

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

☐ **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)**

22-3412577

**(I.R.S. Employer
Identification No.)**

110 West Front Street, Red Bank, New Jersey 07701

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange in which registered
Common stock, \$0.01 par value per share	OCFC	NASDAQ

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

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 every Interactive Data File required to be submitted 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised final 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 Act). Yes ☐ No ☒.

The aggregate market fair value of the voting and non-voting common equity held by non-affiliates of the registrant, i.e., persons other than the directors and executive officers of the registrant, was \$1,244,042,000 based upon the closing price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's Common Stock as of February 24, 2020 was 60,298,897.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2020 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days from December 31, 2019, are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

General

OceanFirst Financial Corp. (the “Company”) is incorporated under Delaware law and serves as the holding company for OceanFirst Bank N.A. (the “Bank”). At December 31, 2019, the Company had consolidated total assets of \$8.2 billion and total stockholders’ equity of \$1.2 billion. The Company is subject to regulation by the Board of Governors of the Federal Reserve System (the “FRB”) and the Securities and Exchange Commission (“SEC”). The Bank is subject to regulation and supervision by the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”). Currently, the Company does not transact any material business other than through its subsidiary, the Bank.

The Company has been the holding company for the Bank since it acquired the stock of the Bank upon the Bank’s conversion from a Federally-chartered mutual savings bank to a Federally-chartered capital stock savings bank in 1996 (the “Conversion”). Effective January 31, 2018, the Bank converted to a national bank charter and the Company became a bank holding company. The conversions on January 31, 2018 do not change the entities which regulate and supervise the Bank and Company. The Bank’s principal business has been, and continues to be, attracting retail and commercial deposits and investing those deposits primarily in loans, consisting of commercial real estate and other commercial loans which have become a key focus of the Bank and single-family, owner-occupied residential mortgage loans. The Bank also invests in other types of loans, including residential construction and consumer loans. In addition, the Bank invests in mortgage-backed securities (“MBS”), securities issued by the U.S. Government and agencies thereof, corporate securities and other investments permitted by applicable law and regulations. The Bank’s revenues are derived principally from interest on its loans, and to a lesser extent, interest on its investment and mortgage-backed securities. The Bank also receives income from bankcard services, trust and asset management, deposit account services, Bank Owned Life Insurance, derivative fee income and other fees. The Bank’s primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, investment maturities, Federal Home Loan Bank (“FHLB”) advances and other borrowings.

The Company’s website address is www.oceanfirst.com. The Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge through its website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company’s website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

In addition to historical information, this Form 10-K 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 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, those items discussed under Item 1A. Risk Factors herein and the following: 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 FRB, 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, accounting principles and guidelines and the Bank’s ability to successfully integrate acquired operations. These risks and uncertainties 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.

Market Area and Competition

The Bank is a regional bank, offering a wide variety of financial services to meet the needs of the communities it serves. At December 31, 2019, the Bank operated its business through its branch office and headquarters located in Toms River, its branch and administrative office located in Red Bank, 54 additional branch offices and five deposit production facilities located throughout central and southern New Jersey. The Bank also operates commercial loan production offices in New York City, the greater Philadelphia area and in Atlantic and Mercer Counties in New Jersey. On January 1, 2020, the Bank acquired an additional 14 branches and one loan office as part of the Two River acquisition and five branches and one loan office as part of the Country Bank acquisition, which expands the Bank’s presence in both New Jersey and New York City.

The Bank is the largest and oldest community-based financial institution headquartered in Ocean County, New Jersey, approximately midway between New York City and Philadelphia. The economy in the Bank's primary market area, which represents the broader central and southern New Jersey market is based upon a mixture of service and retail trade. Other employment is provided by a variety of wholesale trade, manufacturing, Federal, state and local government, hospitals and utilities. The area is also home to commuters working in areas in and around New York City and Philadelphia. The market area includes a significant number of vacation and second homes in the communities along the New Jersey shore. The Bank also operates in the metropolitan areas of New York City and Philadelphia, the first and eighth largest metropolitan areas, respectively, in the United States.

The Bank's future growth opportunities will be partly influenced by the growth and stability of its geographic marketplace and the competitive environment. The Bank faces significant competition both in making loans and in attracting deposits. In addition, rapid technological changes and consumer preferences may result in increased competition for the Company's other services, while a number of well-funded technology focused companies are innovating in the payments, distributed ledger, and cryptocurrency networks to disintermediate portions of the traditional banking model. The state of New Jersey, including the Bank's primary market areas of central and southern New Jersey, is an attractive market to many financial institutions. Many of the Bank's competitors are branches of significantly larger institutions headquartered out-of-market which have greater financial resources than the Bank. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, credit unions, mortgage banking companies, internet-based providers and insurance companies. Its most direct competition for deposits has historically come from commercial banks, savings banks, savings and loan associations and credit unions although the Bank also faces competition for deposits from short-term money market funds, other corporate and government securities funds, internet-only providers and from other financial service institutions such as brokerage firms and insurance companies. The Bank distinguishes itself from large banking competitors through its local presence and ability to deliver personalized service.

Community Involvement

The Bank proudly promotes a higher quality of life in the communities it serves through employee volunteer efforts and the work of OceanFirst Foundation (the "Foundation"). Employees are continually encouraged to become leaders in their communities and use the Bank's support to help others. Through the Foundation, established in 1996, OceanFirst has granted over \$39 million to enrich the lives of local citizens by supporting initiatives in health and human services, education, affordable housing, youth development and the arts.

Acquisitions

On January 31, 2018, the Company completed its acquisition of Sun Bancorp, Inc. ("Sun") which added \$2.0 billion to assets, \$1.5 billion to loans, and \$1.6 billion to deposits. Sun's results of operations are included in the consolidated results for the period from February 1, 2018 to December 31, 2018.

On January 31, 2019, the Company completed its acquisition of Capital Bank of New Jersey ("Capital Bank") which added \$494.7 million to assets, \$307.8 million to loans, and \$449.0 million to deposits. Capital Bank's results of operations are included in the consolidated results for the period from February 1, 2019 to December 31, 2019.

On January 1, 2020, the Company completed its acquisition of Two River Bancorp ("Two River"). Based on the \$25.54 per share closing price of the Company's common stock on December 31, 2019, the total transaction value was \$197.1 million. The acquisition added \$1.1 billion to assets, \$938 million to loans, and \$942 million to deposits. Two River's results of operations are not included in any of the periods presented herein.

On January 1, 2020, the Company completed its acquisition of Country Bank Holding Company, Inc. ("Country Bank"). Based on the \$25.54 per share closing price of the Company's common stock on December 31, 2019, the total transaction value was \$112.8 million. The acquisition added \$798 million to assets, \$616 million to loans, and \$654 million to deposits. Country Bank's results of operations are not included in any of the periods presented herein.

These transactions have enhanced the Bank's position as the premier community banking franchise in central and southern New Jersey and have provided the Company with the opportunity to grow business lines, expand geographic footprint and improve financial performance. The Company will continue to evaluate potential acquisition opportunities for those that are expected to create stockholder value.

Lending Activities

Loan Portfolio Composition. At December 31, 2019, the Bank had total loans outstanding of \$6.215 billion, of which \$3.089 billion, or 49.7% of total loans, were commercial real estate, multi-family and land loans. The remainder of the portfolio consisted of \$2.321 billion of one-to-four family residential mortgage loans, or 37.3% of total loans; \$408.0 million of consumer loans, primarily home equity loans and lines of credit, or 6.6% of total loans; and, \$396.4 million of commercial and industrial loans, or 6.4% of total loans. At December 31, 2019 the Bank did not have any loans held-for-sale. At that same date, 33.9% of the Bank's total loans had adjustable interest rates.

The types of loans that the Bank may originate are subject to Federal and state laws and regulations. Interest rates charged by the Bank on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by, among other things, economic conditions, monetary policies of the Federal government, including the FRB, and legislative tax policies.

The following table sets forth the composition of the Bank's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

	At December 31,									
	2019		2018		2017		2016		2015	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(dollars in thousands)										
Real estate:										
Commercial real estate, multi-family and land	\$ 3,089,063	49.71%	\$ 2,764,024	49.46%	\$ 1,757,106	44.19%	\$ 1,668,872	43.72%	\$ 818,445	41.19%
One-to-four family	2,321,157	37.35	2,044,523	36.58	1,749,166	43.99	1,704,405	44.66	830,497	41.80
Consumer ⁽¹⁾	407,998	6.56	475,170	8.50	282,438	7.10	290,676	7.62	193,160	9.72
Commercial and industrial	396,434	6.38	304,996	5.46	187,645	4.72	152,810	4.00	144,788	7.29
Total loans	6,214,652	100.00%	5,588,713	100.00%	3,976,355	100.00%	3,816,763	100.00%	1,986,890	100.00%
Deferred origination costs, net	9,880		7,086		5,380		3,414		3,232	
Allowance for loan losses	(16,852)		(16,577)		(15,721)		(15,183)		(16,722)	
Total loans, net	6,207,680		5,579,222		3,966,014		3,804,994		1,973,400	
Less:										
Loans held for sale	—		—		241		1,551		2,697	
Loans receivable, net	\$ 6,207,680		\$ 5,579,222		\$ 3,965,773		\$ 3,803,443		\$ 1,970,703	
Total loans:										
Adjustable rate	\$ 2,107,790	33.92%	\$ 1,974,387	35.33%	\$ 1,266,817	31.86%	\$ 1,192,998	31.26%	\$ 750,816	37.79%
Fixed rate	4,106,862	66.08	3,614,326	64.67	2,709,538	68.14	2,623,765	68.74	1,236,074	62.21
	\$ 6,214,652	100.00%	\$ 5,588,713	100.00%	\$ 3,976,355	100.00%	\$ 3,816,763	100.00%	\$ 1,986,890	100.00%

(1) Consists primarily of home equity loans and lines of credit and student loans, and to a lesser extent, loans on savings accounts and overdraft lines of credit.

Loan Maturity. The following table shows the contractual maturity of the Bank's total loans at December 31, 2019. The table does not include principal prepayments.

At December 31, 2019					
	Commercial Real Estate, Multi-Family and Land	One-to- Four Family	Consumer	Commercial and Industrial	Total Loans Receivable
	(in thousands)				
One year or less	\$ 363,559	\$ 69,731	\$ 2,485	\$ 165,621	\$ 601,396
After one year:					
More than one year to three years	551,909	10,835	8,262	53,932	624,938
More than three years to five years	492,877	11,437	20,692	65,086	590,092
More than five years to ten years	1,327,767	123,639	119,233	74,270	1,644,909
More than ten years to twenty years	302,813	458,151	237,834	13,810	1,012,608
More than twenty years	50,138	1,647,364	19,492	23,715	1,740,709
Total due after December 31, 2020	2,725,504	2,251,426	405,513	230,813	5,613,256
Total amount due	\$ 3,089,063	\$ 2,321,157	\$ 407,998	\$ 396,434	6,214,652
Deferred origination costs, net					9,880
Allowance for loan losses					(16,852)
Loans receivable, net					6,207,680
Less: Loans held for sale					—
Total loans, net					\$ 6,207,680

The following table sets forth at December 31, 2019, the dollar amount of total loans receivable, contractually due after December 31, 2020, and whether such loans have fixed interest rates or adjustable interest rates.

Due After December 31, 2020			
	Fixed	Adjustable	Total
	(in thousands)		
Real estate loans:			
Commercial real estate, multi-family and land	\$ 1,544,637	\$ 1,180,867	\$ 2,725,504
One-to-four family	1,939,407	312,019	2,251,426
Consumer	241,004	164,509	405,513
Commercial and industrial	118,259	112,554	230,813
Total loans receivable	\$ 3,843,307	\$ 1,769,949	\$ 5,613,256

Origination, Sale and Servicing of Loans. The following table sets forth the Bank's loan originations, purchases, sales, principal repayments and loan activity, including loans held-for-sale, for the periods indicated.

	For the Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Total loans:			
Beginning balance	\$ 5,588,713	\$ 3,976,355	\$ 3,816,763
Loans originated:			
Commercial real estate, multi-family and land	701,009	327,513	295,519
One-to-four family	579,101	395,387	298,272
Consumer	50,787	68,489	68,872
Commercial and industrial	175,449	87,549	165,191
Total loans originated	1,506,346	878,938	827,854
Loans purchased	101,674	199,580	37,337
Net loans acquired in acquisition	307,778	1,517,345	—
Total	7,504,511	6,572,218	4,681,954
Less:			
Principal repayments	1,278,734	965,520	680,118
Sales of loans	7,358	13,152	16,371
Charge-offs (gross)	2,804	3,841	5,384
Transfer to other real estate owned	963	992	3,726
Total loans	\$ 6,214,652	\$ 5,588,713	\$ 3,976,355

Commercial Real Estate, Multi-Family and Land Lending. The Bank originates commercial real estate loans that are secured by properties, or properties under construction, generally used for business purposes such as office, industrial or retail facilities. A substantial majority of the Bank's commercial real estate loans are located in its primary market area. The Bank generally originates commercial real estate loans with terms of up to ten years and amortization schedules up to thirty years with fixed or adjustable rates. Fixed rate loans typically contain prepayment penalties over the initial term. Additionally, the Bank offers an interest rate swap program that allows commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. In reaching its decision on whether to make a commercial real estate loan, the Bank considers the net operating income of the property and the borrower's expertise, credit history and profitability among other factors.

At December 31, 2019, the Bank's total loans outstanding were \$6.215 billion, of which \$3.089 billion, or 49.7% of total loans, were commercial real estate loans, as compared to \$2.764 billion, or 49.5% of total loans, at December 31, 2018. The Bank continues to grow this market segment primarily through the addition of experienced commercial lenders and through an expansive lending area with commercial lending teams in various New Jersey counties including Atlantic, Burlington, Cumberland, Mercer, Monmouth, and Ocean as well as teams in New York City and the greater Philadelphia area. Of the total commercial real estate portfolio, 25.7% is considered owner-occupied, whereby the underlying business owner occupies a majority of the property.

The commercial real estate portfolio includes loans for the construction of commercial properties. Typically, these loans are underwritten based upon commercial leases in place prior to funding. In many cases, commercial construction loans are extended to owners that intend to occupy the property for business operations, in which case the loan is based upon the financial capacity of the related business and the owner of the business. At December 31, 2019, the Bank had an outstanding balance in commercial construction loans of \$101.7 million, as compared to \$181.7 million at December 31, 2018.

The Bank also originates multi-family mortgage loans and to a lesser extent land loans. The Bank's multi-family loans and land loans at December 31, 2019 totaled \$470.0 million and \$3.7 million, respectively, as compared to \$387.0 million and \$8.7 million, respectively, at December 31, 2018.

One-to-Four Family Mortgage Lending. The Bank offers both fixed-rate and adjustable-rate mortgage ("ARM") loans secured by one-to-four family residences with maturities up to 30 years. The majority of such loans are secured by property located in the Bank's primary market area. Loan originations are typically generated by commissioned loan representatives in the exclusive employment of the Bank and are largely derived from contacts within the local real estate industry, members of the local communities and the Bank's existing or past customers. On occasion the Bank purchases loans originated by other banks.

At December 31, 2019, \$2.321 billion, or 37.3% of total loans, were one-to-four family residential mortgage loans, primarily single family and owner occupied. To a lesser extent and included in this activity are residential mortgage loans secured by seasonal second

homes and non-owner occupied investment properties. The average size of the Bank's one-to-four family mortgage loans was approximately \$257,000 at December 31, 2019.

The Bank currently offers several ARM loan programs with interest rates which adjust every three, five or ten years. The Bank's ARM loans generally provide for periodic caps of 2% or 3% and an overall cap of 6% on the increase or decrease in the interest rate at any adjustment date and over the life of the loan. The interest rate on these loans is indexed to the applicable three-, five- or ten-year U.S. Treasury constant maturity yield, with a repricing margin which ranges generally from 2.75% to 3.50% above the index. The Bank also offers three-, five-, seven- and ten-year ARM loans which operate as fixed-rate loans for the first three, five, seven or ten years and then convert to one-year ARM loans for the remainder of the term. The ARM loans are then indexed to a margin of generally 2.75% to 3.50% above the one-year U.S. Treasury constant maturity yield.

Generally, ARM loans pose credit risks different than the risks inherent in fixed-rate loans, primarily because as interest rates rise, the payments of the borrower rise, thereby increasing the potential for delinquency and default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. In order to minimize risks, borrowers of ARM loans with an initial fixed period of five years or less must qualify based on the greater of the note rate plus 2% or the fully-indexed rate. Seven- to ten-year ARMs must qualify based on the note rate. The Bank does not originate ARM loans that can result in negative amortization.

The Bank's fixed-rate mortgage loans are currently made for terms from 10 to 30 years. The Bank generally holds its residential loans for its portfolio, and may sell a portion of its longer-term, fixed-rate loans after reviewing volume and yield and after evaluating interest rate risk and capital management considerations. Servicing rights are generally sold as part of the loan sale. The retention of fixed-rate mortgage loans may increase the level of interest rate risk exposure of the Bank, as the rates on these loans will not adjust during periods of rising interest rates and the loans can be subject to substantial increases in prepayments during periods of falling interest rates. Prior to 2017, the Bank generally sold much of its 30-year, fixed-rate, one-to-four family loans in the secondary mortgage market primarily to manage interest rate risk. However, since the beginning of 2017 and through 2019, the Bank generally retained newly originated mortgage loans in its portfolio. Given the recent decline in the interest rate environment, the Company will evaluate the portfolio for potential sales in the future.

The Bank's policy is to originate one-to-four family residential mortgage loans in amounts up to 80% of the lower of the appraised value or the selling price of the property securing the loan and up to 95% of the appraised value or selling price if private mortgage insurance is obtained. Appraisals are obtained for loans secured by real estate properties. The weighted average loan-to-value ratio of the Bank's one-to-four family mortgage loans was 61% at December 31, 2019 based on appraisal values at the time of origination. Title insurance is typically required for first mortgage loans. Residential mortgage loans originated by the Bank include due-on-sale clauses which provide the Bank with the contractual right to declare the loan immediately due and payable in the event the borrower transfers ownership of the property without the Bank's consent. Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate residential mortgage loan portfolio and the Bank has generally exercised its rights under these clauses.

