,385 |
| Bank Owned Life Insurance | 134,298 | 132,172 |
| Deferred tax asset | 29,718 | 38,787 |
| Assets held for sale | 5,241 | 360 |
| Other assets | 15,634 | 9,973 |
| Core deposit intangible | 9,380 | 10,924 |
| Goodwill | 148,134 | 145,064 |
| Total assets | <u>\$ 5,383,912</u> | <u>\$ 5,167,052</u> |
| Liabilities and Stockholders' Equity | | |
| Deposits | \$ 4,350,259 | \$ 4,187,750 |
| Securities sold under agreements to repurchase with deposit customers | 75,326 | 69,935 |
| Federal Home Loan Bank advances | 259,186 | 250,498 |
| Other borrowings | 56,466 | 56,559 |
| Advances by borrowers for taxes and insurance | 14,371 | 14,030 |
| Other liabilities | 32,052 | 16,242 |
| Total liabilities | <u>4,787,660</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 32,567,477 and 32,136,892 shares outstanding at September 30, 2017 and December 31, 2016, respectively | 336 | 336 |
| Additional paid-in capital | 353,817 | 364,433 |
| Retained earnings | 266,053 | 238,192 |
| Accumulated other comprehensive loss | (5,037) | (5,614) |
| Less: Unallocated common stock held by Employee Stock Ownership Plan | (2,549) | (2,761) |
| Treasury stock, 999,295 and 1,429,880 shares at September 30, 2017 and December 31, 2016, respectively | (16,368) | (22,548) |
| Common stock acquired by Deferred Compensation Plan | (83) | (313) |
| Deferred Compensation Plan Liability | 83 | 313 |
| Total stockholders' equity | <u>596,252</u> | <u>572,038</u> |
| Total liabilities and stockholders' equity | <u>\$ 5,383,912</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 September 30, | | For the Nine Months Ended September 30, | |
|---|--|-----------|---|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | (Unaudited) | |
| Interest income: | | | | |
| Loans | \$ 43,329 | \$ 34,607 | \$ 127,679 | \$ 86,163 |
| Mortgage-backed securities | 2,738 | 1,700 | 8,189 | 4,823 |
| Investment securities and other | 1,963 | 1,000 | 5,055 | 2,535 |
| Total interest income | 48,030 | 37,307 | 140,923 | 93,521 |
| Interest expense: | | | | |
| Deposits | 3,126 | 2,083 | 8,821 | 5,125 |
| Borrowed funds | 1,848 | 1,289 | 5,389 | 3,888 |
| Total interest expense | 4,974 | 3,372 | 14,210 | 9,013 |
| Net interest income | 43,056 | 33,935 | 126,713 | 84,508 |
| Provision for loan losses | 1,165 | 888 | 3,030 | 2,113 |
| Net interest income after provision for loan losses | 41,891 | 33,047 | 123,683 | 82,395 |
| Other income: | | | | |
| Bankcard services revenue | 1,785 | 1,347 | 5,202 | 3,409 |
| Wealth management revenue | 541 | 608 | 1,622 | 1,779 |
| Fees and service charges | 3,702 | 2,916 | 11,163 | 7,235 |
| Net gain (loss) from other real estate operations | 432 | (63) | (196) | (782) |
| Income from Bank Owned Life Insurance | 881 | 659 | 2,436 | 1,520 |
| Other | 18 | 429 | 97 | 994 |
| Total other income | 7,359 | 5,896 | 20,324 | 14,155 |
| Operating expenses: | | | | |
| Compensation and employee benefits | 14,673 | 13,558 | 46,138 | 33,456 |
| Occupancy | 2,556 | 2,315 | 7,965 | 5,952 |
| Equipment | 1,605 | 1,452 | 5,006 | 3,605 |
| Marketing | 775 | 479 | 2,245 | 1,273 |
| Federal deposit insurance | 713 | 743 | 2,079 | 1,995 |
| Data processing | 2,367 | 2,140 | 6,809 | 5,286 |
| Check card processing | 871 | 623 | 2,640 | 1,548 |
| Professional fees | 846 | 681 | 2,901 | 1,879 |
| Other operating expense | 2,667 | 1,543 | 8,258 | 5,036 |
| Federal Home Loan Bank prepayment fee | — | — | — | 136 |
| Amortization of core deposit intangible | 507 | 181 | 1,544 | 319 |
| Branch consolidation expenses | 1,455 | — | 6,939 | — |
| Merger related expenses | 1,698 | 1,311 | 6,300 | 9,902 |
| Total operating expenses | 30,733 | 25,026 | 98,824 | 70,387 |
| Income before provision for income taxes | 18,517 | 13,917 | 45,183 | 26,163 |
| Provision for income taxes | 5,700 | 4,789 | 12,669 | 9,169 |
| Net income | \$ 12,817 | \$ 9,128 | \$ 32,514 | \$ 16,994 |
| Basic earnings per share | \$ 0.40 | \$ 0.36 | \$ 1.01 | \$ 0.79 |
| Diluted earnings per share | \$ 0.39 | \$ 0.35 | \$ 0.98 | \$ 0.77 |
| Average basic shares outstanding | 32,184 | 25,435 | 32,073 | 21,624 |
| Average diluted shares outstanding | 33,106 | 25,889 | 33,110 | 21,990 |

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|--|----------|---|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | (Unaudited) | |
| Net income | \$ 12,817 | \$ 9,128 | \$ 32,514 | \$ 16,994 |
| Other comprehensive income: | | | | |
| Unrealized (loss) gain on securities (net of tax benefit of \$10 and tax expense of \$34 in 2017, and net of tax benefit of \$27 and tax expense of \$10 in 2016, respectively) | (14) | (39) | 49 | 14 |
| Accretion of unrealized loss on securities reclassified to held-to-maturity (net of tax expense of \$122 and \$365 in 2017 and net of tax expense of \$153 and \$431 in 2016, respectively) | 176 | 221 | 528 | 623 |
| Reclassification adjustment for losses included in net income (net of tax benefit of \$5 in 2016) | — | — | — | (7) |
| Total comprehensive income | \$ 12,979 | \$ 9,310 | \$ 33,091 | \$ 17,624 |

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

For the Nine Months Ended September 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 | — | — | — | 16,994 | — | — | — | — | — | 16,994 |
| Other comprehensive income, net of tax | — | — | — | — | 630 | — | — | — | — | 630 |
| Tax expense of stock plans | — | — | (228) | — | — | — | — | — | — | (228) |
| Stock awards | — | — | 1,181 | — | — | — | — | — | — | 1,181 |
| Treasury stock allocated to restricted stock plan | — | — | 1,081 | (109) | — | — | (972) | — | — | — |
| Issued 8,282,296 treasury shares to finance acquisition | — | — | 36,940 | — | — | — | 128,961 | — | — | 165,901 |
| Allocation of ESOP stock | — | — | 248 | — | — | 213 | — | — | — | 461 |
| Cash dividend \$0.39 per share | — | — | — | (8,789) | — | — | — | — | — | (8,789) |
| Exercise of stock options | — | — | — | (764) | — | — | 3,412 | — | — | 2,648 |
| Sale of stock for the deferred compensation plan | — | — | — | — | — | — | — | 4 | (4) | — |
| Balance at September 30, 2016 | \$ — | \$ 336 | \$ 308,979 | \$ 236,472 | \$ (5,611) | \$ (2,832) | \$ (120,100) | \$ (310) | \$ 310 | \$ 417,244 |
| Balance at December 31, 2016 | \$ — | \$ 336 | \$ 364,433 | \$ 238,192 | \$ (5,614) | \$ (2,761) | \$ (22,548) | \$ (313) | \$ 313 | \$ 572,038 |
| Net income | — | — | — | 32,514 | — | — | — | — | — | 32,514 |
| Other comprehensive income, net of tax | — | — | — | — | 577 | — | — | — | — | 577 |
| Effect of adopting Accounting Standards Update ("ASU") No. 2016-09 | — | — | (11,129) | 11,129 | — | — | — | — | — | — |
| Stock awards | — | — | 1,678 | — | — | — | — | — | — | 1,678 |
| Treasury stock allocated to restricted stock plan | — | — | (1,645) | 782 | — | — | 863 | — | — | — |
| Allocation of ESOP stock | — | — | 480 | — | — | 212 | — | — | — | 692 |
| Cash dividend \$0.45 per share | — | — | — | (14,439) | — | — | — | — | — | (14,439) |
| Exercise of stock options | — | — | — | (2,125) | — | — | 5,317 | — | — | 3,192 |
| Sale of stock for the deferred compensation plan | — | — | — | — | — | — | — | 230 | (230) | — |
| Balance at September 30, 2017 | \$ — | \$ 336 | \$ 353,817 | \$ 266,053 | \$ (5,037) | \$ (2,549) | \$ (16,368) | \$ (83) | \$ 83 | \$ 596,252 |

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

| | For the Nine Months Ended September 30, | |
|--|--|-------------|
| | 2017 | 2016 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | \$ 32,514 | \$ 16,994 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of premises and equipment | 4,606 | 3,441 |
| Allocation of ESOP stock | 692 | 461 |
| Stock awards | 1,678 | 1,181 |
| Tax expense of stock plans | — | (228) |
| Net excess tax benefit on stock compensation | (1,700) | — |
| Amortization of servicing asset | 67 | 125 |
| Net premium amortization in excess of discount accretion on securities | 2,153 | 1,295 |
| Net amortization of deferred costs and discounts on borrowings | 33 | — |
| Amortization of core deposit intangible | 1,544 | 319 |
| Net accretion of purchase accounting adjustments | (6,281) | (3,068) |
| Net amortization (accretion) of deferred costs and discounts on loans | 300 | (117) |
| Provision for loan losses | 3,030 | 2,113 |
| Net loss on sale of other real estate owned | 737 | 208 |
| Write down of fixed assets held for sale to net realizable value | 6,350 | — |
| Net loss on sale of fixed assets | 13 | 38 |
| Net loss on sales of available-for-sale securities | — | 12 |
| Net gain on sales of loans | (74) | (696) |
| Proceeds from sales of mortgage loans held for sale | 3,837 | 37,687 |
| Mortgage loans originated for sale | (2,551) | (25,079) |
| Increase in value of Bank Owned Life Insurance | (2,436) | (1,520) |
| Increase in interest and dividends receivable | (1,638) | (24) |
| Decrease in other assets | 4,012 | 8,708 |
| Increase in other liabilities | 15,810 | 4,072 |
| Total adjustments | 30,182 | 28,928 |
| Net cash provided by operating activities | 62,696 | 45,922 |
| Cash flows from investing activities: | | |
| Net (increase) decrease in loans receivable | (57,646) | 68,358 |
| Proceeds from sale of under performing loans | 6,022 | 12,797 |
| Purchase of loans receivable | (16,627) | (12,942) |
| Purchase of investment securities available-for-sale | (54,810) | — |
| Purchase of investment securities held-to-maturity | (111,593) | (2,030) |
| Purchase of mortgage-backed securities held-to-maturity | (120,210) | — |
| Proceeds from maturities and calls of investment securities held-to-maturity | 13,020 | 53,552 |
| Proceeds from sales of securities available-for-sale | — | 59,870 |
| Principal repayments on mortgage-backed securities held-to-maturity | 73,313 | 52,110 |
| Proceeds from Bank Owned Life Insurance | 310 | 310 |
| Proceeds from the redemption of Federal Home Loan Bank of New York stock | 19,010 | 32,042 |
| Purchases of Federal Home Loan Bank of New York stock | (18,169) | (23,571) |
| Proceeds from sales of other real estate owned | 2,777 | 3,193 |
| Purchases of premises and equipment | (9,031) | (4,580) |
| Cash received, 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 | (273,634) | 255,359 |