The Bank has made, and may continue to make, residential mortgage loans that will not qualify as Qualified Mortgage Loans under the Dodd-Frank Act and the Consumer Financial Protection Bureau ("CFPB") regulations. See Risk Factors – The Dodd-Frank Act imposes obligations on originators of residential mortgage loans, such as the Bank.

Included in the Bank's one-to-four family loan balance at December 31, 2019, were residential construction loans which totaled \$74.7 million. The Bank originates residential construction loans primarily on a construction/permanent basis with such loans converting to an amortizing loan following the completion of the construction phase. All of the Bank's residential construction loans are made to individuals building a residence.

Construction lending, by its nature, entails additional risks compared to one-to-four family mortgage lending, attributable primarily to the fact that funds are advanced based upon a security interest in a project which is not yet complete. The Bank addresses these risks through its underwriting policies and procedures and its experienced staff.

Consumer Loans. At December 31, 2019, the Bank's consumer loans totaled \$408.0 million, or 6.6% of the Bank's total loan portfolio. Of the total consumer loan portfolio, home equity loans comprised \$151.3 million; home equity lines of credit comprised \$167.2 million; student loans comprised \$87.5 million; overdraft line of credit loans totaled \$1.2 million; and loans on savings accounts and other consumer loans totaled \$734,000.

The Bank originates home equity loans typically as fixed-rate loans with terms ranging from 5 to 20 years. The Bank also offers variable-rate home equity lines of credit. Home equity loans and lines of credit are based on the applicant's income and their ability to repay and are secured by a mortgage on the underlying real estate, typically owner-occupied, one-to-four family residences. Generally, the loan when combined with the balance of any applicable first mortgage lien, may not exceed 80% of the appraised value of the property at the time of the loan commitment. The Bank charges an early termination fee should a home equity loan or line of credit be closed within two or three years of origination. A borrower is required to make monthly payments of principal and interest, at a minimum of \$50, based upon a 10-, 15- or 20-year amortization period. Certain home equity lines of credit require the payment of interest-only

during the first five years with fully-amortizing payments thereafter. At December 31, 2019, these loans totaled \$22.7 million, as compared to \$26.3 million at December 31, 2018.

Generally, the adjustable rate of interest charged is based upon the prime rate of interest (as published in the *Wall Street Journal*), although the range of interest rates charged may vary from 1.0% below prime to 1.5% over prime. The loans have an 18% lifetime cap on interest rate adjustments.

The student loans are targeted at high income, strong credit score borrowers in stable fields, such as doctors, nurses, dentists, lawyers and graduates of the top business schools. These loans are refinancing of other student loans and are made primarily after the borrowers have finished their education, are employed, have a strong credit score and verified income, and have demonstrated an ability and willingness to pay their student loans.

Commercial and Industrial Lending. At December 31, 2019, commercial and industrial (“C&I”) loans totaled \$396.4 million, or 6.4% of the Bank’s total loans outstanding. The Bank originates commercial and industrial loans and lines of credit (including for working capital, fixed asset purchases, and acquisition, receivable and inventory financing) primarily in the Bank’s market area. In underwriting commercial and industrial loans and credit lines, the Bank reviews and analyzes financial history and capacity, collateral value, strength and character of the principals, and general payment history of the principal borrowers in coming to a credit decision. The Bank generally originates C&I loans secured by the assets of the business including accounts receivable, inventory, fixtures, etc. The Bank generally requires the personal guarantee of the principal borrowers for all commercial and industrial loans. Risk of loss on a commercial and industrial business loan is dependent largely on the borrower’s ability to remain financially able to repay the loan from ongoing operations.

Loan Approval Procedures and Authority. The Board establishes the loan approval policies of the Bank based on total exposure to the individual borrower. The Board has authorized the approval of loans by a minimum of two officers of the Bank or the Management Credit Committee, on a scale which requires approval by personnel with progressively higher levels of credit approval authority as the loan amount increases. Pursuant to applicable regulations, loans to one borrower generally cannot exceed 15% of the Bank’s unimpaired capital.

Due to the Bank’s acquisition activity, significant portions of the acquired loan portfolios were underwritten according to the underwriting standards and guidelines of the acquired banks. Acquired loans are evaluated under OceanFirst’s credit risk management policies during pre-closing due diligence and during post-closing risk rating reviews.

In addition to internal credit reviews, the Bank has engaged an independent firm specializing in commercial loan reviews to examine a selection of commercial real estate and commercial and industrial loans, and provide management with objective analysis regarding the quality of these loans throughout the year. The independent firm reviewed 61% of the outstanding loan balances for the Company’s commercial real estate and commercial and industrial loans during 2019. Their conclusion was that the Bank’s internal credit reviews are consistent with both Bank policy and general industry practice.

Loan Servicing. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, making inspections as required of mortgaged premises, contacting delinquent borrowers, supervising foreclosures, and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers, and generally administering the loans. The Bank also services mortgage loans for others. In 2014, the Bank sold most of the servicing rights on residential mortgage loans serviced for Federal agencies. All of the remaining loans currently being serviced for others are loans which were originated by the Bank. At December 31, 2019, the Bank was servicing \$50.0 million of loans for others.

Delinquencies and Classified Assets. The steps taken by the Bank with respect to delinquencies vary depending on the nature of the loan and period of delinquency. When a borrower fails to make a required payment on a loan, the Bank takes a number of steps to have the borrower cure the delinquency and restore the loan to current status. The Bank sends the borrower a written notice of non-payment after the loan is first past due. In the event payment is not then received, additional letters and phone calls generally are made. The Bank may offer to modify the terms or take other forbearance actions which afford the borrower an opportunity to satisfy the loan terms. If the loan is still not brought current and it becomes necessary for the Bank to take legal action, which typically occurs after a loan is delinquent at least 120 days or more, the Bank will either; (i) commence litigation to realize on the collateral, including foreclosure proceedings against any real property that secures the loan; or (ii) sell non-performing loans where foreclosure proceedings may or may not have been initiated. If a foreclosure action is instituted and the loan is not brought current, paid in full, or an acceptable workout accommodation is not agreed upon before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. Foreclosure timelines in New Jersey are among the longest in the nation and have remained protracted over the past several years.

The Bank’s internal Asset Classification Committee, which is chaired by the Chief Risk Officer, reviews and classifies the Bank’s assets quarterly and reports the results of its review to the Board. As part of this process, the Chief Risk Officer compiles a quarterly list of all criticized and classified loans, and a narrative report of classified commercial and industrial, commercial real estate, multi-family, land and construction loans. The Bank classifies assets in accordance with certain regulatory guidelines and definitions. At December 31, 2019, the Bank had \$73.2 million of assets, including all other real estate owned (“OREO”), classified as “Substandard.”

There were no assets classified as “Doubtful” or as “Loss.” At December 31, 2018, the Bank had \$74.8 million of assets, including all OREO, classified as “Substandard.” There were no assets classified as “Doubtful” or as “Loss.” Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses, such as past delinquencies, are designated “Special Mention.” Special Mention assets totaled \$34.5 million at December 31, 2019, as compared to \$35.8 million at December 31, 2018.

Non-Accrual Loans and OREO. The following table sets forth information regarding non-accrual loans and OREO, excluding Purchased Credit Impaired (“PCI”) loans. The Bank obtained PCI loans as part of its acquisitions of Colonial American Bank (“Colonial American”), Cape Bancorp, Inc. (“Cape”), Ocean Shore Holding Co. (“Ocean Shore”), Sun, and Capital Bank. 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. PCI loans totaled \$13.3 million and \$8.9 million at December 31, 2019 and 2018, respectively. It is the policy of the Bank to cease accruing interest on loans 90 days or more past due or in the process of foreclosure. For the years ended December 31, 2019, 2018 and 2017, the amount of interest income that would have been recognized on non-accrual loans if such loans had continued to perform in accordance with their contractual terms was \$372,000, \$419,000, and \$639,000, respectively.

	At December 31,				
	2019	2018	2017	2016	2015
	(dollars in thousands)				
Non-accrual loans:					
Real estate:					
Commercial real estate, multi-family and land	\$ 7,728	\$ 5,525	\$ 14,243	\$ 2,935	\$ 10,796
One-to-four family	7,181	7,389	4,190	8,126	5,779
Consumer	2,733	2,914	1,929	2,064	1,576
Commercial and industrial	207	1,587	503	441	123
Total	17,849	17,415	20,865	13,566	18,274
OREO	264	1,381	8,186	9,803	8,827
Total non-performing assets	\$ 18,113	\$ 18,796	\$ 29,051	\$ 23,369	\$ 27,101
Allowance for loan losses as a percent of total loans receivable ⁽¹⁾	0.27%	0.30%	0.40%	0.40%	0.84%
Allowance for loan losses as a percent of total non-performing loans ^{(1) (2)}	94.41	95.19	75.35	111.92	91.51
Non-performing loans as a percent of total loans receivable ⁽²⁾	0.29	0.31	0.52	0.35	0.91
Non-performing assets as a percent of total assets ⁽²⁾	0.22	0.25	0.54	0.45	1.05

(1) The loans acquired from Capital Bank, Sun, Ocean Shore, Cape, and Colonial American were recorded at fair value. The net credit mark on these loans, not reflected in the allowance for loan losses, was \$30,260, \$31,647, \$17,531, \$25,973, and \$2,202 at December 31, 2019, 2018, 2017, 2016, and 2015 respectively.

(2) Non-performing loans consist of all loans 90 days or more past due and other loans in the process of foreclosure. Non-performing assets consist of non-performing loans and OREO.

Non-performing loans totaled \$17.8 million at December 31, 2019, an increase of \$434,000, as compared to December 31, 2018. Non-performing loans at December 31, 2019 and 2018 do not include \$13.3 million and \$8.9 million, respectively, of PCI loans acquired from Colonial American, Cape, Ocean Shore, Sun and Capital Bank. The Company’s OREO totaled \$264,000 at December 31, 2019, a \$1.1 million decrease from December 31, 2018. The decrease was primarily due to the sale of OREO properties.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects probable incurred losses in the loan portfolio. The adequacy of the allowance for loan losses is based on management’s evaluation of the Company’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and current economic conditions. Additions to the allowance arise from charges to operations through the provision for loan losses or from the recovery of amounts previously charged-off. The allowance is reduced by loan charge-offs. A description of the methodology used in establishing the allowance for loan losses is set forth in the section Management’s Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies, Allowance for Loan Losses.

As of December 31, 2019 and 2018, the Bank’s allowance for loan losses was 0.27% and 0.30% of total loans, respectively. The net credit mark on all acquired loans, not reflected in the allowance for loan losses, was \$30.3 million and \$31.6 million at December 31, 2019 and 2018, respectively. The allowance for loan losses as a percent of total non-performing loans was 94.41% at December 31, 2019, a decrease from 95.19% in the prior year. The Bank had non-accrual loans of \$17.8 million at December 31, 2019, an increase from \$17.4 million at December 31, 2018. The Bank will continue to monitor its allowance for loan losses as conditions dictate.

The following table sets forth activity in the Bank's allowance for loan losses for the periods set forth in the table:

	At or for the Year Ended December 31,				
	2019	2018	2017	2016	2015
	(dollars in thousands)				
Balance at beginning of year	\$ 16,577	\$ 15,721	\$ 15,183	\$ 16,722	\$ 16,317
Charge-offs:					
Commercial real estate	899	2,253	1,049	3,399	103
Residential real estate	1,299	1,021	3,820	558	295
Consumer	606	337	135	349	678
Commercial and industrial	—	230	380	184	59
Total	2,804	3,841	5,384	4,490	1,135
Recoveries	1,443	1,207	1,477	328	265
Net charge-offs	1,361	2,634	3,907	4,162	870
Provision for loan losses	1,636	3,490	4,445	2,623	1,275
Balance at end of year	\$ 16,852	\$ 16,577	\$ 15,721	\$ 15,183	\$ 16,722
Ratio of net charge-offs during the year to average net loans outstanding during the year	0.02%	0.05%	0.10%	0.15%	0.05%

The increase in net charge-offs for the year ended December 31, 2016, was primarily due to charge-offs of \$2.1 million on the bulk sales of non-performing and under-performing loans.

The following table sets forth the Bank's percent of allowance for loan losses to total allowance and the percent of loans to total loans in each of the categories listed at the dates indicated (dollars in thousands):

	At December 31,														
	2019			2018			2017			2016			2015		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans
Commercial and industrial	\$ 1,458	8.65%	6.38%	\$ 1,609	9.71%	5.46%	\$ 1,801	11.45%	4.72%	\$ 2,037	13.41%	4.00%	\$ 1,639	9.80%	7.29%
Commercial real estate	12,776	75.81	49.71	11,047	66.64	49.46	11,127	70.78	44.19	9,360	61.65	43.72	7,165	42.85	41.19
Residential real estate	2,002	11.88	37.35	2,413	14.56	36.58	1,804	11.48	43.99	2,245	14.79	44.66	6,590	39.41	41.80
Consumer	591	3.51	6.56	486	2.93	8.50	614	3.91	7.10	1,110	7.31	7.62	1,095	6.55	9.72
Unallocated	25	0.15	—	1,022	6.16	—	375	2.38	—	431	2.84	—	233	1.39	—
Total	\$ 16,852	100.00%	100.00%	\$ 16,577	100.00%	100.00%	\$ 15,721	100.00%	100.00%	\$ 15,183	100.00%	100.00%	\$ 16,722	100.00%	100.00%

Reserve for Repurchased Loans and Loss Sharing Obligations. The reserve for repurchased loans and loss sharing obligations was established to provide for expected losses related to repurchase requests which may be received on residential real estate loans previously sold to investors. The reserve also includes an estimate of the Bank's obligation under a loss sharing arrangement with the FHLB relating to loans sold into their Mortgage Partnership Finance ("MPF") program. The Company prepares a comprehensive analysis of the adequacy of the reserve for repurchased loans and loss sharing obligations at each quarter-end.

At December 31, 2019 and 2018, the Company maintained a reserve for repurchased loans and loss sharing obligations of \$1.1 million and \$1.3 million, respectively. Provisions for losses are charged to gain on sale of loans and credited to the reserve while actual losses are charged to the reserve. There were no losses for the years ended December 31, 2019, 2018, and losses of \$383,000 for the year ended December 31, 2017. The Company evaluates the adequacy of the reserve quarterly. As a result of this review, the reserve decreased by \$200,000 during 2019 and 2018, which was included in other income. Included in the losses on loans repurchased are cash settlements in lieu of repurchases. At December 31, 2019 and 2018, there were no outstanding loan repurchase requests.

Management believes that the Bank has established and maintained the reserve for repurchased loans and loss sharing obligations at adequate levels, however, future adjustments to the reserve may be necessary due to economic, operating or other conditions beyond the Bank's control.

Investment Activities

The investment policy of the Bank as established by the Board attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and complement the Bank's lending activities. Specifically, the Bank's policies generally limit investments to government and Federal agency-backed securities, municipal securities and corporate debt obligations. The Bank's policies provide that all investment purchases must be evaluated internally for creditworthiness and be approved by two officers (any two of the Senior Vice President/Treasurer, the Executive Vice President/Chief Financial Officer, and the President/Chief Executive Officer). The Company's investment policy mirrors that of the Bank except that it allows for the purchase of equity securities in limited amounts.

Management determines the appropriate classification of securities at the time of purchase. If the Bank has the intent and the ability at the time of purchase to hold debt securities until maturity, they may be classified as held-to-maturity. Investment and mortgage-backed securities identified as held-to-maturity are carried at cost, adjusted for amortization of premium and accretion of discount, which are recognized as adjustments to interest income. Debt securities to be held for indefinite periods of time, but not necessarily to maturity are classified as available-for-sale. Such debt securities are carried at estimated fair value and unrealized gains and losses, net of related tax effect, are excluded from earnings, but are included as a separate component of stockholders' equity. Refer to Note 4 Securities, to the Consolidated Financial Statements.

Mortgage-backed Securities. Mortgage-backed securities represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which, in general, are passed from the mortgage originators, through intermediaries that pool and repackage the participation interests in the form of securities, to investors such as the Bank. Such intermediaries may be private issuers, or agencies including the Federal Home Loan Mortgage Company ("FHLMC"), the Federal National Mortgage Association ("FNMA"), the Government National Mortgage Association ("GNMA"), and the Small Business Administration ("SBA") that guarantee the payment of principal and interest to investors. Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a certain range and with varying maturities. The underlying pool of mortgages can be composed of either fixed-rate or adjustable-rate loans.

The actual maturity of a mortgage-backed security varies, depending on when the mortgagors repay or prepay the underlying mortgages. Prepayments of the underlying mortgages may shorten the life of the security, thereby affecting its yield to maturity and the related estimated fair value of the mortgage-backed security. The prepayments of the underlying mortgages depend on many factors, including the type of mortgages, the coupon rates, the age of the mortgages, the geographical location of the underlying real estate collateralizing the mortgages, the general levels of market interest rates, and general economic conditions. GNMA mortgage-backed securities that are backed by assumable Federal Housing Administration ("FHA") or Department of Veterans Affairs ("VA") loans generally have a longer life than conventional non-assumable loans underlying FHLMC and FNMA mortgage-backed securities. During periods of falling mortgage interest rates, prepayments generally increase, as opposed to periods of increasing interest rates when prepayments generally decrease. If the interest rate of underlying mortgages significantly exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages. Prepayment experience is more difficult to estimate for adjustable-rate mortgage-backed securities.

The Bank has investments in mortgage-backed securities and has utilized such investments to complement its lending activities. The Bank invests in a large variety of mortgage-backed securities, including adjustable-rate, balloon and fixed-rate securities and all were directly insured or guaranteed by either FHLMC, FNMA, GNMA or SBA.

The following table sets forth the Bank's mortgage-backed securities activities at amortized cost for the periods indicated:

	For the Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Beginning balance	\$ 647,105	\$ 531,110	\$ 462,883
Mortgage-backed securities acquired	41,460	235,700	—
Mortgage-backed securities purchased	—	—	165,501
Less: Principal repayments	(124,336)	(119,780)	(96,383)
Less: Sales	—	—	—
Amortization of premium	280	75	(891)
Ending balance	\$ 564,509	\$ 647,105	\$ 531,110

The following table sets forth certain information regarding the amortized cost and estimated fair value of the Bank's mortgage-backed securities at the dates indicated.