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

| | Nine Months Ended September 30, | |
|---|---------------------------------|--------------|
| | 2017 | 2016 |
| (Unaudited) | | |
| Cash flows from financing activities: | | |
| Increase in deposits | \$ 163,182 | \$ 143,104 |
| Increase (decrease) in short-term borrowings | 5,391 | (175,821) |
| Proceeds from Federal Home Loan Bank advances | 10,000 | 55,000 |
| Repayments of Federal Home Loan Bank advances | (1,438) | (73,678) |
| Net proceeds from issuance of subordinated notes | — | 33,899 |
| Repayments of other borrowings | — | (10,000) |
| Increase in advances by borrowers for taxes and insurance | 341 | 237 |
| Exercise of stock options | 3,192 | 2,648 |
| Payment of employee taxes withheld from stock awards | (1,406) | (244) |
| Dividends paid | (14,439) | (8,789) |
| Net cash provided by (used in) financing activities | 164,823 | (33,644) |
| Net (decrease) increase in cash and due from banks | (46,115) | 267,637 |
| Cash and due from banks at beginning of period | 301,373 | 43,946 |
| Cash and due from banks at end of period | \$ 255,258 | \$ 311,583 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 14,333 | \$ 8,932 |
| Income taxes | 8 | 7,064 |
| Non-cash activities: | | |
| Accretion of unrealized loss on securities reclassified to held-to-maturity | 865 | 1,054 |
| Net loan charge-offs | 1,629 | 1,949 |
| Transfer of premises and equipment to assets held-for-sale | 5,078 | — |
| Transfer of loans receivable to other real estate owned | 3,389 | 1,667 |
| Acquisition: | | |
| Non-cash assets acquired: | | |
| Securities | \$ — | \$ 212,156 |
| Federal Home Loan Bank of New York stock | — | 6,782 |
| Loans | — | 1,157,753 |
| Premises & equipment | — | 21,723 |
| Other real estate owned | — | 1,996 |
| Deferred tax asset | — | 21,664 |
| Other assets | — | 61,793 |
| Goodwill and other intangible assets, net | — | 68,179 |
| Total non-cash assets acquired | \$ — | \$ 1,552,046 |
| Liabilities assumed: | | |
| Deposits | \$ — | \$ 1,248,367 |
| Federal Home Loan Bank advances | — | 124,466 |
| Other liabilities | — | 12,835 |
| Total liabilities assumed | \$ — | \$ 1,385,668 |

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 nine months ended September 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):

| | 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 \$994.2 million to assets, \$773.6 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):

| | 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 | | 773,641 |
| Premises and equipment | | 15,068 |
| Other real estate owned | | 1,044 |
| Deferred tax asset | | 6,563 |
| Other assets | | 35,364 |
| Core deposit intangible | | 7,506 |
| Total assets acquired | \$ | 994,190 |
| Liabilities assumed: | | |
| Deposits | \$ | (875,073) |
| Borrowings | | (3,694) |
| Other liabilities | | (15,447) |
| Total liabilities assumed | \$ | (894,214) |
| Net assets acquired | \$ | 99,976 |
| Goodwill recorded in the merger | \$ | 80,756 |

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, and \$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 nine months ended September 30, 2017 and 2016 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| Weighted average shares issued net of Treasury shares | 32,545 | 25,823 | 32,456 | 22,010 |
| Less: Unallocated ESOP shares | (306) | (340) | (315) | (348) |
| Unallocated incentive award shares and shares held by deferred compensation plan | (55) | (48) | (68) | (38) |
| Average basic shares outstanding | 32,184 | 25,435 | 32,073 | 21,624 |
| Add: Effect of dilutive securities: | | | | |
| Stock options | 912 | 434 | 1,023 | 347 |
| Shares held by deferred compensation plan | 10 | 20 | 14 | 19 |
| Average diluted shares outstanding | 33,106 | 25,889 | 33,110 | 21,990 |

For the three months ended September 30, 2017 and 2016 , antidilutive stock options of 476,000 and 914,000 , respectively, were excluded from earnings per share calculations. For the nine months ended September 30, 2017 and 2016 , antidilutive stock options of 244,000 and 1,132,000 , respectively, were excluded from earnings per share calculations.