	At December 31,					
	2019		2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)					
Mortgage-backed securities:						
FHLMC	\$ 206,985	\$ 208,682	\$ 237,703	\$ 232,752	\$ 186,921	\$ 184,135
FNMA	244,923	247,115	278,264	272,982	263,103	261,296
GNMA	110,661	111,388	127,611	125,449	75,243	74,379
SBA	1,940	1,889	3,527	3,447	5,843	5,871
Total mortgage-backed securities	\$ 564,509	\$ 569,074	\$ 647,105	\$ 634,630	\$ 531,110	\$ 525,681

Investment Securities. At December 31, 2019, the amortized cost of the Company's investment securities totaled \$358.1 million, and consisted of \$154.1 million of U.S. agency obligations, \$124.5 million of state and municipal obligations and \$79.5 million of corporate debt securities. Each of the U.S. agency obligations are rated AA+ by Standard and Poor's and Aaa by Moody's. The state and municipal obligations are issued by government entities with current credit ratings that are considered investment grade ranging from a high of AAA to a low of A-. The corporate debt securities include two issues totaling \$5.4 million issued by community banks, which are not rated by any of the credit rating services. Excluding these items, the remaining corporate debt securities are issued by various corporate entities with an amortized cost of \$74.1 million. Credit ratings range from a high of AA- to a low of BB+ as rated by one of the internationally-recognized credit rating services. See Note 4 Securities, to the Consolidated Financial Statements.

The following table sets forth certain information regarding the amortized cost and estimated fair value of the Company's investment securities at the dates indicated.

	At December 31,					
	2019		2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)					
Investment securities:						
U.S. agency obligations	\$ 154,104	\$ 155,433	\$ 115,499	\$ 114,569	\$ 97,346	\$ 96,484
State and municipal obligations	124,455	125,784	123,987	122,357	149,958	148,702
Corporate debt securities	79,547	77,959	66,834	61,976	76,024	72,374
Total investment securities	\$ 358,106	\$ 359,176	\$ 306,320	\$ 298,902	\$ 323,328	\$ 317,560

The table below sets forth certain information regarding the amortized cost, weighted average yields and contractual maturities, excluding scheduled principal amortization, of the Bank's investment and mortgage-backed securities as of December 31, 2019. Other investments consist of mutual funds that do not have a contractual maturity date and are excluded from the table. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. See Investment Activities – Mortgage-backed Securities.

At December 31, 2019							
					Total		
	One Year or Less Amortized Cost	More than One Year to Five Years Amortized Cost	More than Five Years to Ten Years Amortized Cost	More than Ten Years Amortized Cost	Amortized Cost	Estimated Fair Value	
(dollars in thousands)							
Investment securities:							
U.S. agency obligations	\$ 35,975	\$ 118,129	\$ —	\$ —	\$ 154,104	\$ 155,433	
State and municipal obligations	21,647	74,884	25,042	2,882	124,455	125,784	
Corporate debt securities ⁽¹⁾	12,013	10,068	46,548	10,918	79,547	77,959	
Total investment securities	\$ 69,635	\$ 203,081	\$ 71,590	\$ 13,800	\$ 358,106	\$ 359,176	
Weighted average yield	1.84%	2.01%	3.49%	4.56%	2.37%		
Mortgage-backed securities:							
FHLMC	\$ 59	\$ 1,716	\$ 59,678	\$ 145,532	\$ 206,985	\$ 208,682	
FNMA	73	13,612	75,292	155,946	244,923	247,115	
GNMA	—	1	2,046	108,614	110,661	111,388	
SBA	—	—	—	1,940	1,940	1,889	
Total mortgage-backed securities	\$ 132	\$ 15,329	\$ 137,016	\$ 412,032	\$ 564,509	\$ 569,074	
Weighted average yield	2.23%	2.80%	2.37%	2.43%	2.43%		

(1) \$49.2 million of the Bank's corporate debt securities carry interest rates which adjust to a spread over LIBOR on a quarterly basis.

Sources of Funds

General. Repayments and prepayments of loans and mortgage-backed securities, cash flows generated from operations, borrowings, proceeds from maturities of debt securities, and deposits are the primary sources of the Bank's funds for use in lending, investing and for other general purposes.

Deposits. The Bank offers a variety of deposit accounts with a range of interest rates and terms to retail, government and business customers. The Bank's deposits consist of money market accounts, savings accounts, interest-bearing checking accounts, non-interest-bearing accounts and time deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. The Bank's deposits are obtained predominantly from the areas in which its branch offices are located. The Bank relies on its community-banking focus, stressing customer service and long-standing relationships with its customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions could significantly affect the Bank's ability to attract and retain deposits.

At December 31, 2019, the Bank had \$150.6 million in time deposits in amounts of \$250,000 or more maturing as follows:

Maturity Period	Weighted Average Rate	
	Amount	
(dollars in thousands)		
Three months or less	\$ 29,469	2.07%
Over three through six months	29,328	1.95
Over six through twelve months	29,669	1.88
Over twelve months	62,116	2.34
Total	\$ 150,582	2.12%

The following table sets forth the distribution of the Bank's average deposit accounts and the average rate paid on those deposits for the periods indicated.

	For the Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Percent of Total Average Deposits	Average Rate Paid	Average Balance	Percent of Total Average Deposits	Average Rate Paid	Average Balance	Percent of Total Average Deposits	Average Rate Paid
	(dollars in thousands)								
Interest-bearing checking accounts	\$ 2,517,068	40.05%	0.67%	\$ 2,336,917	40.43%	0.39%	\$ 1,796,370	41.96%	0.25%
Money market deposit accounts	605,607	9.64	0.81	571,997	9.90	0.49	410,373	9.59	0.30
Savings accounts	906,086	14.42	0.13	877,179	15.17	0.11	672,315	15.70	0.05
Non-interest-bearing accounts	1,325,836	21.10	—	1,135,602	19.64	—	776,344	18.13	—
Time deposits	929,488	14.79	1.67	858,978	14.86	1.11	625,847	14.62	1.00
Total average deposits	\$ 6,284,085	100.00%	0.61%	\$ 5,780,673	100.00%	0.39%	\$ 4,281,249	100.00%	0.29%

Borrowings. The Bank has obtained advances from the FHLB for cash management and interest rate risk management purposes or as an alternative to deposit funds and may do so in the future as part of its operating strategy. FHLB term advances are also used to acquire certain other assets as may be deemed appropriate for investment purposes. Advances are collateralized primarily by certain of the Bank's mortgage loans and investment and mortgage-backed securities and secondarily by the Bank's investment in capital stock of the FHLB. The maximum amount that the FHLB will advance to member institutions, including the Bank, fluctuates from time-to-time in accordance with the policies of the FHLB. At December 31, 2019, the Bank had \$519.3 million in outstanding advances from the FHLB. The Bank also has outstanding municipal letters of credit issued by the FHLB used to secure government deposits. At December 31, 2019, these municipal letters of credit totaled \$1.150 billion.

The Bank also borrows funds using securities sold under agreements to repurchase. Under this form of borrowing specific U.S. Government agency and/or mortgage-backed securities are pledged as collateral to secure the borrowing. These pledged securities are held by a third-party custodian. At December 31, 2019, the Bank had borrowed \$71.7 million through securities sold under agreements to repurchase.

The Bank can also borrow from the Federal Reserve Bank of Philadelphia ("Reserve Bank") under the primary credit program. Primary credit is available on a short-term basis, typically overnight, at a rate above the Federal Open Market Committee's Federal funds target rate. All extensions of credit by the Reserve Bank must be secured. At December 31, 2019, the Bank had no borrowings outstanding with the Reserve Bank.

Subsidiary Activities

At December 31, 2019, the Bank owned 8 direct subsidiaries:

- OceanFirst REIT Holdings, Inc. was established in 2007 as a wholly-owned subsidiary of the Bank and now acts as the holding company for OceanFirst Management Corp, which was organized in 2016 for the purpose of holding and managing investment securities, including the stock of OceanFirst Realty Corp. OceanFirst Realty Corp. was established in 1997 and invests in qualifying mortgage loans and is intended to qualify as a real estate investment trust, which may, among other things, be utilized by the Company to raise capital in the future.
- Hooper Holdings, LLC, and TRREO Holdings, LLC were established in 2015, and 2016, respectively, as wholly-owned subsidiaries of the Bank. Casaba Real Estate Holding Corporation and Cohensey Bridge, L.L.C. were acquired by the Bank as wholly-owned subsidiaries as part of its acquisition of Cape in 2016. All of these subsidiaries are maintained for the purpose of taking legal possession of certain repossessed collateral for resale to third parties.
- Prosperis Financial, L.L.C. was acquired by the Bank as a wholly-owned subsidiary as part of its acquisition of Sun in 2018. This subsidiary offered client access to various investment and advisory services and is currently inactive.
- CBNJ Investment Corp was acquired by the Bank as a wholly owned subsidiary as part of its acquisition of Capital Bank in 2019. This subsidiary held certain investments of Capital Bank and is currently inactive.

- OceanFirst Services, LLC is a wholly-owned subsidiary of the Bank that is now the holding company for OFB Reinsurance, Ltd., which was established in 2002 to reinsure a percentage of the private mortgage insurance (“PMI”) risks on one-to-four family residential mortgages originated by the Bank. There are no current reinsurance contracts in force by OFB Reinsurance, Ltd.

In addition to the Bank, the Company has OceanFirst Risk Management, Inc. as a direct subsidiary. OceanFirst Risk Management Inc. is a captive insurance company that insures certain risks relating to the business of the Bank and the Company.

Personnel

As of December 31, 2019, the Bank had 838 full-time employees and 86 part-time employees, for a total of 924 employees. The employees are not represented by a collective bargaining unit and the Bank considers its relationship with its employees to be good.

On January 1, 2020, the Company completed its acquisition of Two River and Country Bank. The Two River acquisition added 149 full-time and 3 part time employees, for a total of 152 employees. The Country Bank acquisition added 49 full-time and 3 part time employees, for a total of 52 employees.

REGULATION AND SUPERVISION

General

Prior to January 2018, the Bank was a Federally-chartered savings bank, and the Company was registered as a savings and loan holding company. Effective January 31, 2018, the Bank converted to a national bank charter and the Company became a bank holding company (“BHC”) under Section 3 of the Bank Holding Company Act of 1956, as amended (the “BHC Act”) and is subject to the requirements of the BHC Act, including required approvals for investments in or acquisitions of banking organizations, or entities involved in activities that are deemed closely related to banking, capital adequacy standards and limitations on nonbanking activities. The Company is registered with the FRB and is required by Federal law to file reports with, and comply with the rules and regulations of the FRB. The Bank is a member of the FHLB System and, with respect to deposit insurance, of the Deposit Insurance Fund (“DIF”) managed by the FDIC. The Bank is subject to extensive regulation, examination and supervision by the OCC, as its primary Federal regulator, and the FDIC, as the deposit insurer. The Bank must file reports with the OCC and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to consummating certain transactions such as mergers with, or acquisitions of, other insured depository institutions. The OCC conducts periodic examinations to test the Bank’s safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors and to ensure the safe and sound operation of the Bank. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

In addition, the Company elected to become a financial holding company under the Gramm-Leach Bliley Act amendments to the BHC Act (the “GLBA”). A financial holding company, and the nonbank companies under its control, are permitted to engage in activities considered financial in nature or incidental to financial activities and, if the FRB determines that they pose no risk to the safety or soundness of depository institutions or the financial system in general, activities that are considered complementary to financial activities.

The banking industry is highly regulated. Statutory and regulatory controls increase a BHC’s cost of doing business and limit the options of its management to deploy assets and maximize income. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on the Company or the Bank. It is intended only to briefly summarize some material provisions.

The description of statutory provisions and regulations applicable to national banks and BHCs set forth in this Form 10-K does not purport to be a complete description of such statutes and regulations and their effects on the Bank and the Company, is subject to change and is qualified in its entirety by reference to the actual laws and regulations involved.

The Dodd-Frank Act. The Dodd-Frank Act significantly changed the bank regulatory structure and affects the lending, deposit, investment, compliance and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various Federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The Federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and the full impact of the Dodd-Frank Act are still not yet known.

The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has enforcement authority over all banks with more than \$10 billion in assets.

Institutions with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators (the OCC in the case of the Bank), although the CFPB will have back-up authority over such institutions. As a result of the acquisitions of Two River and Country Bank on January 1, 2020, the Bank's assets exceeded \$10 billion. Assuming the Bank maintains assets over \$10 billion, it will be subject to authority enforcement by the CFPB. The Dodd-Frank Act also weakens the Federal preemption rules that have been applicable for national banks and Federal savings associations, and gives state attorney generals the ability to enforce Federal consumer protection laws.

Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards and prepayments. The Dodd-Frank Act requires originators to make a reasonable and good faith determination based on documented information that a borrower has a reasonable ability to repay a particular mortgage loan over the long term. If the originator cannot meet this standard, the burden is on the lender to demonstrate the appropriateness of its policies and the strength of its controls. The Dodd-Frank Act contains an exception from this Ability-To-Repay rule for "Qualified Mortgages." The rule sets forth specific underwriting criteria for a loan to qualify as a Qualified Mortgage. The criteria generally exclude loans that (1) are interest-only, (2) have excessive upfront points or fees, or (3) have negative amortization features, balloon payments, or terms in excess of 30 years. To be defined as an Ability-To-Repay Qualified Mortgage, the underwriting criteria also impose a maximum debt to income ratio of 43%, based upon documented and verifiable information. If a loan meets these criteria and is not a "higher priced loan" as defined in FRB regulations, the CFPB rule establishes a safe harbor preventing a consumer from asserting the failure of the originator to establish the consumer's Ability-To-Repay. Additionally, conforming fixed-rate loans with a debt-to-income ratio greater than 43% would also qualify as an Ability-To-Repay Qualified Mortgage based upon an automated loan approval from one of the government sponsored mortgage entities. However, a consumer may assert the lender's failure to comply with the Ability-To-Repay rule for all residential mortgage loans other than Qualified Mortgages, and may challenge a lender's determination that a loan was in fact a Qualified Mortgage. The qualified mortgage rule has yet to be fully addressed by the foreclosure courts and depending on the interpretation of these rules, collectability of non-qualifying mortgages could be subject to future action by the courts. See Risk Factors – The Dodd-Frank Act imposes obligations on originators of residential mortgage loans, such as the Bank.

The Dodd-Frank Act also directed the FRB to issue rules to limit debit card interchange fees (the fees that issuing banks charge merchants each time a consumer uses a debit card) collected by banks with assets of \$10 billion or more. The FRB issued a final rule which caps an issuer's debit card interchange base fee at twenty-one cents (\$0.21) per transaction and allows an additional 5 basis point charge per transaction to cover fraud losses. The FRB also issued an interim final rule that allows a fraud-prevention adjustment of one cent (\$0.01) per transaction conditioned upon an issuer adopting effective fraud prevention policies and procedures. The Bank's average interchange fee per transaction is thirty-nine cents (\$0.39). The Dodd-Frank Act exempts from the FRB's rule banks with assets less than \$10 billion. At December 31, 2019, the Bank was exempt from this rule. As a result of the acquisitions of Two River and Country Bank on January 1, 2020, the Bank's assets exceeded \$10 billion. Assuming the Bank maintains assets over \$10 billion, it will be subject to reduced interchange fees beginning in July 2021 of approximately \$2.0 million for 2021, or \$4.0 million annualized. In addition, market forces may result in reduced fees charged by all issuers, regardless of asset size, which may result in reduced revenues for the Bank. For the year ended December 31, 2019, the Bank's revenues from interchange fees was \$9.5 million, an increase of \$1.0 million from 2018.

The Dodd-Frank Act requires publicly-traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and allows greater access by stockholders to the company's proxy material by authorizing the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal banking agencies to promulgate rules prohibiting excessive compensation paid to bank executives, regardless of whether the company is publicly traded. The SEC has not yet implemented rules giving stockholders access to company proxy statements, and the banking agency rules primarily address incentive compensation. The rules prohibit incentive-based compensation that would encourage inappropriate risks by providing excessive compensation or that would expose the bank to inappropriate risks by providing compensation that could lead to a material financial loss.

It is still uncertain to what extent and how full implementation of and promulgation of rules under the Dodd-Frank Act, will occur and affect the Bank.

Economic Growth, Regulatory Relief and Consumer Protection Act. The Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRGCPA"), adopted in May of 2018, was intended to provide regulatory relief to mid-sized and regional banks. While many of its provisions are aimed at larger institutions, such as raising the threshold to be considered a systemically important financial institution to \$250 billion in assets from \$50 billion in assets, many of its provisions will provide regulatory relief to those institutions with \$10 billion or more in assets. Among other things, the EGRGCPA increased the asset threshold for depository institutions and holding companies to perform stress tests required under Dodd Frank from \$10 billion to \$250 billion, exempted institutions with less than \$10 billion in consolidated assets from the Volker Rule, raised the threshold for the requirement that publicly traded holding companies have a risk committee from \$10 billion in consolidated assets to \$50 billion in consolidated assets, directed the federal banking agencies to adopt a "community bank leverage ratio," applicable to institutions and holding companies with less

than \$10 billion in assets, and to provide that compliance with the new ratio would be deemed compliance with all capital requirements applicable to the institution or holding company, and provided that residential mortgage loans meeting certain criteria and originated by institutions with less than \$10 billion in total assets will be deemed to meet the “ability to repay rule” under the Truth in Lending Act. In addition, the EGRGCPA limited the definition of loans that would be subject to the higher risk weighting applicable to High Volatility Commercial Real Estate.

Many of the regulations needed to implement the EGRGCPA have yet to be promulgated by the federal banking agencies, and so it is still uncertain how full implementation of the EGRGCPA will affect the Company and the Bank.

Bank Holding Company Regulation

The Company is a BHC and is supervised by the FRB and is required to file reports with the FRB and provide such additional information as the FRB may require. The Company and its subsidiaries are subject to examination by the FRB.

The BHC Act prohibits the companies which do not elect to become financial holding companies, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to subsidiary banks, except that a BHC may, upon application, engage in, and may own shares of companies engaged in, certain businesses found by the FRB to be so closely related to banking “as to be a proper incident thereto.” The BHC Act requires prior approval by the FRB of the acquisition by bank holding companies of more than 5% of the voting stock of any other entity, including another bank. Satisfactory capital ratios and Community Reinvestment Act (“CRA”) ratings and anti-money laundering policies are generally prerequisites to obtaining federal regulatory approval to make acquisitions. FRB regulations provide that a BHC is expected to act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support the subsidiary bank in circumstances in which it might not do so absent those regulations.