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 September 30, 2017, and December 31, 2016, are as follows (in thousands):

| | September 30, 2017 | December 31, 2016 |
|---|---------------------------|--------------------------|
| Amortized cost | \$ 751,163 | \$ 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 | 5,070 | 4,205 |
| Carrying value | <u>\$ 742,886</u> | <u>\$ 598,691</u> |

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

The amortized cost and estimated fair value of investment securities at September 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 September 30, 2017, investment securities with an amortized cost of \$60.9 million and estimated fair value of \$57.5 million were callable prior to the maturity date.

| September 30, 2017 | Amortized Cost | Estimated Fair Value |
|--|---------------------------|---------------------------------|
| Less than one year | \$ 35,395 | \$ 35,384 |
| Due after one year through five years | 145,590 | 145,528 |
| Due after five years through ten years | 89,509 | 88,277 |
| Due after ten years | 30,000 | 27,751 |
| | <u>\$ 300,494</u> | <u>\$ 296,940</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 losses of securities available-for-sale and held-to-maturity at September 30, 2017 and December 31, 2016, segregated by the duration of the unrealized losses, are as follows (in thousands):

| | At September 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 | \$ 52,276 | \$ (322) | \$ — | \$ — | \$ 52,276 | \$ (322) |
| Held-to-maturity: | | | | | | |
| Investment securities: | | | | | | |
| State and municipal obligations | 77,979 | (531) | 9,908 | (48) | 87,887 | (579) |
| Corporate debt securities | 5,028 | (11) | 53,260 | (3,742) | 58,288 | (3,753) |
| Other investments | — | — | 8,714 | (189) | 8,714 | (189) |
| Total investment securities | 83,007 | (542) | 71,882 | (3,979) | 154,889 | (4,521) |
| Mortgage-backed securities: | | | | | | |
| FHLMC | 67,059 | (892) | 30,684 | (782) | 97,743 | (1,674) |
| FNMA | 96,886 | (954) | 19,878 | (520) | 116,764 | (1,474) |
| GNMA | 65,565 | (477) | 741 | (28) | 66,306 | (505) |
| Total mortgage-backed securities | 229,510 | (2,323) | 51,303 | (1,330) | 280,813 | (3,653) |
| Total held-to-maturity | 312,517 | (2,865) | 123,185 | (5,309) | 435,702 | (8,174) |
| Total securities | \$ 364,793 | \$ (3,187) | \$ 123,185 | \$ (5,309) | \$ 487,978 | \$ (8,496) |

| | 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 September 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 | \$ 14,155 | Ba1/BB+ |
| Chase Capital | 10,000 | 9,355 | Baa2/BBB- |
| Wells Fargo Capital | 5,000 | 4,706 | A1/BBB+ |
| Huntington Capital | 5,000 | 4,463 | Baa2/BB |
| Keycorp Capital | 5,000 | 4,715 | Baa2/BB+ |
| PNC Capital | 5,000 | 4,663 | Baa1/BBB- |
| State Street Capital | 5,000 | 4,613 | A3/BBB |
| SunTrust Capital | 5,000 | 4,592 | Not Rated/BB+ |
| MetLife Global Funding | 1,000 | 999 | Aa3/AA- |
| State Street Corporation | 1,000 | 999 | A1/A |
| | <u>\$ 57,000</u> | <u>\$ 53,260</u> | |

At September 30, 2017, the estimated fair value of each of the above corporate debt securities was below cost. The Company concluded that these corporate debt securities were only temporarily impaired at September 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. 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. 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 September 30, 2017.

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

Note 5. Loans Receivable, Net

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

| | September 30, 2017 | December 31, 2016 |
|---|---------------------|---------------------|
| Commercial: | | |
| Commercial and industrial | \$ 183,420 | \$ 152,569 |
| Commercial real estate – owner occupied | 553,971 | 534,214 |
| Commercial real estate – investor | 1,133,118 | 1,132,075 |
| Total commercial | 1,870,509 | 1,818,858 |
| Consumer: | | |
| Residential mortgage | 1,676,143 | 1,647,154 |
| Residential construction | 73,812 | 65,319 |
| Home equity loans and lines | 277,909 | 288,991 |
| Other consumer | 1,354 | 1,564 |
| Total consumer | 2,029,218 | 2,003,028 |
| | 3,899,727 | 3,821,886 |
| Purchased credit impaired (“PCI”) loans | 4,867 | 7,575 |
| Total Loans | 3,904,594 | 3,829,461 |
| Loans in process | (22,546) | (14,249) |
| Deferred origination costs, net | 4,645 | 3,414 |
| Allowance for loan losses | (16,584) | (15,183) |
| Total loans, net | \$ 3,870,109 | \$ 3,803,443 |