Holding Company Capital Requirements. The Dodd-Frank Act requires capital rules and the application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. In addition to making bank holding companies subject to the same capital requirements as their bank subsidiaries, these provisions (often referred to as the Collins Amendment to the Dodd-Frank Act) were also intended to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. The Dodd-Frank Act also requires banking regulators to seek to make capital standards countercyclical, so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

At December 31, 2019, the Company exceeded all regulatory capital requirements currently applicable. The following table presents the Company’s capital position at December 31, 2019:

As of December 31, 2019	Actual Capital	Required Capital	Excess Amount	Capital	
				Actual Percent	Required Percent
OceanFirst Financial Corp:	(dollars in thousands)				
Tier 1 capital (to average assets)	\$ 791,746	\$ 311,289	\$ 480,457	10.17%	4.00%
Common equity Tier 1 (to risk-weighted assets)	729,095	420,273	308,822	12.14	7.00 ⁽¹⁾
Tier 1 capital (to risk-weighted assets)	791,746	510,331	281,415	13.19	8.50 ⁽¹⁾
Total capital (to risk-weighted assets)	844,977	630,409	214,568	14.07	10.50 ⁽¹⁾

(1) Includes the Capital Conservation Buffer of 2.50%

Dividends. The FRB has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Regulatory pressures to reclassify and charge off loans and to establish additional loan loss reserves can have the effect of reducing current operating earnings and thus impacting an institution’s ability to pay dividends. Further, regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the Company’s net income for the past four quarters, net of dividends previously paid over that period is insufficient to fully fund the dividend or the Company’s overall rate of earnings retention is inconsistent with the Company’s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also states that a holding company should inform the FRB supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction in the amount of such instruments outstanding from the beginning of the quarter in which

the redemption or repurchase occurred compared with the end of such quarter. These regulatory policies may affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Acquisition of the Company. Under the Federal Change in Bank Control Act (“CBCA”) and applicable regulations, a notice must be submitted to the FRB if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company’s outstanding voting stock, unless the FRB has found that the acquisition will not result in a change of control of the Company. Under CBCA, the FRB has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a BHC.

Financial Holding Company Status

When the Bank converted to a national bank charter and the Company became a BHC, the Company elected to become a financial holding company. Financial holding companies may engage in a broader scope of activities than a BHC. In addition, financial holding companies may undertake certain activities without prior FRB approval.

A financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. “Financial in nature” activities include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and insurance agency activities; merchant banking; and activities that the FRB determines to be financial in nature or incidental to a financial activity or which are complementary to a financial activity and do not pose a safety and soundness risk.

A financial holding company that engages in activities that are financial in nature or incidental to a financial activity but not previously authorized by the FRB must obtain approval from the FRB before engaging in such activity. Also, a financial holding company may seek FRB approval to engage in an activity that is complementary to a financial activity, if it shows, among other things, that the activity does not pose a substantial risk to the safety and soundness of its insured depository institutions or the financial system.

A financial holding company generally may acquire a company (other than a bank holding company, bank or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature without prior approval from the FRB. Prior FRB approval is required, however, before the financial holding company may acquire control of more than 5% of the voting shares or substantially all of the assets of a BHC, bank or savings association. In addition, under the FRB’s merchant banking regulations, a financial holding company is authorized to invest in companies that engage in activities that are not financial in nature, as long as the financial holding company makes its investment with the intention of limiting the duration of the investment, does not manage the company on a day-to-day basis, and the company does not cross-market its products or services with any of the financial holding company’s controlled depository institutions.

If any subsidiary bank of a financial holding company ceases to be “well-capitalized” or “well-managed” and fails to correct its condition within the time period that the FRB specifies, the FRB has authority to order the financial holding company to divest its subsidiary banks. Alternatively, the financial holding company may elect to limit its activities and the activities of its subsidiaries to those permissible for a bank holding company that is not a financial holding company. If any subsidiary bank of a financial holding company receives a rating under the CRA of less than “satisfactory,” then the financial holding company is prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations until the rating is raised to “satisfactory” or better.

Regulation of Bank Subsidiary

Business Activities. The operations of the Bank are subject to requirements and restrictions under Federal law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted, and limitations on the types of investments that may be made and the types of services which may be offered. Various consumer laws and regulations also affect the operations of the Bank. Approval of the OCC is required for branching, bank mergers in which the continuing bank is a national bank and in connection with certain fundamental corporate changes affecting the Bank. There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, as implemented by Regulation W which govern the extent to which a bank subsidiary may finance or otherwise supply funds to its holding company or its holding company’s non-bank subsidiaries.

Capital Requirements. FDIC regulations require banks to maintain minimum levels of capital including: a common equity Tier 1 capital to risk-based assets ratio of 4.0%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. These capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

As noted, the risk-based capital standards for banks require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6.0%, and 8.0%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied

by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets. Unrealized gains and losses on certain "available-for-sale" securities are included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. The Bank has exercised the opt-out. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, federal regulators take into consideration, not only these numeric factors, but qualitative factors as well, and have the authority to establish higher capital requirements for individual banks where necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement has been phased in, incrementally, over the past four years beginning January 1, 2016. The phase in of the capital conservation buffer started at 0.625% on January 1, 2016, and increased to 1.25% on January 1, 2017, 1.875% on January 1, 2018, and 2.50% on January 1, 2019, when the full capital conservation buffer requirement became effective. Both the Bank and the Company are in compliance with the capital conservation buffer requirements applicable to them.

The Federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of an institution's exposure to declines in the economic value of a bank's capital due to changes in interest rates when assessing the bank's capital adequacy. Under such a risk assessment, examiners evaluate a bank's capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors. Institutions with significant interest rate risk may be required to hold additional capital. According to the Federal banking agencies, applicable considerations include: quality of the bank's interest rate risk management process; the overall financial condition of the bank; and the level of other risks at the bank for which capital is needed.

At December 31, 2019, the Bank exceeded all regulatory capital requirements currently applicable. The following table presents the Bank's capital position at December 31, 2019:

As of December 31, 2019	Actual Capital	Required Capital	Excess Amount	Capital	
				Actual Percent	Required Percent
Bank:	(dollars in thousands)				
Tier 1 capital (to average assets)	\$ 779,108	\$ 310,798	\$ 468,310	10.03%	4.00%
Common equity Tier 1 (to risk-weighted assets)	779,108	420,106	359,002	12.98	7.00 (1)
Tier 1 capital (to risk-weighted assets)	779,108	510,129	268,979	12.98	8.50 (1)
Total capital (to risk-weighted assets)	797,339	630,159	167,180	13.29	10.50 (1)

(1) Includes the Capital Conservation Buffer of 2.50%

Prompt Corrective Action. Federal law requires, among other things, that the Federal bank regulatory authorities take "prompt corrective action" with respect to insured depository institutions that do not meet minimum capital requirements. For these purposes, the law establishes five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC's regulations define the five categories as follows:

An institution is classified as "well capitalized" if:

- its ratio of Tier 1 capital to total assets is at least 5%, and it is not subject to any order or directive by the FDIC to meet a specific capital level; and
- its ratio of common equity tier 1 capital to risk-weighted assets is at least 6.5%; and
- its ratio to Tier 1 capital to risk-weighted assets is at least 8%; and
- its ratio of total capital to risk-weighted assets is at least 10%.

An institution is classified as "adequately capitalized" if:

- its ratio of Tier 1 capital to total assets is at least 4%; and
- its ratio of common equity tier 1 capital to risk-weighted assets is at least 4.5%; and
- its ratio to Tier 1 capital to risk-weighted assets is at least 6%; and
- its ratio of total capital to risk-weighted assets is at least 8%.

An institution is classified as “undercapitalized” if:

- its leverage ratio is less than 4%; and
- its ratio of common equity tier 1 capital to risk-weighted assets is less than 4.5%; and
- its ratio to Tier 1 risk based capital is at less than 6%; and
- its ratio of total capital to risk-weighted assets is at least 8%.

An institution is classified as “significantly undercapitalized” if:

- its leverage ratio is less than 3%; or
- its ratio of common equity tier 1 capital to risk-weighted assets is less than 3%; or
- its ratio to Tier 1 risk based capital is at less than 4%; or
- its total risk-based capital is less than 6%.

An institution that has a tangible capital to total assets ratio equal to or less than 2% is deemed to be “critically undercapitalized.”

The FDIC is required, with some exceptions, to appoint a receiver or conservator for an insured bank if that bank is “critically undercapitalized.” The FDIC may also appoint a conservator or receiver for a state bank on the basis of the institution’s financial condition or upon the occurrence of certain events, including:

- insolvency, or when the assets of the bank are less than its liabilities to depositors and others;
- substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices;
- existence of an unsafe or unsound condition to transact business;
- likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; and
- insufficient capital, or the incurring or likely incurring of losses that will deplete substantially all of the institution’s capital with no reasonable prospect of replenishment of capital without Federal assistance.

Based on the regulatory guidelines, the Bank satisfies the criteria to be “well-capitalized.”

Insurance of Deposit Accounts. Deposit accounts at the Bank are insured by the DIF of the FDIC. The Bank is therefore subject to FDIC deposit insurance assessments which are determined using a risk-based system.

In 2011, the FDIC approved a final rule required by the Dodd-Frank Act, that changed the assessment base from domestic deposits to average assets minus average tangible equity, adopted a new large-bank pricing assessment scheme, and set a target size for the DIF. The rule finalized a target size for the DIF at 2% of insured deposits. It also implemented a lower assessment rate schedule when the fund reaches 1.15% (so that the average rate over time should be about 8.5 basis points) and, in lieu of dividends, provided for a lower rate schedule when the reserve ratio reaches 2% and 2.5%. In addition, the FDIC set a targeted reserve ratio of 1.35% by September 30, 2018, and provided that the FDIC would award assessment credits to banks with consolidated assets less than \$10 billion, for the portion of the assessment that contributed to the growth in the reserve ratio, if the target was met. The rule lowered overall assessment rates in order to generate the same approximate amount of revenue under the new larger base as was raised under the old base. The assessment rates in total are between 2.5 and 9 basis points on the broader base for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category. Deposit accounts are insured by the FDIC generally up to a maximum of \$250,000 per separately insured depositor.

The FDIC may terminate the insurance of an institution’s deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

On September 30, 2018, the Deposit Insurance Fund Reserve Ratio reached 1.36 percent. Because the reserve ratio has exceeded 1.35 percent threshold, the FDIC awarded assessment credits to banks with consolidated assets less than \$10 billion, for the portion of the assessment that contributed to the growth in the reserve ratio. The Company received the FDIC assessment credits during the second half of 2019.

The total expense incurred in 2019 and 2018 for the deposit insurance assessment and the FICO payments were \$1.1 million and \$2.4 million, respectively.

Loans to One Borrower. Subject to certain exceptions, a banking institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral.

Limitation on Capital Distributions. Applicable regulations impose limitations upon all capital distributions by a banking institution, including cash dividends, payments to repurchase its shares and payments to stockholders of another institution in a cash-out merger.

Under the regulations, an application to and the approval of the OCC, is required prior to any capital distribution if the total capital distributions for the calendar year exceeds net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the OCC. In the event the Bank's capital fell below its regulatory requirements or the FRB or OCC notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the FRB or OCC could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the FRB or OCC determine that such distribution would constitute an unsafe or unsound practice. If the Bank is unable for any reason to pay a dividend to the Company, the Company may not have the liquidity necessary to pay a dividend in the future, pay a dividend at the same rate as historically paid, be able to repurchase stock, or to meet current debt obligations. In addition, capital requirements made applicable to the Company as a result of the Dodd-Frank Act and Basel III may limit the Company's ability to pay dividends or repurchase stock in the future.

Assessments. Banking institutions are required to pay assessments to fund regulatory operations. The assessments, paid on a semi-annual basis, are based upon the institution's total assets, including consolidated subsidiaries as reported in the Bank's latest quarterly regulatory report, as well as the institution's regulatory rating and complexity component. The assessments paid by the Bank for the years ended December 31, 2019 and 2018 totaled \$1.2 million and \$1.3 million, respectively.

Transactions with Related Parties. The Bank's authority to engage in transactions with "affiliates" (e.g., any company that controls or is under common control with an institution, including the Company and its non-bank subsidiaries) is limited by Federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of the bank's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Federal law. The purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances, that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, banks are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no bank may purchase the securities of any affiliate other than a subsidiary.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional FHLBs. Each FHLB provides member institutions with a central credit facility. The Bank, as a member of the FHLB-NY is required to acquire and hold shares of capital stock in that FHLB in an amount at least equal to 0.125% of mortgage-related assets and 4.5% of the specified value of certain transactions with the FHLB. The Bank was in compliance with this requirement with an investment in FHLB-NY stock at December 31, 2019 and 2018 of \$31.9 million and \$28.8 million, respectively.

Federal Reserve System

The Federal Reserve Board regulations require depository institutions to maintain reserves against their transaction accounts (primarily interest-bearing checking and regular checking accounts). The regulations are adjusted annually and generally provide that reserves be maintained against aggregate transaction accounts. At December 31, 2019, the reserve requirements were as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including \$124.2 million; a 10% reserve ratio is applied above \$124.2 million. The first \$16.3 million of otherwise reservable balances (subject to adjustments by the FRB) are exempt from the reserve requirements. The Bank complies with the foregoing requirements. For 2020, the FRB has set the 3% reserve limit at \$127.5 million and the exemption at \$16.9 million.

In addition, as a national bank, the Bank is required to hold capital stock of the Federal Reserve Bank of Philadelphia. The required shares may be adjusted up or down based on changes to the Bank's common stock and paid-in surplus. The Bank is in compliance with these requirements, with a total investment in Federal Reserve Bank of Philadelphia stock of \$30.4 million and \$28.0 million at December 31, 2019 and 2018, respectively.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank report their income on a calendar year basis using the accrual method of accounting, and are subject to Federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company.

Corporate Alternative Minimum Tax. For tax years before December 31, 2017, the Internal Revenue Code of 1986, as amended (the "Code") imposed a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. Only 90% of AMTI can be offset by net operating loss carryovers. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings

exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses). On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted resulting in significant modifications to existing laws, including elimination of the corporate alternative tax.

Dividends Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 50% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank own more than 20% of the stock of a corporation distributing a dividend then 65% of any dividends received may be deducted.

Tax Reform. On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted resulting in significant modifications to existing law, including a reduction in the statutory rate from 35% in 2017, to 21% in 2018. As a result of the Tax Reform, the Company was required to revalue its deferred tax asset, resulting in no impact for the year ended December 31, 2019, a tax benefit of \$1.9 million, for the year ended December 31, 2018, and a tax expense of \$3.6 million for the year ended December 31, 2017.

State and Local Taxation

New Jersey Taxation. The Bank files New Jersey income tax returns. For New Jersey income tax purposes, the Bank is subject to a tax rate of 9% of taxable income. For this purpose, “taxable income” generally means Federal taxable income, subject to certain adjustments (including addition of interest income on state and municipal obligations).

The Company is required to file a New Jersey income tax return because it does business in New Jersey. For New Jersey tax purposes, regular corporations are presently taxed at a rate equal to 9% of taxable income. New Jersey also imposes a temporary surtax of 2.5% for 2018 and 2019, and 1.5% for 2020 and 2021. If the Company meets certain requirements, it is eligible to elect to be taxed as a New Jersey Investment Company at a tax rate presently equal to 3.60% (40% of 9%) of taxable income. The Company did not qualify as a New Jersey Investment Company. For 2019 and prospectively, New Jersey law requires combined filing for members of an affiliated group but excludes companies that qualify as a New Jersey Investment Company.

OceanFirst REIT Holdings, Inc. files a separate New Jersey income tax return since it qualifies as a New Jersey Investment Company. It is taxed at a rate presently equal to 3.60% of taxable income.

New York Taxation. Due to an increase in loan activity both organically and through acquisition, the Bank is required to file a New York State and MTA tax return. The New York return requires consolidation of all entities, including OceanFirst Realty, and New York taxable income, consistent with other states, generally means Federal taxable income subject to certain adjustments. The allocation and apportionment of taxable income to New York State may positively affect the overall tax rate.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

Item 1A. Risk Factors

An investment in the Company’s common stock involves risks. Stockholders should carefully consider the risks described below, together with other information contained in this Annual Report on Form 10-K, before making any purchase or sale decisions regarding the Company’s common stock. If any of the following risks actually occur, the Company’s financial condition or operating results may be harmed. In that case, the trading price of the Company’s common stock may decline, and stockholders may lose part or all of their investment in the Company’s common stock.

A downturn in the local economy or in local real estate values could adversely impact profits. Most of the Bank’s loans are secured by real estate and are made to borrowers throughout New Jersey and the metropolitan areas of Philadelphia and New York City, as well as their surrounding areas. A downturn in the local economy or a decline in real estate values could increase the amount of non-performing loans and cause residential and commercial real estate loans to become inadequately collateralized, which could expose the Bank to a greater risk of loss.

The Bank’s emphasis on commercial lending may expose the Bank to increased lending risks. At December 31, 2019, \$3.5 billion, or 56.1%, of the Bank’s total loans consisted of commercial real estate, multi-family and land loans, and commercial and industrial loans. This portfolio has grown in recent years and the Bank intends to continue to emphasize these types of lending. These types of loans may expose a lender to greater risk of non-payment and loss than one-to-four family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. In addition, many of these loans were acquired through the Company’s recent acquisitions, and were not underwritten by the Bank and were made to borrowers with whom the Company and the Bank do not have longstanding relationships.

The Company has grown and may continue to grow through acquisitions. To be successful as a larger institution, the Company must successfully integrate the operations and retain the customers of acquired institutions, attract and retain the management required to successfully manage larger operations, and control costs. Since July 31, 2015, the Company has acquired Colonial American, Cape, Ocean Shore, Sun, and Capital Bank. On January 1, 2020, the Company acquired Two River and Country Bank.

Future results of operations will depend in large part on the Company's ability to successfully integrate the operations of the acquired institutions and retain the employees and customers of those institutions. If the Company is unable to successfully manage the integration of the separate cultures, employee and customer bases and operating systems of the acquired institutions, and any other institutions that may be acquired in the future, the Company's results of operations may be adversely affected.