At September 30, 2017 and December 31, 2016, loans in the amount of \$15.1 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. At September 30, 2017, there were no loans that were 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 \$2.5 million at September 30, 2017. The amount of foreclosed residential real estate property held by the Company was \$1.2 million at September 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 September 30, 2017, the impaired loan portfolio totaled \$44.9 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 months ended September 30, 2017 and 2016 was \$43.1 million and \$34.5 million, respectively. The average balance of impaired loans for the nine months ended September 30, 2017 and 2016 was \$38.0 million and \$34.3 million, respectively.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|------------------|------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Balance at beginning of period | \$ 16,557 | \$ 16,678 | \$ 15,183 | \$ 16,722 |
| Provision charged to operations | 1,165 | 888 | 3,030 | 2,113 |
| Charge-offs | (1,357) | (2,116) | (2,861) | (3,511) |
| Recoveries | 219 | 167 | 1,232 | 293 |
| Balance at end of period | \$ 16,584 | \$ 15,617 | \$ 16,584 | \$ 15,617 |

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 nine months ended September 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 September 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 September 30, 2017 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Balance at beginning of period | \$ 1,492 | \$ 3,097 | \$ 8,367 | \$ 930 | \$ 2,253 | \$ 418 | \$ 16,557 |
| Provision (benefit) charged to operations | 1,465 | 119 | 81 | (122) | (180) | (198) | 1,165 |
| Charge-offs | (1,284) | — | — | (67) | (6) | — | (1,357) |
| Recoveries | 128 | — | 24 | 17 | 50 | — | 219 |
| Balance at end of period | <u>\$ 1,801</u> | <u>\$ 3,216</u> | <u>\$ 8,472</u> | <u>\$ 758</u> | <u>\$ 2,117</u> | <u>\$ 220</u> | <u>\$ 16,584</u> |
| For the three months ended September 30, 2016 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Balance at beginning of period | \$ 6,006 | \$ 2,711 | \$ 4,713 | \$ 1,107 | \$ 1,209 | \$ 932 | \$ 16,678 |
| Provision (benefit) charged to operations | (376) | (168) | 104 | (130) | 1,949 | (491) | 888 |
| Charge-offs | (167) | — | — | (80) | (1,869) | — | (2,116) |
| Recoveries | 6 | — | — | — | 161 | — | 167 |
| Balance at end of period | <u>\$ 5,469</u> | <u>\$ 2,543</u> | <u>\$ 4,817</u> | <u>\$ 897</u> | <u>\$ 1,450</u> | <u>\$ 441</u> | <u>\$ 15,617</u> |
| For the nine months ended September 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 | 1,477 | 167 | 2,164 | (346) | (221) | (211) | 3,030 |
| Charge-offs | (2,485) | (73) | (84) | (125) | (94) | — | (2,861) |
| Recoveries | 564 | 123 | 31 | 119 | 395 | — | 1,232 |
| Balance at end of period | <u>\$ 1,801</u> | <u>\$ 3,216</u> | <u>\$ 8,472</u> | <u>\$ 758</u> | <u>\$ 2,117</u> | <u>\$ 220</u> | <u>\$ 16,584</u> |
| For the nine months ended September 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 | (867) | 1,261 | (56) | (98) | 1,665 | 208 | 2,113 |
| Charge-offs | (319) | (1,010) | — | (146) | (2,036) | — | (3,511) |
| Recoveries | 65 | — | — | 46 | 182 | — | 293 |
| Balance at end of period | <u>\$ 5,469</u> | <u>\$ 2,543</u> | <u>\$ 4,817</u> | <u>\$ 897</u> | <u>\$ 1,450</u> | <u>\$ 441</u> | <u>\$ 15,617</u> |
| September 30, 2017 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending allowance balance attributed to loans: | | | | | | | |
| Individually evaluated for impairment | \$ — | \$ — | \$ 616 | \$ — | \$ — | \$ — | \$ 616 |
| Collectively evaluated for impairment | 1,801 | 3,216 | 7,856 | 758 | 2,117 | 220 | 15,968 |
| Total ending allowance balance | <u>\$ 1,801</u> | <u>\$ 3,216</u> | <u>\$ 8,472</u> | <u>\$ 758</u> | <u>\$ 2,117</u> | <u>\$ 220</u> | <u>\$ 16,584</u> |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | \$ 12,484 | \$ 11,537 | \$ 17,535 | \$ 2,478 | \$ 893 | \$ — | \$ 44,927 |
| Loans collectively evaluated for impairment | 1,737,471 | 542,434 | 1,115,583 | 276,785 | 182,527 | — | 3,854,800 |
| Total ending loan balance | <u>\$ 1,749,955</u> | <u>\$ 553,971</u> | <u>\$ 1,133,118</u> | <u>\$ 279,263</u> | <u>\$ 183,420</u> | <u>\$ —</u> | <u>\$ 3,899,727</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 |
|---|----------------------------|--|---|-------------------|------------------------------|---------------|---------------------|
| December 31, 2016 | | | | | | | |
| 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 September 30, 2017 , and December 31, 2016 , is as follows, excluding PCI loans (in thousands):

| | September 30, 2017 | December 31, 2016 |
|--|--------------------|-------------------|
| Impaired loans with no allocated allowance for loan losses | \$ 40,386 | \$ 25,228 |
| Impaired loans with allocated allowance for loan losses | 4,541 | 5,814 |
| | <u>\$ 44,927</u> | <u>\$ 31,042</u> |
| Amount of the allowance for loan losses allocated | <u>\$ 616</u> | <u>\$ 510</u> |

At September 30, 2017 , impaired loans included troubled debt restructured (“TDR”) loans of \$36.1 million , of which \$35.8 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 September 30, 2017 , and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016 , is as follows, excluding PCI loans (in thousands):

| | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|--------------------------------|------------------------|--|
| As of September 30, 2017 | | | |
| With no related allowance recorded: | | | |
| Residential real estate | \$ 12,896 | \$ 12,484 | \$ — |
| Commercial real estate – owner occupied | 12,233 | 11,537 | — |
| Commercial real estate – investor | 13,938 | 12,994 | — |
| Consumer | 2,939 | 2,478 | — |
| Commercial and industrial | 925 | 893 | — |
| | <u>\$ 42,931</u> | <u>\$ 40,386</u> | <u>\$ —</u> |
| With an allowance recorded: | | | |
| Residential real estate | \$ — | \$ — | \$ — |
| Commercial real estate – owner occupied | — | — | — |
| Commercial real estate – investor | 4,556 | 4,541 | 616 |
| Consumer | — | — | — |
| Commercial and industrial | — | — | — |
| | <u>\$ 4,556</u> | <u>\$ 4,541</u> | <u>\$ 616</u> |
| As of December 31, 2016 | | | |
| 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 September 30, | | | |
|---|-------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | 2017 | | 2016 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| Residential real estate | \$ 12,791 | \$ 128 | \$ 13,451 | \$ 171 |
| Commercial real estate – owner occupied | 11,217 | 335 | 17,198 | 119 |
| Commercial real estate – investor | 11,147 | 240 | 281 | 3 |
| Consumer | 2,495 | 36 | 2,340 | 44 |
| Commercial and industrial | 908 | 26 | 269 | — |
| | <u>\$ 38,558</u> | <u>\$ 765</u> | <u>\$ 33,539</u> | <u>\$ 337</u> |
| With an allowance recorded: | | | | |
| Residential real estate | \$ — | \$ — | \$ 107 | \$ 1 |
| Commercial real estate – owner occupied | — | — | — | — |
| Commercial real estate – investor | 4,551 | 13 | 896 | — |
| Consumer | — | — | — | — |
| Commercial and industrial | — | — | — | — |
| | <u>\$ 4,551</u> | <u>\$ 13</u> | <u>\$ 1,003</u> | <u>\$ 1</u> |
| Nine Months Ended September 30, | | | | |
| | 2017 | | 2016 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| | With no related allowance recorded: | | | |
| Residential real estate | \$ 11,009 | \$ 401 | \$ 13,326 | \$ 437 |
| Commercial real estate – owner occupied | 11,080 | 520 | 17,333 | 406 |
| Commercial real estate – investor | 6,550 | 487 | 303 | 9 |
| Consumer | 2,368 | 106 | 2,220 | 105 |
| Commercial and industrial | 588 | 50 | 270 | — |
| | <u>\$ 31,595</u> | <u>\$ 1,564</u> | <u>\$ 33,452</u> | <u>\$ 957</u> |
| With an allowance recorded: | | | | |
| Residential real estate | \$ 1,981 | \$ 62 | \$ 108 | \$ 3 |
| Commercial real estate – owner occupied | — | — | — | — |
| Commercial real estate – investor | 4,233 | 81 | 755 | — |
| Consumer | 148 | 6 | — | — |
| Commercial and industrial | — | — | — | — |
| | <u>\$ 6,362</u> | <u>\$ 149</u> | <u>\$ 863</u> | <u>\$ 3</u> |

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

| | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|
| Residential real estate | \$ 3,551 | \$ 8,126 |
| Commercial real estate – owner occupied | 923 | 2,414 |
| Commercial real estate – investor | 8,720 | 521 |
| Consumer | 1,864 | 2,064 |
| Commercial and industrial | 63 | 441 |
| | <u>\$ 15,121</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 September 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 |
|---|---------------------------|---------------------------|--|-------------------|-----------------------|---------------------|
| September 30, 2017 | | | | | | |
| Residential real estate | \$ 12,736 | \$ 6,872 | \$ 2,277 | \$ 21,885 | \$ 1,728,070 | \$ 1,749,955 |
| Commercial real estate – owner occupied | 711 | — | 289 | 1,000 | 552,971 | 553,971 |
| Commercial real estate – investor | 2,301 | 173 | 8,146 | 10,620 | 1,122,498 | 1,133,118 |
| Consumer | 768 | 491 | 1,486 | 2,745 | 276,518 | 279,263 |
| Commercial and industrial | — | 1,874 | 64 | 1,938 | 181,482 | 183,420 |
| | <u>\$ 16,516</u> | <u>\$ 9,410</u> | <u>\$ 12,262</u> | <u>\$ 38,188</u> | <u>\$ 3,861,539</u> | <u>\$ 3,899,727</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 September 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 |
|---|---------------------|--------------------|------------------|-------------|---------------------|
| September 30, 2017 | | | | | |
| Commercial real estate – owner occupied | \$ 531,493 | \$ 4,349 | \$ 18,129 | \$ — | \$ 553,971 |
| Commercial real estate – investor | 1,100,142 | 10,768 | 22,208 | — | 1,133,118 |
| Commercial and industrial | 176,619 | 3,520 | 3,281 | — | 183,420 |
| | <u>\$ 1,808,254</u> | <u>\$ 18,637</u> | <u>\$ 43,618</u> | <u>\$ —</u> | <u>\$ 1,870,509</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 September 30, 2017 and December 31, 2016, excluding PCI loans (in thousands):