In addition, to successfully manage substantial growth, the Company may need to increase non-interest expenses through additional personnel, leasehold and data processing costs, among others. In order to successfully manage growth, the Company may need to adopt and effectively implement policies, procedures and controls to maintain credit quality, control costs and oversee the Company's operations. No assurance can be given that the Company will be successful in this strategy.

The Company may be challenged to successfully manage its business as a result of the strain on management and operations that may result from growth. The ability to manage growth will depend on its ability to continue to attract, hire and retain skilled employees. Success will also depend on the ability of officers and key employees to continue to implement and improve operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage employees.

Finally, substantial growth may stress regulatory capital levels, and may require the Company to raise additional capital. No assurance can be given that the Company will be able to raise any required capital, or that it will be able to raise capital on terms that are beneficial to stockholders.

A significant portion of the Company's loan portfolio has grown through acquisition, and therefore may not have been underwritten to meet the Company's credit standards. Since these loans were acquired as part of the Company's acquisitions of other depository institutions, they were not underwritten or originated in accordance with the Company's credit standards, and the Company does not have long-standing relationships with many of these borrowers. As a result, the acquired loans are re-risk rated based on the Company's credit standards, which can temporarily increase loans classified as special mention and substandard for a period of time until these loans are integrated and conform to the Company's credit standards. Although the Company reviewed the loan portfolios of each institution acquired as part of the diligence process, and has established reasonable credit marks with regard to all loans acquired, no assurance can be given that the Company will not incur losses in excess of the credit marks with regard to these acquired loans, or that any such losses, if they occur, will not have a material adverse effect on the Company's business, financial condition and results of operations.

Future acquisition activity could dilute tangible book value. Both nationally and locally, the banking industry is undergoing consolidation marked by numerous mergers and acquisitions. From time-to-time, the Company may be presented with opportunities to acquire institutions and/or bank branches which result in discussions and negotiations. Acquisitions typically involve the payment of a premium over book and trading values, and therefore, may result in the dilution of tangible book value per share.

The Dodd-Frank Act imposes obligations on originators of residential mortgage loans, such as the Bank. Among other things, the Dodd-Frank Act requires originators to make a reasonable and good faith determination based on documented information that a borrower has a reasonable ability to repay a particular mortgage loan over the long term. If the originator cannot meet this standard, the burden is on the lender to demonstrate the appropriateness of its policies and the strength of its controls. The Dodd-Frank Act contains an exception from this Ability-To-Repay rule for "Qualified Mortgages." The rule sets forth specific underwriting criteria for a loan to qualify as a Qualified Mortgage. If a loan meets these criteria and is not a "higher priced loan" as defined in FRB regulations, the CFPB rule establishes a safe harbor preventing a consumer from asserting the failure of the originator to establish the consumer's Ability-To-Repay. Additionally, conforming fixed-rate loans with a debt-to-income ratio greater than 43% would also qualify as an Ability-To-Repay Qualified Mortgage based upon an automated loan approval from one of the government sponsored mortgage entities. However, a consumer may assert the lender's failure to comply with the Ability-To-Repay rule for all residential mortgage loans other than Qualified Mortgages, and may challenge whether a loan actually met the criteria to be deemed an Ability-to-Pay Qualified Mortgage. These challenges have yet to be addressed by the courts.

Although the majority of residential mortgages historically originated by the Bank would be considered Qualified Mortgages, the Bank currently originates residential mortgage loans that do not qualify. As a result of the Ability-to-Repay rules, the Bank may experience loan losses, litigation related expenses and delays in taking title to real estate collateral in a foreclosure proceeding if these loans do not perform and borrowers challenge whether the Bank satisfied the Ability-To-Repay rule upon originating the loan.

The Bank's allowance for loan losses may be inadequate, which could hurt the Company's earnings. The Bank's allowance for loan losses may prove to be inadequate to cover actual loan losses and if the Bank is required to increase its allowance, current earnings may be reduced. The Bank provides for losses by reserving what it believes to be an adequate amount to absorb any probable incurred

losses. A “charge-off” reduces the Bank’s reserve for possible loan losses. If the Bank’s reserves were insufficient, it would be required to record a larger reserve, which would reduce earnings for that period. Further, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, “Measurement of Credit Losses on Financial Instruments,” that will be effective for interim and annual reporting periods beginning after December 15, 2019. This standard will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable. The Company’s current expected credit loss (“CECL”) implementation efforts are in process and continue to focus on model validation, developing new disclosures, establishing formal policies and procedures and other governance and control documentation. Certain elements of the calculation are pending finalization, including refinement of the model assumptions, the qualitative framework, internal control design, model validation, and the operational control framework to support the new process. Furthermore, changes to the economic forecasts within the model could positively or negatively impact the actual results. Any increase in the allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have a material adverse effect on the Company’s financial condition and results of operations.

The foreclosure process in New Jersey may adversely impact the Bank’s recoveries on non-performing loans. The Judicial foreclosure process in New Jersey is protracted, which delays the Company’s ability to resolve non-performing loans through the sale of the underlying collateral. The longer timelines were the result of the economic crisis, additional consumer protection initiatives related to the foreclosure process, increased documentary requirements and judicial scrutiny, and, both voluntary and mandatory programs under which lenders may consider loan modifications or other alternatives to foreclosure. These reasons, historical issues at the largest mortgage loan servicers, and the legal and regulatory responses have impacted the foreclosure process and completion time of foreclosures for residential mortgage lenders. Although the Company is not currently materially impacted by foreclosures, this may result in a material adverse effect on collateral values and the Bank’s ability to minimize its losses.

The interest rate environment could adversely affect results of operations and financial condition. The Bank’s ability to make a profit largely depends on net interest income, which could be negatively affected by changes in interest rates. The interest income earned on interest-earning assets and the interest expense paid on interest-bearing liabilities are generally fixed for a contractual period of time. Interest-bearing liabilities generally have shorter contractual maturities than interest-earning assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on interest-earning assets may not increase as rapidly as the interest paid on interest-bearing liabilities. Additionally, a flat or an inverted yield curve, where short-term rates are close to, or below, long-term rates, could adversely affect the Company’s financial condition and results of operations.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed securities. A reduction in interest rates causes increased prepayments of loans and mortgage-backed securities as borrowers refinance their debt to reduce their borrowing costs. This creates reinvestment risk, which is the risk that the Bank may not be able to reinvest the funds from faster prepayments at rates that are comparable to the rates earned on the prepaid loans or mortgage-backed securities. Conversely, an increase in interest rates generally reduces prepayments. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

Changes in interest rates also affect the current estimated fair value of the interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. Unrealized net losses on securities available-for-sale are reported as a separate component of equity. To the extent interest rates increase and the value of the available-for-sale portfolio decreases, stockholders’ equity will be adversely affected.

Changes in the estimated fair value of debt securities may reduce stockholders’ equity and net income. At December 31, 2019, the Company maintained a debt securities portfolio of \$919.8 million, of which \$151.0 million was classified as available-for-sale. The estimated fair value of the available-for-sale debt securities portfolio may increase or decrease depending on the credit quality of the underlying issuer, market liquidity, changes in interest rates and other factors. Stockholders’ equity is increased or decreased by the amount of the change in the unrealized gain or loss (difference between the estimated fair value and the amortized cost) of the available-for-sale debt securities portfolio, net of the related tax expense or benefit, under the category of accumulated other comprehensive income (loss). Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders’ equity, as well as book value per common share. The decrease will occur even though the securities are not sold.

The Company conducts a periodic review and evaluation of the complete debt securities portfolio to determine if the decline in the estimated fair value of any security below its cost basis is other-than-temporary. Factors which are considered in the analysis include, but are not limited to, the severity and duration of the decline in estimated fair value of the security, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, the intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value and the likelihood of any near-term fair value recovery. If such decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income.

At December 31, 2019 the debt securities portfolio included corporate debt securities in an unrealized loss position for greater than one year. The debt securities in a loss position had a book value of \$39.8 million and an estimated fair value of \$37.6 million. At December 31, 2019, the Company determined that no other-than-temporary impairment charge was required. However, the Company may be required to recognize an other-than-temporary impairment charge related to these securities if circumstances change.

The Bank may be required to repurchase mortgage loans for a breach of representations and warranties, which could harm the Company's earnings. The Company has entered into loan sale agreements with investors in the normal course of business. The loan sale agreements generally require the repurchase of certain loans previously sold in the event of a violation of various representations and warranties customary to the mortgage banking industry. FNMA, FHLMC and investors carefully examine loan documentation on delinquent loans for a possible reason to request a repurchase by the loan originator. A subsequent sale of the repurchased mortgage loan or underlying collateral could typically be at a significant discount to the unpaid principal balance. The Company maintains a reserve for repurchased loans. However, if repurchase activity is greater than anticipated, the reserve may need to be increased to cover actual losses which could harm future earnings.

The Company and the Bank operate in a highly regulated environment and may be adversely affected by changes in laws and regulations. The Company is subject to examination and regulation by the FRB. The Bank is subject to extensive regulation, supervision and examination by the OCC, its primary Federal regulator, and by the FDIC, as insurer of deposits. Such regulation and supervision governs the activities in which an institution and its holding company may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of assets and determination of the level of the allowance for loan losses. The laws and regulations that govern the Company's and the Bank's operations are designed for the protection of depositors and the public, but not the Company's stockholders.

In July of 2010, the Dodd-Frank Act was enacted. The Dodd-Frank Act is a broad legislative initiative that is significantly changing the bank regulatory structure and affecting the operating activities of financial institutions and their holding companies. In addition, the Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices.

The Dodd-Frank Act also directed the FRB to issue rules to limit debit-card interchange fees, (the fees that issuing banks charge merchants each time a consumer uses a debit card) collected by banks with assets of \$10 billion or more. At December 31, 2019, the Bank was exempt from this rule. As a result of the acquisitions of Two River and Country Bank on January 1, 2020, the Bank's assets exceeded to \$10 billion. Assuming the Bank maintains assets over \$10 billion, it will be subject to reduced interchange fees beginning in July 2021. In addition, market forces may result in reduced fees charged by all issuers, regardless of asset size, which may result in reduced revenues for the Bank. For the year ended December 31, 2019, the Bank's revenues from interchange fees were \$9.5 million, an increase of \$1.0 million from 2018. See Regulation and Supervision, General, The Dodd-Frank Act.

In July 2013 the FDIC and the other Federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. See Regulation and Supervision, General, The Dodd-Frank Act.

As part of its lending activity, the Company may enter into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate loan into a fixed-rate loan. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. Offering these products can subject the Company to additional regulatory oversight and cost, as well as additional risk. Title VII of the Dodd-Frank Act contains a comprehensive framework for over-the-counter ("OTC") derivatives transactions. Even though many of the requirements do not impact the Company directly, since the Bank does not meet the definition of swap dealer or "major swap participant," the Company continues to review and evaluate the extent to which such requirements impact its business indirectly. On November 5, 2018, the Commodity Futures Trading Commission ("CFTC") issued a final rule that sets the permanent aggregate gross notional amount threshold for the de minimis exception from the definition of swap dealer at \$8.0 billion in swap dealing activity entered into by a person over the preceding 12 months. The Bank's swap dealing activities are currently below this threshold.

In addition, the initial margin requirements for non-centrally cleared swaps and security-based swaps will be effective for the Bank's swap counterparties that are swap dealers on September 1, 2021, at which time such counterparties will be required to collect initial margin from the Bank. The initial margin requirements were issued for the purpose of ensuring safety and soundness of swap trading in light of the risk to the financial system associated with non-cleared swaps activity. The Bank is currently working towards meeting compliance with the initial margin requirements.

The USA Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering, terrorist financing and other illicit activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. Although the Bank has developed policies and procedures designated to comply with these laws and regulations, these policies and procedures may not be totally effective in preventing violations of these laws and regulations.

These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, may impact the profitability of the Company's business activities and may change certain business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads, and could expose the Company to additional costs, including increased compliance costs. These changes also may require the Company to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect the Company's business, financial condition and results of operations.

There is no guaranty that the Company will be able to continue to pay a dividend or, if continued, will be able to pay a dividend at the current rate. The Board of Directors of the Company determines at its discretion if, when and the amount of dividends that may be paid on the common stock. In making such determination under the Company's capital management plan, the Board of Directors takes into account various factors including economic conditions, earnings, liquidity needs, the financial condition of the Company, applicable state law, regulatory requirements and other factors deemed relevant by the Board of Directors. Although the Company has a history of paying a quarterly dividend on its common stock, there is no guaranty that such dividends will continue to be paid in the future or at what rate.

Competition from other banks, financial institutions, government-sponsored entities and emerging technological providers in originating loans, attracting deposits and providing various financial services may adversely affect profitability and liquidity. The Company has substantial competition in originating loans, both commercial and consumer, in its market area. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Many of these competitors enjoy advantages, including greater financial resources and access to capital, stronger regulatory ratios and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. In addition, rapid technological changes and consumer preferences may result in increased competition for the Bank's services. Increased competition could reduce the Company's net income by decreasing the number and size of loans that the Bank originates and the interest rates charged on these loans.

In attracting consumer, business and public fund deposits, the Company faces substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many competitors enjoy advantages, including greater financial resources and access to capital, stronger regulatory ratios, stronger asset quality and performance, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than the Company, which could decrease the deposits that the Company attracts or require the Company to increase its rates to retain existing deposits or attract new deposits.

In addition, rapid technological changes and consumer preferences may result in increased competition for the Company's other services. A number of well-funded technology focused companies are innovating the payments, distributed ledger, and cryptocurrency networks and are attempting to disintermediate portions of the traditional banking model. A shift in the mix of payment forms away from the Company's products and services could have a material adverse effect on the Company's financial position and results of operations.

The Company has also been active in competing for New Jersey governmental and municipal deposits. At December 31, 2019, these relationships included public school districts, local municipal governments, and cooperative health insurance funds, and such deposits accounted for approximately 24.5% of the Company's total deposits. The governor of New Jersey has proposed that the state form and own a bank in which governmental and municipal entities may deposit their excess funds, with the state owned bank then financing small businesses and municipal projects in New Jersey. Although this proposal is in the very early stages, should this proposal be adopted and a state owned bank formed, it could impede the Company's ability to attract and retain governmental and municipal deposits and financing opportunities.

Increased deposit competition could adversely affect the Company's ability to generate the funds necessary for lending operations. As a result, the Company may need to seek other sources of funds that may be more expensive to obtain which could increase the cost of funds. Public fund deposits from local government entities such as counties, townships, school districts and other municipalities generally have higher average balances and the Bank's inability to retain such funds could adversely affect liquidity or result in the use of higher-cost funding sources.

Following the financial crisis of 2007-2008 the FRB began a process of lowering short-term interest rates and purchasing long-term Treasury securities and mortgage-backed securities (“quantitative easing”). Quantitative easing ended in 2014 but the FRB did not begin to reduce its bond holdings until 2018 (“quantitative tightening”). The impact of this portfolio reduction process has been difficult to discern as the FRB steadily increased short-term interest rates throughout 2018 before easing rates again in mid 2019. The GSE’s have remained in government conservatorship awaiting reform of the housing finance system. Eventually, the FRB will complete quantitative tightening and Congress will complete reform of the GSE’s. These factors could have mixed, and potentially negative, effects on the ability of the Bank to originate residential mortgage loans and grow its residential mortgage loan portfolios, which could have a materially adverse impact on the Bank’s earnings.

The Company’s inability to tailor its retail delivery model to respond to consumer preferences in banking may negatively affect earnings. The Bank has expanded its market presence through de novo branching and acquisitions. The branch continues to be a very significant source of new business generation, however, consumers continue to migrate much of their routine banking to self-service channels. In recognition of this shift in consumer patterns, the Bank has undertaken a comprehensive review of its branch network, resulting in branch consolidation accompanied by the enhancement of the Bank’s capabilities to serve its customers through channels other than branches. The benefits of this strategy are dependent on the Bank’s ability to realize expected expense reductions without experiencing significant customer attrition.

The Company must continue to attract and retain qualified personnel and maintain cost controls and asset quality. The Company’s ability to manage growth successfully will depend on its ability to continue to attract and retain management and loan officers experienced in banking and financial services and familiar with the communities in its market area. The unexpected loss of service of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could adversely affect the Company. If the Company grows too quickly and is not able to attract qualified personnel and maintain cost controls and asset quality, this continued growth could adversely affect the Company.

Risks associated with system failures, interruptions, or breaches of security could disrupt businesses, result in the disclosure of confidential information, damage the reputation of, and create significant financial and legal exposure for the Company. Information technology systems are critical to the Company’s business. Various systems are used to manage customer relationships, including deposits and loans, general ledger and securities investments.

Although the Company devotes significant resources to maintain and regularly upgrade its systems and processes that are designed to protect the security of the Company’s computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to the Company and its customers, there is no assurance that all of the Company’s security measures will provide absolute security. This risk is evidenced by recent events where financial institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, often through the introduction of computer viruses or malware, cyberattacks, ransomware and other means. Additionally, there is the risk of distributed denial-of-service or other similar attacks from technically sophisticated and well-resourced third parties which are intended to disrupt online services, as well as data breaches due to cyberattacks which result in unauthorized access to customer data. Despite the Company’s efforts to ensure the integrity of its systems, it is possible that the Company may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyberattacks can originate from a wide variety of sources, including third parties outside the Company such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments, often with seemingly limitless resources. Those parties may also attempt to fraudulently induce employees, customers or other users of the Company’s systems to disclose sensitive information in order to gain access to the Company’s data or that of its customers or clients. These risks may increase in the future as the Company continues to increase its mobile and other internet-based product offerings and systems.

In addition, a majority of data processing is outsourced to certain third-party providers. If these third-party providers encounter difficulties, or if there is difficulty communicating with them, the ability to adequately process and account for transactions could be affected, and business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various vendors and their personnel. Breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to the Company’s confidential or other information or the confidential or other information of the Company’s customers, clients or counterparties. While management regularly reviews security assessments that were conducted on the Company’s third party service providers that have access to sensitive and confidential information, there can be no assurance that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

The occurrence of any system failures, interruption, or breach of security of the Company’s or its vendors’ systems could cause serious negative consequences for the Company, including significant disruption of the Company’s operations, misappropriation of confidential information of the Company or that of its customers, or damage to computers or systems of the Company and those of

its customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to the Company or to its customers, loss of confidence in the Company's security measures, customer dissatisfaction, significant litigation exposure, and harm to the Company's reputation, all of which could have a material adverse effect on the Company.

The Company may incur impairments to goodwill. At December 31, 2019, the Company had \$374.6 million in goodwill which is evaluated for impairment, at least annually. Significant negative industry or economic trends, including declines in the market price the Company's stock, reduced estimates of future cash flows or business disruptions could result in impairments to goodwill. The valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. The Company operates in competitive environments and projections of future operating results and cash flows may vary significantly from actual results. If the analysis results in impairment to goodwill, an impairment charge to earnings would be recorded in the financial statements during the period in which such impairment is determined to exist. Any such charge could have an adverse effect on the results of operations.

The Company may be adversely affected by changes in U.S. tax laws. Changes in tax laws contained in the Tax Cuts and Jobs Act, enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. Changes include (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes.

The changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. In addition, these changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes, such as New Jersey. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in the loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in the provision for loan losses, which would reduce profitability and could have a material adverse effect on the Company's business, financial condition and results of operations.

Recent New Jersey legislative changes may increase tax expense. In connection with adopting the 2019 fiscal year budget, the New Jersey legislature adopted, and the Governor signed, legislation that will increase the Company's state income tax liability and overall tax expense. The legislation imposes a temporary surtax on corporations earning New Jersey allocated income in excess of \$1 million of 2.5% for tax years beginning on or after January 1, 2018 through December 31, 2019, and of 1.5% for tax years beginning on or after January 1, 2020 through December 31, 2021. The legislation also requires combined filing for members of an affiliated group for tax years beginning on or after January 1, 2019, changing New Jersey's current status as a separate return state, and limits the deductibility of dividends received. These changes are not temporary. As a result of the change in New Jersey tax code, the Company revalued its deferred tax asset resulting in a reduction of state income tax expense of \$2.2 million for the year ended December 31, 2019. The Company expects state tax expense to increase in future periods as a result of these changes.

Hurricanes and other natural disasters, climate change or increases to flood insurance premiums could adversely affect asset quality and earnings. The Bank's trade area includes counties in New Jersey with extensive coastal regions. These areas may be vulnerable to flooding or other damage from future storms or hurricanes. This damage may be as bad as, or worse than, that suffered during Superstorm Sandy in 2012. Further storms like this, although rare, could negatively impact the Company's results of operations by disrupting operations, adversely impacting the ability of the Company's borrowers to repay their loans, damaging collateral or reducing the value of real estate used as collateral.

The Company's business, financial condition and result of operations could be adversely affected by natural disasters, health epidemics, and other catastrophic events. The Company could be adversely affected if key personnel or a significant number of employees were to become unavailable due to a pandemic disease, natural disaster, war, act of terrorism, accident, or other reason. Any of these events could result in the temporary reduction of operations, employees, and customers which could limit the Company's ability to provide services.

Since the beginning of January 2020, the coronavirus outbreak has caused disruption in the financial markets both globally and in the United States. Given the inter-connectivity of the global economy, pandemic disease and health events have the potential to negatively impact economic activities in many countries, including the United States, including the business of the Bank's borrowers. The spread of the coronavirus to the United States, could have a negative material impact on the business, services, asset quality, financial condition and results of operations of the Company.

Monetary policies and regulations of the Federal Reserve Board could adversely affect the Company's business, financial condition and results of operations. In addition to being affected by general economic conditions, the Company's earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open

market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against certain transaction account deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon the Company's business, financial condition and results of operations cannot be predicted.

The Company is subject to the Community Reinvestment Act ("CRA") and fair lending laws, and failure to comply with these laws could lead to material penalties. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on the Company's business, financial condition and results of operations, and it is not certain whether those amendments will make CRA compliance more difficult or costly.

The Federal Reserve Board may require the Company to commit capital resources to support the Bank. Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may require the holding company to borrow the funds or raise capital. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on the Company's business, financial condition and results of operations.

Changes in card network fees could impact the Company's operations. From time to time, the card networks increase the fees (known as interchange fees) that they charge to acquirers and that the Bank charges its merchants. It is possible that competitive pressures will result in the Bank absorbing a portion of such increases in the future, which would increase costs, reduce profit margin and adversely affect the Company's business and financial condition. In addition, the card networks require certain capital requirements. An increase in the required capital level would further limit the Company's use of capital for other purposes.

Changes in card network rules or standards could adversely affect the Company's business. In order to provide debit card and cash management solutions, the Company is a member of the Visa network. Subsequent to the acquisition of Sun on January 31, 2018, the Company also became a member of the MasterCard network. As such, the Company is subject to card network rules resulting in a variety of fines or penalties that may be assessed on the Company. The termination of membership or any changes in card network rules or standards, including interpretation and implementation of existing rules or standards, could increase the cost of operating merchant servicer business or limit the ability to provide debit card and cash management solutions to or through customers, and could have a material adverse effect on the Company's business, financial condition and results of operations.

Elimination of LIBOR and uncertainty of its replacement may adversely affect the Company. In 2017, a committee of private-market derivative participants and their regulators convened by the Federal Reserve, the Alternative Reference Rates Committee, or "ARRC", was created to identify an alternative reference interest rate to replace LIBOR. Although uncertain, the ARRC announced Secured Overnight Financing Rate, or "SOFR", a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities, as its preferred alternative to LIBOR. The Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Subsequently, the Federal Reserve Bank announced final plans for the production of SOFR, which resulted in the commencement of its published rates by the Federal Reserve Bank of New York on April 2, 2018. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. The discontinuance of LIBOR may adversely affect the value of and return on the Company's financial assets and liabilities that are based on or are linked to LIBOR, the Company's results of operations or financial condition. In addition, these reforms may also require extensive changes to the contracts that govern these LIBOR based products, as well as the Company's systems and processes.

The Company will be subject to heightened regulatory requirements if total assets exceed \$10 billion. The Company's total assets were \$8.2 billion at December 31, 2019 and \$10.2 billion at January 1, 2020, after closing on the Two River and Country Bank acquisitions. Banks with assets in excess of \$10 billion are subject to requirements imposed by the Dodd-Frank Act and its implementing regulations, including: the examination authority of the Consumer Financial Protection Bureau to assess compliance with Federal consumer financial laws, imposition of higher FDIC premiums, reduced debit card interchange fees, and enhanced risk management frameworks, all of which increase operating costs and reduce earnings.

Additional costs will be incurred to implement processes, procedures, and monitoring of compliance with these imposed requirements, including investing significant management attention and resources to make necessary changes to comply with the new statutory and regulatory requirements under the Dodd-Frank Act. The Company faces the risk of failing to meet these requirements, which may negatively impact results of operations and financial condition. While the effect of any presently contemplated or future changes in the laws or regulations or their interpretations would have is unpredictable, these changes could be materially adverse to the Company's investors.

Controls and procedures may fail or be circumvented, which, if not remediated appropriately or timely, could result in loss of investor confidence and adversely impact the Company's stock price. Management routinely reviews and updates internal controls. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company, the results of operations and financial condition, investor confidence, and stock price.

As disclosed in Part II, Item 9A, management identified material weaknesses in internal control related to ineffective information technology general controls ("ITGCs") in the areas of user access over the core banking information technology ("IT") system used for financial reporting and monitoring controls that were designed to address completeness and accuracy of daily reports generated by the core banking IT system for the period ended December 31, 2018. As a result, management concluded that the internal control over financial reporting was not effective as of December 31, 2018.

During the first quarter of 2019, management initiated remediation efforts. Throughout the year, management completed the implementation of enhanced user access over the core banking IT system as well as enhanced monitoring controls to address the completeness and accuracy of daily reports generated by the core banking IT system. Management evaluated the new controls and procedures and concluded that the internal control over financial reporting was effective as of December 31, 2019.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2019, the Bank conducted its business through its branch office and headquarters located in Toms River, its branch and administrative office located in Red Bank, 54 additional branch offices and five deposit production facilities located throughout central and southern New Jersey. The Bank also operates commercial loan production offices in New York City, Philadelphia and in Atlantic and Mercer Counties in New Jersey.

On January 1, 2020, the Bank acquired an additional 14 branches and one loan production office as part of the Two River acquisition and five branches and one loan production office as part of the Country Bank acquisition. The Company expects to consolidate eight branches, primarily as a result of the Two River merger, and expects to consolidate at least five additional branches independent of the acquisitions, all within the second quarter of 2020.

Item 3. Legal Proceedings

The Company and the Bank are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such other routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

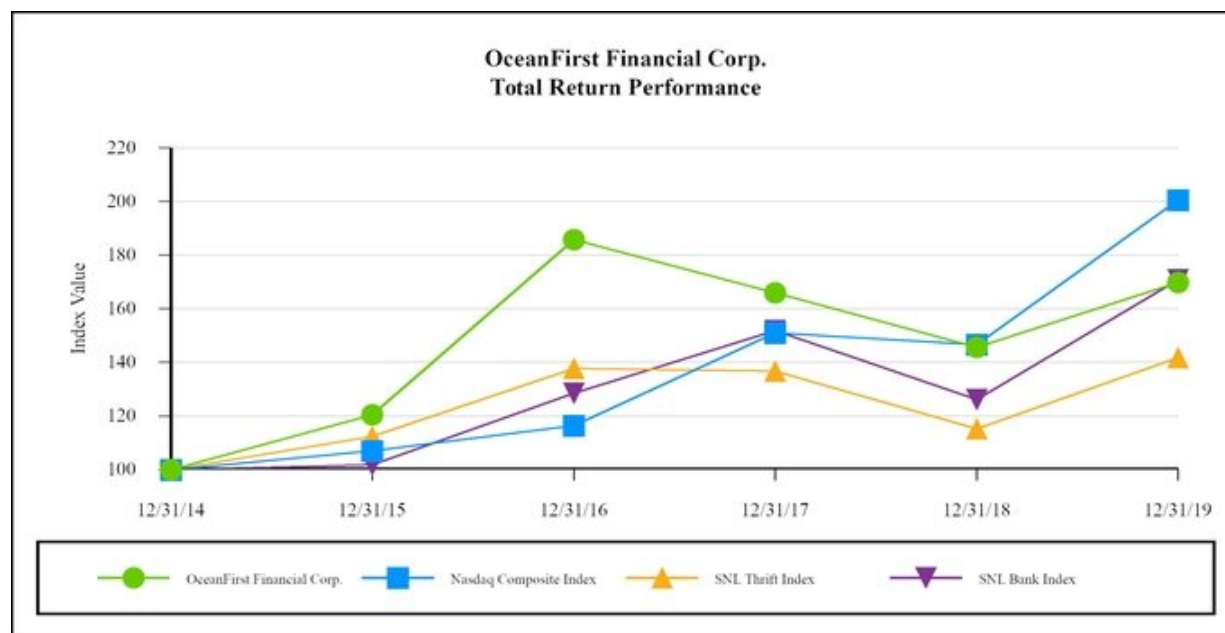
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

OceanFirst Financial Corp.'s common stock is traded on the Nasdaq Global Select Market under the symbol OCFC.

Stock Performance Graph

The following graph shows a comparison of total stockholder return on OceanFirst Financial Corp.'s common stock, based on the market price of the Company's common stock with the cumulative total return of companies in the Nasdaq Composite Index, the SNL Thrift Index and the SNL Bank Index for the period December 31, 2014 through December 31, 2019. The graph may not be indicative of possible future performance of the Company's common stock. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an initial investment of \$100.



Index	Period Ending					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
OceanFirst Financial Corp.	100.00	120.39	185.73	165.90	145.58	169.86
Nasdaq Composite Index	100.00	106.96	116.45	150.96	146.67	200.49
SNL Thrift Index	100.00	112.45	137.74	136.74	115.17	141.80
SNL Bank Index	100.00	101.71	128.51	151.75	126.12	170.79

For the years ended December 31, 2019 and 2018, the Company paid an annual cash dividend of \$0.68 and \$0.62 per share, respectively.

On April 27, 2017, the Company announced the authorization by 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 167,996 shares remain available for repurchase at December 31, 2019. On December 18, 2019, the Company announced the authorization by the Board of Directors to repurchase up to an additional 5% of the Company's outstanding common stock, or 2.5 million shares, of which all 2.5 million shares remain available for repurchase at December 31, 2019. Information regarding the Company's common stock purchases for the three month period ended December 31, 2019 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
October 1, 2019 through October 31, 2019	340,990	\$ 23.50	340,990	167,996
November 1, 2019 through November 30, 2019	—	—	—	167,996
December 1, 2019 through December 31, 2019	—	—	—	2,667,996

Item 6. Selected Financial Data

The selected consolidated financial and other data of the Company set forth below is derived in part from, and should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto presented elsewhere in this Annual Report.

	At December 31,				
	2019	2018	2017	2016	2015
(dollars in thousands)					
Selected Financial Condition Data:					
Total assets	\$ 8,246,145	\$ 7,516,154	\$ 5,416,006	\$ 5,166,917	\$ 2,593,068
Debt securities available-for-sale, at estimated fair value	150,960	100,717	81,581	20,775	29,902
Debt securities held-to-maturity, net	768,873	846,810	764,062	589,912	394,813
Equity investments, at estimated fair value	10,136	9,655	8,700	—	—
Restricted equity investments, at cost	62,356	56,784	19,724	19,313	19,978
Loans receivable, net	6,207,680	5,579,222	3,965,773	3,803,443	1,970,703
Deposits	6,328,777	5,814,569	4,342,798	4,187,750	1,916,678
Federal Home Loan Bank advances	519,260	449,383	288,691	250,498	324,385
Securities sold under agreements to repurchase and other borrowings	168,540	161,290	136,187	126,494	98,372
Stockholders' equity	1,153,119	1,039,358	601,941	571,903	238,446

	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
(dollars in thousands; except per share amounts)					
Selected Operating Data:					
Interest income	\$ 308,794	\$ 276,654	\$ 188,829	\$ 133,425	\$ 85,863
Interest expense	52,823	36,152	19,611	13,163	9,034
Net interest income	255,971	240,502	169,218	120,262	76,829
Provision for loan losses	1,636	3,490	4,445	2,623	1,275
Net interest income after provision for loan losses	254,335	237,012	164,773	117,639	75,554
Other income	42,165	34,827	27,072	20,412	16,426
Operating expenses	169,589	156,275	112,022	86,182	58,897
Federal Home Loan Bank advance prepayment fee	—	—	—	136	—
Branch consolidation expense	9,050	3,151	6,205	—	—
Merger related expenses	10,503	26,911	8,293	16,534	1,878
Income before provision for income taxes	107,358	85,502	65,325	35,199	31,205
Provision for income taxes	18,784	13,570	22,855	12,153	10,883
Net income	\$ 88,574	\$ 71,932	\$ 42,470	\$ 23,046	\$ 20,322
Basic earnings per share	\$ 1.77	\$ 1.54	\$ 1.32	\$ 1.00	\$ 1.22
Diluted earnings per share	\$ 1.75	\$ 1.51	\$ 1.28	\$ 0.98	\$ 1.21

(continued)

	At or For the Year Ended December 31,				
	2019	2018	2017	2016	2015
Selected Financial Ratios and Other Data ⁽¹⁾:					
Performance Ratios:					
Return on average assets ⁽²⁾	1.10%	0.98%	0.80%	0.62%	0.82%
Return on average stockholders' equity ⁽²⁾	7.84	7.31	7.20	6.08	8.92
Return on average tangible stockholders' equity ⁽²⁾⁽³⁾	11.96	11.16	9.82	7.13	8.96
Stockholders' equity to total assets	13.98	13.83	11.11	11.07	9.19
Tangible stockholders' equity to tangible assets ⁽³⁾	9.71	9.55	8.42	8.30	9.12
Net interest rate spread ⁽⁴⁾	3.40	3.57	3.44	3.38	3.18
Net interest margin ⁽⁵⁾	3.62	3.71	3.53	3.47	3.28
Average interest-earning assets to average interest-bearing liabilities	128.51	124.96	122.99	122.46	123.80
Operating expenses to average assets ⁽²⁾	2.35	2.53	2.39	2.76	2.47
Efficiency ratio ⁽²⁾⁽⁶⁾	63.44	67.68	64.46	73.11	65.17
Loan to deposit ratio	98.09	95.95	91.32	90.82	102.82
Asset Quality Ratios:					
Non-performing loans as a percent of total loans receivable ⁽⁷⁾⁽⁸⁾	0.29	0.31	0.52	0.35	0.91
Non-performing assets as a percent of total assets ⁽⁸⁾	0.22	0.25	0.54	0.45	1.05
Allowance for loan losses as a percent of total loans receivable ⁽⁹⁾	0.27	0.30	0.40	0.40	0.84
Allowance for loan losses as a percent of total non-performing loans ⁽⁸⁾	94.41	95.19	75.35	111.92	91.51
Wealth Management:					
Assets under administration (000's)	\$ 195,415	\$ 184,476	\$ 233,185	\$ 218,336	\$ 229,039
Per Share Data:					
Cash dividends per common share	\$ 0.68	\$ 0.62	\$ 0.60	\$ 0.54	\$ 0.52
Stockholders' equity per common share at end of period	22.88	21.68	18.47	17.80	13.79
Tangible stockholders' equity per common share at end of period ⁽³⁾	15.13	14.26	13.58	12.94	13.67
Number of full-service customer facilities:	56	59	46	61	27

(1) With the exception of end of year ratios, all ratios are based on average daily balances.

(2) Performance ratios for 2019 include merger related expenses, branch consolidation expenses, non-recurring professional fees, compensation expense due to the retirement of an executive officer, and the reduction in income tax expense from the revaluation of state deferred tax assets as a result of a change in the New Jersey tax code of \$20.6 million with an after tax cost of \$16.3 million. Performance ratios for 2018 include merger related expenses, branch consolidation expenses, and an income tax benefit related to Tax Reform of \$28.2 million with an after tax cost of \$22.2 million. Performance ratios for 2017 include merger related expenses, branch consolidation expenses, and additional income tax expense related to Tax Reform of \$18.1 million with an after tax cost of \$13.5 million. Performance ratios for 2016 include merger related expenses and the Federal Home Loan Bank advance prepayment fee totaling \$16.7 million with an after tax cost of \$11.9 million. Performance ratios for 2015 include merger related expenses of \$1.9 million with an after tax cost of \$1.3 million.

(3) Tangible stockholders' equity and tangible assets exclude intangible assets relating to goodwill and core deposit intangible.

(4) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(5) The net interest margin represents net interest income as a percentage of average interest-earning assets.