| | Residential Real Estate | |
|---------------------------|-------------------------|------------|
| | Residential | Consumer |
| September 30, 2017 | | |
| Performing | \$ 1,746,404 | \$ 277,399 |
| Non-performing | 3,551 | 1,864 |
| | \$ 1,749,955 | \$ 279,263 |
| December 31, 2016 | | |
| Performing | \$ 1,704,347 | \$ 288,491 |
| Non-performing | 8,126 | 2,064 |
| | \$ 1,712,473 | \$ 290,555 |

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 September 30, 2017, and December 31, 2016, were \$270,000 and \$3.5 million, respectively, of troubled debt restructurings. At September 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 September 30, 2017, and December 31, 2016, which totaled \$35.8 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 nine months ended September 30, 2017 and 2016, and troubled debt restructurings modified within the previous year and which defaulted during the three and nine months ended September 30, 2017 and 2016, (dollars in thousands):

| | Number of Loans | Pre-modification Recorded Investment | Post-modification Recorded Investment |
|--|-----------------|---|--|
| Three months ended September 30, 2017 | | | |
| Troubled Debt Restructurings: | | | |
| Residential real estate | 2 | \$ 328 | \$ 357 |
| Commercial real estate - owner occupied | 1 | 700 | 700 |
| Commercial real estate - investor | 1 | 700 | 700 |

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

| | Number of Loans | Pre-modification Recorded Investment | Post-modification Recorded Investment |
|---|-----------------|---|--|
| Nine months ended September 30, 2017 | | | |
| Troubled Debt Restructurings: | | | |
| Residential real estate | 6 | \$ 1,354 | \$ 1,356 |
| Commercial real estate - owner occupied | 4 | 3,309 | 3,309 |
| Commercial real estate – investor | 4 | 6,362 | 6,484 |
| 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 September 30, 2016 | | | | | |
| Troubled Debt Restructurings: | | | | | |
| Residential real estate | 1 | \$ | 455 | \$ | 455 |
| Consumer | 1 | | 602 | | 602 |
| | | | Number of Loans | | Recorded Investment |
| Troubled Debt Restructurings | | | | | |
| Which Subsequently Defaulted: | | | None | | None |
| | | | Pre-modification Recorded Investment | | Post-modification Recorded Investment |
| Nine months ended September 30, 2016 | | | | | |
| Troubled Debt Restructurings: | | | | | |
| Residential real estate | 3 | \$ | 674 | \$ | 673 |
| Commercial real estate – investor | 1 | | 256 | | 270 |
| Consumer | 3 | | 665 | | 665 |
| | | | Number of Loans | | Recorded Investment |
| Troubled Debt Restructurings | | | | | |
| Which Subsequently Defaulted: | | | None | | None |

As part of the Cape, Ocean Shore and Colonial American Bank 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 Bank 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 nine months ended September 30, 2017 and 2016 (in thousands):

| | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2017 | Three Months Ended September 30, 2016 | Nine Months Ended September 30, 2016 |
|---|--|---|--|---|
| Beginning balance | \$ 1,465 | \$ 749 | \$ 503 | \$ 75 |
| Acquisition | — | — | — | 576 |
| Accretion | (328) | (642) | (196) | (344) |
| Reclassification from non-accretable difference | 13 | 1,043 | — | — |
| Ending balance | \$ 1,150 | \$ 1,150 | \$ 307 | \$ 307 |

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

Note 6. Deposits

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

| Type of Account | September 30, 2017 | December 31, 2016 |
|---------------------------|---------------------------|--------------------------|
| Non-interest-bearing | \$ 781,043 | \$ 782,504 |
| Interest-bearing checking | 1,892,832 | 1,626,713 |
| Money market deposit | 384,106 | 458,911 |
| Savings | 668,370 | 672,519 |
| Time deposits | 623,908 | 647,103 |
| Total deposits | <u>\$ 4,350,259</u> | <u>\$ 4,187,750</u> |

Included in time deposits at September 30, 2017 and December 31, 2016 , is \$273.6 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)" and subsequent related Updates modifies the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The updates also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. The Company will adopt the guidance in first quarter of 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP, the new revenue recognition standard does not have a material impact on the Company's consolidated financial statements. The Company's implementation efforts include the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts. While we have not identified any material changes related to the timing or amount of revenue recognition, the Company will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.

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

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

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 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 nine months ended September 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.

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Notes to Unaudited Consolidated Financial Statements (Continued)

The following table summarizes financial assets and financial liabilities measured at fair value as of September 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):

| September 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 | \$ 67,133 | \$ — | \$ 67,133 | \$ — |
| Items measured on a non-recurring basis: | | | | |
| Other real estate owned | 9,334 | — | — | 9,334 |
| Loans measured for impairment based on the fair value of the underlying collateral | 12,065 | — | — | 12,065 |

| 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. 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

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all securities except for certain investments classified as Level 1, which are derived from quoted market prices in active markets and 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 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.