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

(7) Total loans receivable includes loans receivable and loans held-for-sale.

(8) Non-performing assets consist of non-performing loans and real estate acquired through foreclosure. Non-performing loans consist of all loans 90 days or more past due and other loans in the process of foreclosure. It is the Company's policy to cease accruing interest on all such loans and to reverse previously accrued interest.

(9) The loans acquired from Capital Bank, Sun, Ocean Shore, Cape, and Colonial American were recorded at fair value. The net credit mark on these loans, not reflected in the allowance for loan losses, was \$30.3 million, \$31.6 million, \$17.5 million, \$26.0 million, and \$2.2 million at December 31, 2019, 2018, 2017, 2016, and 2015, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

OceanFirst Financial Corp. has been the holding company for OceanFirst Bank since it acquired the stock of the Bank upon the Bank's Conversion.

The Company conducts business primarily through its ownership of the Bank which, at December 31, 2019, operated its branch office and headquarters in Toms River, its branch and administrative office located in Red Bank, 54 additional branch offices and five deposit production facilities located throughout central and southern New Jersey. The Bank also operates commercial loan production offices in New York City, the greater Philadelphia area and in Atlantic and Mercer Counties in New Jersey. On January 1, 2020, the Bank acquired an additional 14 branches and one loan office as part of the Two River acquisition and five branches and one loan office as part of the Country Bank acquisition.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on the Company's interest-earning assets, such as loans and investments, and the interest expense on its interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from bankcard services, trust and asset management, deposit account services, Bank Owned Life Insurance, derivative fee income and other fees. The Company's operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, Federal deposit insurance and regulatory assessments, data processing, check card processing, professional fees and other general and administrative expenses. The Company's results of operations are also significantly affected by competition, general economic conditions including levels of unemployment and real estate values as well as changes in market interest rates, government policies and actions of regulatory agencies.

Acquisitions

On January 31, 2018, the Company completed its acquisition of Sun Bancorp, Inc. ("Sun") which added \$2.0 billion to assets, \$1.5 billion to loans, and \$1.6 billion to deposits. Sun's results of operations are included in the consolidated results for the period from February 1, 2018 to December 31, 2018.

On January 31, 2019, the Company completed its acquisition of Capital Bank of New Jersey ("Capital Bank") which added \$494.7 million to assets, \$307.8 million to loans, and \$449.0 million to deposits. Capital Bank's results of operations are included in the consolidated results for the period from February 1, 2019 to December 31, 2019.

On January 1, 2020, the Company completed its acquisition of Two River Bancorp ("Two River"). Based on the \$25.54 per share closing price of the Company's common stock on December 31, 2019, the total transaction value was \$197.1 million. The acquisition added \$1.1 billion to assets, \$938 million to loans, and \$942 million to deposits. Two River's results of operations are not included in any of the periods presented herein.

On January 1, 2020, the Company completed its acquisition of Country Bank Holding Company, Inc. ("Country Bank"). Based on the \$25.54 per share closing price of the Company's common stock on December 31, 2019, the total transaction value was \$112.8 million. The acquisition added \$798 million to assets, \$616 million to loans, and \$654 million to deposits. Country Bank's results of operations are not included in any of the periods presented herein.

These transactions have enhanced the Bank's position as the premier community banking franchise in central and southern New Jersey and have provided the Company with the opportunity to grow business lines, expand geographic footprint and improve financial performance. The Company will continue to evaluate potential acquisition opportunities for those that are expected to create stockholder value.

Strategy

The Company operates as a full-service community bank delivering commercial and consumer financing solutions, deposit services and wealth management throughout New Jersey and the metropolitan areas of Philadelphia and New York City. The Bank is the largest and oldest community-based financial institution headquartered in Ocean County, New Jersey. The Bank competes with larger, out-of-market financial service providers through its local and digital focus and the delivery of superior service. The Bank also competes with smaller in-market financial service providers by offering a broad array of products and by having an ability to extend larger credits.

The Company's strategy has been to grow profitability while limiting exposure to credit, interest rate and operational risks. To accomplish these objectives, the Bank has sought to (1) grow commercial loans receivable through the offering of commercial lending services to local businesses; (2) grow core deposits (defined as all deposits other than time deposits) through product

offerings appealing to a broadened customer base; and (3) increase non-interest income by expanding the menu of fee-based products and services and investing additional resources in these product lines. The growth in these areas has occurred both organically and through acquisitions.

The Company will focus on prudent growth to create value for stockholders, which may include opportunistic acquisitions. The Company will also continue to build additional operational infrastructure and invest in key personnel in response to growth and changing business conditions.

Growing Commercial Loans

With industry consolidation eliminating most locally-headquartered competitors, the Company fills a void for locally-delivered commercial loan and deposit services. The Bank has strategically and steadily added experienced commercial lenders throughout its market area over the past few years. In 2015, a loan production office was opened in Mercer County to better serve the central New Jersey market area. An additional loan production office in the Philadelphia area was acquired on May 2, 2016 as part of the Cape transaction. Subsequently in 2019, the Bank expanded its presence in the greater Philadelphia and New York City markets. At December 31, 2019, commercial loans represented 66.9% of the loan pipeline and 56.1% of the Bank's total loans, as compared to 55.7% and 42.6% at December 31, 2014, respectively. Commercial loan products entail a higher degree of credit risk than is involved in one-to-four family residential mortgage lending activity. As a consequence, management continues to employ a well-defined credit policy focusing on quality underwriting and close management and Board monitoring. See "[Risk Factors – Increased emphasis on commercial lending may expose the Bank to increased lending risks.](#)"

Increasing Core Deposits

The Bank seeks to increase core deposit (all deposits excluding time deposits) market share in its primary market area by improving market penetration. Core account development has benefited from Bank efforts to attract business deposits in conjunction with its commercial lending operations and from an expanded mix of retail core account products. As a result of these efforts the Bank's core deposit ratio was 85.2% at December 31, 2019, and the loan to deposit ratio was 98.1%.

Enhancing Non-Interest Income

Management continues to diversify the Bank's product line and expand related resources in order to enhance non-interest income. The Bank is focused on growth opportunities in areas such as derivative contracts, trust and asset management and digital product offerings. The Bank also offers investment products for sale through its retail branch network. In late 2018, the Bank replaced its third party broker/dealer investment sales program with a hybrid robo-advisor product offered by the Bank's partner, Nest Egg, a registered investment adviser. Nest Egg is an investment platform that helps define and reach financial goals by providing access to high quality and cost-effective investments. It includes web-based tools as well as access to personal financial advisors via phone, chat, or video. At December 31, 2019, the Company had an ownership interest of less than 20% in NestEgg and a seat on the Board of Directors.

Branch Rationalization and Service Delivery

Management continues to evaluate the Bank's branch network for consolidation opportunities. The Bank anticipates at least 13 branch consolidations in 2020, of which eight are a result of the Two River merger. This follows the consolidation of eight and 17 branches in 2019 and 2018, respectively. In addition to branch consolidation, the Bank is adapting to the industry wide trend of declining branch activity by transitioning to a universal banker staffing model, with a smaller branch staff handling sales and service transactions, as well as increasing the marketing of products that feature digital and mobile service. In certain locations, routine transactions are handled through "Video Teller Machines," an advanced technology with live team members in a remote location performing transactions for multiple Video Teller Machines. The Bank is also investing in multiple digital services to enhance the customer experience and improve security. At December 31, 2019, a majority of the branch staff were trained as Certified Digital Bankers to better support customers use and adoption of digital services.

Capital Management

In addition to the objectives described above, the Company actively manages its capital position to improve return on tangible equity. The Company has, over the past few years, implemented or announced, five stock repurchase programs. The most recent plan to repurchase up to 5% of outstanding common stock was announced on December 18, 2019 to repurchase up to an additional 2.5 million shares. This amount is in addition to the remaining 167,996 shares available under the 2017 Repurchase Program. For the year ended December 31, 2019, the Company repurchased 1.1 million shares of its common stock under these repurchase programs. At December 31, 2019, 2.7 million shares remain available for repurchase.

Summary

Highlights of the Company's financial results for the year ended December 31, 2019 were as follows:

Total assets increased to \$8.246 billion at December 31, 2019, from \$7.516 billion at December 31, 2018. Loans receivable, net increased by \$628.5 million at December 31, 2019, as compared to December 31, 2018, while deposits increased \$514.2 million over the same period. The increases were primarily the result of the Capital Bank acquisition.

Net income for the year ended December 31, 2019 was \$88.6 million, or \$1.75 per diluted share, as compared to net income of \$71.9 million, or \$1.51 per diluted share for the prior year. Net income for the year ended December 31, 2019 includes merger related expenses, branch consolidation expenses, non-recurring professional fees, compensation expense due to the retirement of an executive officer, and reduction in income tax expense from the revaluation of state deferred tax assets as a result of a change in the New Jersey tax code. These items decreased net income, net of tax, for the year ended December 31, 2019 by \$16.3 million. Net income for the year ended December 31, 2018 included merger related expenses, branch consolidation expenses, and reduction of income tax expense from the revaluation of deferred tax assets as a result of the Tax Cuts and Jobs Act ("Tax Reform") of \$22.2 million, net of tax. These items reduced diluted earnings per share by \$0.32 and \$0.47, respectively, for the years ended December 31, 2019 and 2018. Excluding these items, net income for the year ended December 31, 2019 increased over the prior year period.

The Company remains well-capitalized with a tangible common equity ratio of 9.71% at December 31, 2019.

Critical Accounting Policies

Note 1 Summary of Significant Accounting Policies, to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2019 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 estimated 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 are the most critical accounting policies because it is important to the presentation of the Company's financial condition and results of operations, 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. Critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the Board of Directors.

Allowance for Loan Losses

The allowance for loan losses is a valuation account that reflects probable incurred losses in the loan portfolio. The adequacy of the allowance for loan losses is based on management's evaluation of the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, current economic and regulatory conditions, as well as organizational changes. Additions to the allowance arise from charges to operations through the provision for loan losses or from the recovery of amounts previously charged-off. The allowance is reduced by loan charge-offs. The allowance for loan losses is maintained at an amount management considers sufficient to provide for probable losses.

Acquired loans are marked to fair value on the date of acquisition and are evaluated on a quarterly basis to ensure the necessary purchase accounting updates are made in parallel with the allowance for loan loss calculation. Acquired loans that have been renewed since acquisition are included in the allowance for loan loss calculation since these loans have been underwritten to the Bank's guidelines. Acquired loans that have not been renewed since acquisition, or that have a Purchased Credit Impaired ("PCI") mark, are excluded from the allowance for loan loss calculation. The Bank calculates a general valuation allowance for these excluded acquired loans without a PCI mark and compares that to the remaining general credit and interest rate marks. To the extent the remaining general credit and interest rate marks exceed the calculated general valuation allowance, no additional reserve is required. If the calculated general valuation allowance exceeds the remaining general credit and interest rate marks, the Bank would record an adjustment to the extent necessary.

The Bank's allowance for loan losses includes specific allowances and a general allowance, each updated on a quarterly basis. A specific allowance is determined for all impaired loans (excluding PCI loans). The Bank defines an impaired loan as all non-accrual commercial real estate, multi-family, land, construction and commercial loans in excess of \$250,000 for which it is probable, based on current information, that the Company will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings. For collateral dependent loans, the specific allowance represents the difference between the Bank's recorded investment in the loan, net of any interim charge-offs, and the estimated fair value of the collateral, less estimated selling costs. Impairment for all other impaired loans is calculated based on a combination of the estimated fair value of non-real estate collateral, personal guarantees, or the present value of the expected future cash flows.

Generally, for collateral dependent real estate loans, the Bank obtains an updated collateral appraisal once the loan is impaired. For impaired residential real estate loans, the appraisal is generally updated annually if the loan remains delinquent for an extended period. For impaired commercial real estate loans, the Bank assesses whether there has likely been an adverse change in the collateral value supporting the loan. The Bank utilizes information based on its knowledge of changes in real estate conditions in its lending area to identify whether a possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated commercial real estate appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

A general allowance is determined for all loans that are not individually evaluated for impairment (excluding acquired loans that have not been renewed under the Bank's underwriting criteria). In determining the level of the general allowance, the Bank segments the loan portfolio into the following portfolio segments: residential real estate; consumer; investor-owned commercial real estate; owner-occupied commercial real estate; construction and land; and commercial and industrial.

The portfolio segments are further segmented by delinquency status or risk rating. An estimated loss factor is then applied to the outstanding principal loan balance of the delinquency status or risk rating category for each portfolio segment. To determine the loss factor, the Bank utilizes historical loss experience adjusted for certain qualitative factors and the loss emergence period.

The Bank's historical loss experience is based on a rolling 36-month look-back period for each portfolio segment. The look-back period was selected based on (1) management's judgment that this period captures sufficient loss events (in both dollar terms and number of individual events) to be relevant; and (2) that the Bank's underwriting criteria and risk characteristics have remained relatively stable throughout this period.

The historical loss experience is adjusted for certain qualitative factors including, but not limited to, (1) delinquency trends, (2) net charge-off trends, (3) nature and volume of the loan portfolio, (4) loan policies and underwriting standards, (5) experience and ability of lending personnel, (6) concentrations of credit, (7) loan review system, and external factors such as (8) changes in current economic conditions, (9) local competition and (10) regulation. Economic factors that the Bank considers in its estimate of the allowance for loan losses include: local and regional trends in economic growth, unemployment and real estate values. The Bank considers the applicability of each of these qualitative factors in estimating the general allowance for each portfolio segment. Each quarter, the Bank considers the current conditions for each of the qualitative factors, as well as a forward looking view on trends and events, to support an assessment unique to each portfolio segment.

The Bank calculates and analyzes the loss emergence period on an annual basis or more frequently if conditions warrant. The Bank's methodology is to use loss events in the past 12 quarters to determine the loss emergence period for each loan segment. The loss emergence period is specific to each portfolio segment. It represents the amount of time that has elapsed between (1) the occurrence of a loss event, which resulted in a potential loss and (2) the confirmation of the potential loss, when the Bank records an initial charge-off or downgrades the risk-rating of the loan to substandard.

The Bank also maintains an unallocated portion of the allowance for loan losses. The primary purpose of the unallocated component is to account for the inherent factors that cannot be practically assigned to individual loss categories, including the periodic update of appraisals, subjectivity of the Bank's credit review and risk rating process, and economic conditions that may not be fully captured in the Bank's loss history or qualitative factors.

Upon completion of the aforementioned procedures, an overall management review is performed including ratio analyses to identify divergent trends compared with the Bank's own historical loss experience, the historical loss experience of the Bank's peer group, and management's understanding of general regulatory expectations. Based on that review, management may identify issues or factors that previously had not been considered in the estimation process, which may warrant further analysis or adjustments to estimated loss or qualitative factors applied in the calculation of the allowance for loan losses.

Of the Bank's loan portfolio, 92.2% is secured by real estate, whether consumer or commercial. Additionally, most of the Bank's borrowers are located throughout New Jersey and the metropolitan areas of Philadelphia and New York City. These concentrations may adversely affect the Bank's loan loss experience should local real estate values decline or should the markets served experience difficult economic conditions including increased unemployment or should the area be affected by a natural disaster such as a hurricane or flooding.

Management believes the primary risk characteristics for each portfolio segment are a decline in the general economy, including elevated levels of unemployment, a decline in real estate market values and rising interest rates. Any one or a combination of these events may adversely affect the borrowers' ability to repay their loans, resulting in increased delinquencies, loan charge-offs and higher provisions for loan losses.

Although management believes that the Bank has established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. In addition, various regulatory agencies, as part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to make additional provisions for loan losses based upon information available to them at the time of their examination. Although management uses what it believes to be the best information available, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Bank’s control.

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 also depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth certain information relating to the Company for each of the years ended December 31, 2019, 2018 and 2017. The yields and costs are derived by dividing income or expense by the average balance of 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 fees which are considered adjustments to yields.

(dollars in thousands)	For the Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:									
Interest-earning assets:									
Interest-earning deposits and short-term investments	\$ 57,742	\$ 1,299	2.25%	\$ 49,683	\$ 896	1.80%	\$ 137,957	\$ 1,449	1.05%
Securities ⁽¹⁾	1,048,779	27,564	2.63	1,073,454	26,209	2.44	796,392	16,792	2.11
Loans receivable, net ⁽²⁾									
Commercial	3,329,396	168,507	5.06	3,012,521	149,965	4.98	1,858,842	87,706	4.72
Residential	2,204,931	87,729	3.98	1,965,395	79,805	4.06	1,726,020	69,784	4.04
Home Equity	339,896	18,284	5.38	357,137	17,991	5.04	282,128	13,003	4.61
Other	107,672	5,411	5.03	35,424	1,788	5.05	1,156	95	8.22
Allowance for loan loss net of deferred loan fees	(8,880)	—	—	(9,972)	—	—	(12,251)	—	—
Loans receivable, net ⁽²⁾	5,973,015	279,931	4.69	5,360,505	249,549	4.66	3,855,895	170,588	4.42
Total interest-earning assets	7,079,536	308,794	4.36	6,483,642	276,654	4.27	4,790,244	188,829	3.94
Non-interest-earning assets	964,920			880,836			501,929		
Total assets	\$ 8,044,456			\$ 7,364,478			\$ 5,292,173		
Liabilities and Equity:									
Interest-bearing liabilities:									
Interest-bearing checking	\$ 2,517,068	16,820	0.67%	\$ 2,336,917	9,219	0.39%	\$ 1,796,370	4,533	0.25%
Money market	605,607	4,919	0.81	571,997	2,818	0.49	410,373	1,213	0.30
Savings	906,086	1,195	0.13	877,179	990	0.11	672,315	345	0.05
Time deposits	929,488	15,498	1.67	858,978	9,551	1.11	625,847	6,245	1.00
Total	4,958,249	38,432	0.78	4,645,071	22,578	0.49	3,504,905	12,336	0.35
FHLB advances	387,925	8,441	2.18	382,464	7,885	2.06	258,870	4,486	1.73
Securities sold under agreements to repurchase	64,525	276	0.43	66,340	168	0.25	74,712	121	0.16
Other borrowings	98,095	5,674	5.78	94,644	5,521	5.83	56,457	2,668	4.73
Total interest-bearing liabilities	5,508,794	52,823	0.96	5,188,519	36,152	0.70	3,894,944	19,611	0.50
Non-interest-bearing deposits	1,325,836			1,135,602			776,344		
Non-interest-bearing liabilities	80,028			56,098			31,004		
Total liabilities	6,914,658			6,380,219			4,702,292		
Stockholders' equity	1,129,798			984,259			589,881		
Total liabilities and equity	\$ 8,044,456			\$ 7,364,478			\$ 5,292,173		
Net interest income		\$ 255,971			\$ 240,502			\$ 169,218	
Net interest rate spread ⁽³⁾			3.40%			3.57%			3.44%
Net interest margin ⁽⁴⁾			3.62%			3.71%			3.53%
Total cost of deposits (including non-interest-bearing deposits)			0.61%			0.39%			0.29%
Ratio of interest-earning assets to interest-bearing liabilities	128.51%			124.96%			122.99%		

(1) Amounts represent debt and equity securities, including FHLB and Federal Reserve Bank stock, and 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.