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

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

| September 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 | \$ 255,258 | \$ 255,258 | \$ — | \$ — |
| Securities held-to-maturity | 742,886 | 8,714 | 734,990 | 2,793 |
| Federal Home Loan Bank of New York stock | 18,472 | — | — | 18,472 |
| Loans receivable, net and mortgage loans held for sale | 3,870,447 | — | — | 3,935,093 |
| Financial Liabilities: | | | | |
| Deposits other than time deposits | 3,726,351 | — | 3,726,351 | — |
| Time deposits | 623,908 | — | 619,619 | — |
| Securities sold under agreements to repurchase with retail customers | 75,326 | 75,326 | — | — |
| Federal Home Loan Bank advances and other borrowings | 315,652 | — | 314,021 | — |

| 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 the Company’s common stock, for each share of Sun common stock. Sun and the Company received their respective requisite stockholder approvals for the merger. Regulatory approval of the merger was received from the Federal Reserve Bank of Philadelphia on October 17, 2017. The regulatory application for the transaction remains under review by the Office of the Comptroller of the Currency (“OCC”). Subject to receipt of OCC approval and other customary closing conditions, the Company expects to close the transaction in January 2018.

On November 1, 2017 the Company closed on its previously announced acquisition of an office building in Red Bank, New Jersey related to its back-office consolidation, at a purchase price of \$42.5 million . Included in the acquisition is a structured parking facility as well as the existing furniture, fixtures and equipment. 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 included in the registration statement (File No. 333-220235) on Form S-4 that was filed with the SEC on August 29, 2017, as amended by that certain Amendment No. 1 to Form S-4, filed with the SEC on September 19, 2017, and declared effective by the SEC on September 20, 2017, 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 the date of this report and the date on which the first-step merger is completed. The market value of the Company common stock may fluctuate during this period 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 the value of the per share 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.

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 (the "FRS") and the OCC. The Company and Sun obtained approval from the Board of Governors of the FRS on October 17, 2017. In evaluating an application for approval, the OCC takes into consideration a number of factors, including (i) the competitive impact of the transaction; (ii) financial and managerial resources of the bank parties to the bank merger or integrated mergers both on a current and pro forma basis; (iii) the convenience and needs of the community to be served and the record of the banks under the Community Reinvestment Act (the "CRA"), including their CRA ratings; (iv) the banks' effectiveness in combating money laundering activities; and (v) the extent to which the bank merger or integrated mergers would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. Other approvals, as well as waivers or consents, from regulators may also be required. 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 OCC, 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 the Company to incur significant costs and suffer management distraction, as well as delay and/or enjoin the proposed transaction. Following the announcement of the transaction with Sun, three stockholders filed purported class actions in state court which were consolidated under the caption *In re Sun Bancorp, Inc. Consolidated Stockholder Litigation*, Case No. BUR-L-2060-17 (N.J. Super. Ct. Law Div.). Plaintiffs alleged that members of the Sun board breached their fiduciary duties by approving the merger agreement because the transaction was procedurally flawed and financially inadequate, and by failing to disclose material information about the transaction. Plaintiffs further alleged that OceanFirst and Merger Sub aided and abetted such alleged breaches, and sought to enjoin the merger, as well as unspecified money damages, costs and attorneys' fees and expenses. A purported class action was also filed in federal court captioned *Parshall v. Sun Bancorp, Inc.*, Case No. 1:17-cv-07368 (D.N.J.) alleging defendants violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended, and certain rules and regulations promulgated thereunder, by not disclosing certain allegedly material facts about the transaction. On October 13, 2017, the parties to the various actions entered into a Memorandum of Understanding to resolve the named plaintiffs' individual claims in the state and federal actions.

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.

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 September 30, 2017. Information regarding the Company's common stock repurchases for the three month period ended September 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 |
|--|----------------------------------|------------------------------|--|--|
| July 1, 2017 through July 31, 2017 | — | — | — | 1,754,804 |
| August 1, 2017 through August 31, 2017 | — | — | — | 1,754,804 |
| September 1, 2017 through September 30, 2017 | — | — | — | 1,754,804 |

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

On November 1, 2017 the Company closed on its previously announced acquisition of an office building in Red Bank, New Jersey related to its back-office consolidation, at a purchase price of \$42.5 million . Included in the acquisition is a structured parking facility as well as the existing furniture, fixtures and equipment. 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 ⁽²⁾
- [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 September 30, 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 3.1 to current report on Form 10-Q filed August 9, 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: November 8, 2017

OceanFirst Financial Corp.
Registrant

/s/ Christopher D. Maher

Christopher D. Maher
Chairman, President and Chief Executive Officer

DATE: November 8, 2017

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick
Executive Vice President and Chief Financial Officer

Exhibit Index

| Exhibit | Description |
|---------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
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| 32.0 | Certification pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002 |
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**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: November 8, 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:

November 8, 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 September 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

November 8, 2017

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick

Executive Vice President and Chief Financial Officer

November 8, 2017