Rate Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

(in thousands)	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Compared to			Compared to		
	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ 159	\$ 244	\$ 403	\$ (1,239)	\$ 686	\$ (553)
Securities	(621)	1,976	1,355	6,496	2,921	9,417
Loans receivable, net						
Commercial	16,085	2,457	18,542	57,184	5,075	62,259
Residential	9,528	(1,604)	7,924	9,676	345	10,021
Home Equity	(891)	1,184	293	3,693	1,295	4,988
Other	3,630	(7)	3,623	1,744	(51)	1,693
Loans receivable, net	28,352	2,030	30,382	72,297	6,664	78,961
Total interest-earning assets	27,890	4,250	32,140	77,554	10,271	87,825
Interest-bearing liabilities:						
Interest-bearing checking	737	6,864	7,601	1,638	3,048	4,686
Money market	173	1,928	2,101	615	990	1,605
Savings	31	174	205	131	514	645
Time deposits	832	5,115	5,947	2,552	754	3,306
Total	1,773	14,081	15,854	4,936	5,306	10,242
FHLB advances	109	447	556	2,429	970	3,399
Securities sold under agreements to repurchase	(5)	113	108	(15)	62	47
Other borrowings	200	(47)	153	2,123	730	2,853
Total interest-bearing liabilities	2,077	14,594	16,671	9,473	7,068	16,541
Net change in net interest income	\$ 25,813	\$ (10,344)	\$ 15,469	\$ 68,081	\$ 3,203	\$ 71,284

Comparison of Financial Condition at December 31, 2019 and December 31, 2018

Total assets increased by \$730.0 million to \$8.246 billion at December 31, 2019, from \$7.516 billion at December 31, 2018, primarily as a result of the acquisition of Capital Bank, which added \$494.7 million to total assets. Loans receivable, net, increased by \$628.5 million, to \$6.208 billion at December 31, 2019, from \$5.579 billion at December 31, 2018, primarily due to acquired loans of \$307.8 million. As part of the acquisition of Capital Bank, the Company's goodwill balance increased to \$374.6 million at December 31, 2019, from \$338.4 million at December 31, 2018. Other assets increased by \$95.4 million to \$119.5 million at December 31, 2019, from \$24.1 million at December 31, 2018, primarily due to consideration held in escrow in advance of the acquisition closings on January 1, 2020, of \$47.0 million and the right of use assets recorded related to the adoption of Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), of \$18.7 million. The core deposit intangible decreased to \$15.6 million at December 31, 2019, from \$17.0 million at December 31, 2018 due to amortization of core deposit intangible, partially offset by the increase from the acquisition of Capital Bank.

Deposits increased by \$514.2 million, to \$6.329 billion at December 31, 2019, from \$5.815 billion at December 31, 2018, primarily due to acquired deposits of \$449.0 million. The loan-to-deposit ratio at December 31, 2019 was 98.1%, as compared to 96.0% at December 31, 2018. Other liabilities increased by \$25.1 million to \$62.6 million at December 31, 2019, from \$37.5 million at

December 31, 2018, primarily due to the right of use liability recorded related to the adoption of ASU 2016-02, Leases (Topic 842), of \$18.9 million.

Stockholders' equity increased to \$1.153 billion at December 31, 2019, as compared to \$1.039 billion at December 31, 2018. The acquisition of Capital Bank added \$76.4 million to stockholders' equity. On December 18, 2019, the Company announced the authorization of the Board of Directors of the 2019 Stock Repurchase Program to repurchase approximately 5% of the Company's outstanding common stock up to an additional 2.5 million shares. This amount is in addition to the remaining 167,996 shares available under the existing 2017 Repurchase Program. During the year ended December 31, 2019, the Company repurchased 1.1 million shares under these repurchase programs at a weighted average cost of \$23.12. Tangible stockholders' equity per common share increased to \$15.13 at December 31, 2019, as compared to \$14.26 at December 31, 2018.

Comparison of Operating Results for the Years Ended December 31, 2019 and December 31, 2018

General

Net income for the year ended December 31, 2019 was \$88.6 million, or \$1.75 per diluted share, as compared to \$71.9 million, or \$1.51 per diluted share, for the corresponding prior year period. Net income for the year ended December 31, 2019 included merger related expenses, branch consolidation expenses, non-recurring professional fees, compensation expense due to the retirement of an executive officer, and reduction in income tax expense from the revaluation of state deferred tax assets as a result of a change in the New Jersey tax code, which decreased net income, net of tax benefit, by \$16.3 million. Net income for the year ended December 31, 2018 included merger related expenses, branch consolidation expenses, and reduction of income tax expense from the revaluation of deferred tax assets as a result of the Tax Reform, which decreased net income, net of tax benefit, by \$22.2 million for the year. Excluding these items, net income for the year ended December 31, 2019 increased over the prior year period.

Interest Income

Interest income for the year ended December 31, 2019, increased to \$308.8 million, as compared to \$276.7 million, in the prior year. Average interest-earning assets increased \$595.9 million for the year ended December 31, 2019, as compared to the prior year. The average for the year ended December 31, 2019, was favorably impacted by \$341.9 million of interest-earning assets acquired from Capital Bank. Average loans receivable, net, increased by \$612.5 million for the year ended December 31, 2019, as compared to the prior year. The increase was primarily due to organic loan growth, as well as the acquisition of Capital Bank, which contributed \$250.3 million to average loans receivable, net. The yield on average interest-earning assets increased to 4.36% for the year ended December 31, 2019, as compared to 4.27% for the prior year.

Interest Expense

Interest expense for the year ended December 31, 2019, was \$52.8 million, as compared to \$36.2 million in the prior year, due to an increase in average-interest bearing liabilities of \$320.3 million, primarily related to the acquisition of Capital Bank. For the year ended December 31, 2019, the cost of average interest-bearing liabilities increased to 0.96% from 0.70% in the prior year. The total cost of deposits (including non-interest bearing deposits) was 0.61% for the year ended December 31, 2019, as compared to 0.39% in the prior year.

Net Interest Income

Net interest income for the year ended December 31, 2019 increased to \$256.0 million, as compared to \$240.5 million for the prior year, reflecting an increase in interest-earning assets. The net interest margin decreased to 3.62% for the year ended December 31, 2019, from 3.71% for the prior year. The decrease in net interest margin was primarily due to the increase in the cost of average interest bearing liabilities, partially offset by the increase in the yield on interest-earning assets.

Provision for Loan Losses

For the year ended December 31, 2019, the provision for loan losses was \$1.6 million, as compared to \$3.5 million for the prior year. Net loan charge-offs were \$1.4 million for the year ended December 31, 2019, as compared to net loan charge-offs of \$2.6 million in the prior year. Non-performing loans totaled \$17.8 million at December 31, 2019, as compared to \$17.4 million at December 31, 2018. At December 31, 2019, the Company's allowance for loan losses was 0.27% of total loans, as compared to 0.30% at December 31, 2018. These ratios exclude existing fair value credit marks of \$30.3 million at December 31, 2019 and \$31.6 million at December 31, 2018 on loans acquired from Capital Bank, Sun, Ocean Shore Holding Co. ("Ocean Shore"), Cape Bancorp, Inc. ("Cape"), and Colonial American Bank ("Colonial American"). These loans were acquired at fair value with no related allowance for loan losses. The allowance for loan losses as a percent of total non-performing loans was 94.4% at December 31, 2019, as compared to 95.2% at December 31, 2018.

Other Income

For the year ended December 31, 2019, other income increased to \$42.2 million, as compared to \$34.8 million in the prior year. The increase from the prior year was primarily due to an increase in derivative fee income of \$4.6 million, a decrease in the loss from real estate operations of \$3.5 million and the impact of the Capital Bank acquisition, which added \$1.5 million to other income for the year ended December 31, 2019. These increases to other income were partially offset by decreases in fees and service charges of \$1.3 million, rental income of \$810,000 received primarily for January and February 2018 on the Company's executive office, and decrease in the gain on sales of loans of \$653,000, mostly related to the sale of one non-performing commercial loan relationship during the first quarter of 2018.

Operating Expenses

Operating expenses increased to \$189.1 million for the year ended December 31, 2019, as compared to \$186.3 million in the prior year. Operating expenses for the year ended December 31, 2019 included \$22.8 million of merger related expenses, branch consolidation expenses, non-recurring professional fees, and compensation expense due to the retirement of an executive officer as compared to \$30.1 million of merger related and branch consolidation expenses in the prior year. Excluding the impact of merger related expenses, branch consolidation expenses, non-recurring professional fees, and compensation expense due to the retirement of an executive officer, the change in operating expenses over the prior year was primarily due to the Capital Bank acquisition, which added \$6.3 million for the year ended December 31, 2019. Excluding the Capital Bank acquisition, the remaining increase in operating expenses, for the year ended December 31, 2019 from the prior year period, was primarily due to increases in professional fees of \$2.3 million, check card processing of \$1.6 million, compensation and employee benefits expense of \$1.3 million, and data processing of \$1.0 million, partially offset by decreases in FDIC expense of \$1.6 million, and occupancy of \$1.1 million.

Provision for Income Taxes

The provision for income taxes for the year ended December 31, 2019 was \$18.8 million, as compared to \$13.6 million for the prior year. The effective tax was 17.5% for the year ended December 31, 2019, as compared to 15.9% for the prior year. The current year period includes the reduction in income tax expense of \$2.2 million from the revaluation of state deferred tax assets as a result of a change in the New Jersey tax code. Excluding the impact of the New Jersey tax code change, the effective tax rate for the year ended December 31, 2019 was 19.6%. The lower effective tax rate in the prior year period was primarily due to Tax Reform which required the Company to revalue its deferred tax asset, resulting in a tax benefit of \$1.9 million, for the year ended December 31, 2018. The remaining variance is due to larger tax benefits from employee stock option exercises in the prior year period.

Comparison of Operating Results for the Years Ended December 31, 2018 and December 31, 2017

General

Net income for the year ended December 31, 2018 was \$71.9 million, or \$1.51 per diluted share, as compared to net income of \$42.5 million, or \$1.28 per diluted share, for the prior year. Net income for the year ended December 31, 2018 included merger related expenses, branch consolidation expenses, and a reduction of income tax expense from the revaluation of deferred tax assets as a result of Tax Reform. These items decreased net income, net of tax benefit, for the year ended December 31, 2018, by \$22.2 million. Net income for the year ended December 31, 2017 included merger related expenses, branch consolidation expenses, and additional income tax expense related to Tax Reform, which decreased net income, net of tax, by \$13.5 million. Excluding these items, net income for the year ended December 31, 2018 increased over the prior year primarily due to the acquisition of Sun and the expense savings from the successful integration during 2017 of Ocean Shore which was acquired on November 30, 2016.

Interest Income

Interest income for the year ended December 31, 2018, increased to \$276.7 million, as compared to \$188.8 million, in the prior year. Average interest-earning assets increased \$1.693 billion for the year ended December 31, 2018, as compared to the prior year. The average for the year ended December 31, 2018, was favorably impacted by \$1.511 billion of interest-earning assets acquired from Sun. Average loans receivable, net, increased by \$1.505 billion for the year ended December 31, 2018, as compared to the prior year. The increase attributable to the acquisition of Sun was \$1.290 billion. The yield on average interest-earning assets increased to 4.27% for the year ended December 31, 2018, as compared to 3.94% for the prior year. The asset yield benefited from the accretion of purchase accounting adjustments on the Sun acquisition and, to a lesser extent, from the impact of Federal Reserve interest rate increases.

Interest Expense

Interest expense for the year ended December 31, 2018, was \$36.2 million, as compared to \$19.6 million in the prior year, due to an increase in average-interest bearing liabilities of \$1.294 billion, primarily related to the acquisition of Sun. For the year ended December 31, 2018, the cost of average interest-bearing liabilities increased to 0.70% from 0.50% in the prior year. The total cost of deposits (including non-interest bearing deposits) was 0.39% for the year ended December 31, 2018, as compared to 0.29% in the prior year.

Net Interest Income

Net interest income for the year ended December 31, 2018 increased to \$240.5 million, as compared to \$169.2 million for the prior year, reflecting an increase in interest-earning assets and a higher net interest margin. The net interest margin increased to 3.71% for the year ended December 31, 2018, from 3.53% for the prior year. The net interest margin for the year ended December 31, 2018, benefited by 16 basis points due to \$10.7 million of purchase accounting accretion on the Sun acquisition.

Provision for Loan Losses

For the year ended December 31, 2018, the provision for loan losses was \$3.5 million, as compared to \$4.4 million for the prior year. Net loan charge-offs were \$2.6 million for the year ended December 31, 2018, as compared to net loan charge-offs of \$3.9 million in the prior year. Non-performing loans totaled \$17.4 million at December 31, 2018, as compared to \$20.9 million at December 31, 2017. At December 31, 2018, the Company's allowance for loan losses was 0.30% of total loans as compared to 0.40% at December 31, 2017. These ratios exclude existing fair value credit marks of \$31.6 million at December 31, 2018 and \$17.5 million at December 31, 2017 on the Sun, Ocean Shore, Cape, and Colonial American loans. These loans were acquired at fair value with no related allowance for loan losses. The allowance for loan losses as a percent of total non-performing loans was 95.2% at December 31, 2018, as compared to 75.4% at December 31, 2017.

Other Income

For the year ended December 31, 2018, other income increased to \$34.8 million, as compared to \$27.1 million in the prior year. The increase from the prior year was primarily due to the impact of the Sun acquisition, which added \$8.0 million to other income for the year ended December 31, 2018. Excluding the Sun acquisition, the slight decrease in other income was primarily due to an increase in the loss from real estate operations of \$2.9 million, of which \$1.7 million related to the year-to-date write-down and sale of a hotel, golf and banquet facility, offset by increases in Bankcard fees of \$852,000 and service charges of \$700,000, mostly related to deposit fees, an increase in the gain on sales of loans of \$568,000, mostly related to the sale of one non-performing commercial loan relationship and an increase in other income of \$653,000.

Operating Expenses

Operating expenses increased to \$186.3 million for the year ended December 31, 2018, as compared to \$126.5 million in the prior year. Operating expenses for the year ended December 31, 2018 included \$30.1 million in merger related and branch consolidation expenses, as compared to \$14.5 million in the prior year. Excluding the impact of merger and branch consolidation expenses, the increase in operating expenses over the prior year was primarily due to the Sun acquisition, which added \$35.2 million for the year ended December 31, 2018. Excluding the Sun acquisition, the remaining increase in operating expense for the year ended December 31, 2018 over the prior year period was primarily due to increases in compensation and employee benefits expense of \$4.0 million as a result of higher incentive and stock plan expenses, occupancy expenses of \$1.6 million, service bureau expense of \$1.5 million, equipment expense of \$657,000, and marketing expenses of \$589,000.

Provision for Income Taxes

The provision for income taxes for the year ended December 31, 2018 was \$13.6 million, as compared to \$22.9 million for the prior year. The effective tax was 15.9% for the year ended December 31, 2018, as compared to 35.0% for the prior year. The lower effective tax rate for the year ended December 31, 2018 was due to Tax Reform which lowered the Company's statutory tax rate to 21%, from 35%. Additionally, Tax Reform required the Company to revalue its deferred tax asset, resulting in a tax benefit of \$1.9 million, for the year ended December 31, 2018, and a tax expense of \$3.6 million for the year ended December 31, 2017. Excluding the impact relating to the revaluation of deferred tax assets, the effective tax rate for the year ended December 31, 2018 was 18.0%, as compared to 29.4% for the prior year.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, 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. The Company has other sources of liquidity if a need for additional funds arises, including various lines of credit.

At December 31, 2019, the Bank had \$270.0 million of outstanding overnight borrowings from the FHLB, compared to \$174.0 million of outstanding overnight borrowings at December 31, 2018. The Bank utilizes overnight borrowings from time-to-time to fund short-term liquidity needs. FHLB advances, including overnight borrowings, totaled \$519.3 million at December 31, 2019, an increase from \$449.4 million at December 31, 2018.

The Company's cash needs for the year ended December 31, 2019 were primarily satisfied by principal repayments on loans and mortgage-backed securities, increased borrowings, proceeds from maturities and calls of debt securities, increased deposit inflows and acquired cash from Capital Bank. The cash was principally utilized for loan originations, the purchase of loans receivable, the purchase of debt securities, and cash held in escrow to fund the Two River acquisition. The Company's cash needs for the year ended December 31, 2018 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from maturities and calls of investment securities, and increased borrowings. The cash was principally utilized for the purchase of loans receivable, loan originations, the purchase of investment securities and to fund deposit outflows.

In the normal course of business, the Bank routinely enters into various off-balance-sheet commitments, primarily relating to the origination and sale of loans. At December 31, 2019, outstanding commitments to originate loans totaled \$327.7 million; outstanding unused lines of credit totaled \$784.6 million, of which \$451.5 million were commitments to commercial borrowers and \$333.1 million were commitments to consumer borrowers and residential construction borrowers. The Bank expects to have sufficient funds available to meet current commitments in the normal course of business.

Time deposits scheduled to mature in one year or less totaled \$522.2 million at December 31, 2019. Based upon historical experience, management is opportunistic about renewing time deposits on an as needed basis.

The Company has a detailed contingency funding plan and comprehensive reporting of trends on a monthly and quarterly basis which is 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 stock repurchase programs, shares of OceanFirst Financial Corp. common stock may be purchased in the open market and through other 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 year ended December 31, 2019, the Company repurchased 1.1 million shares of common stock at a total cost of \$26.1 million. For the year ended December 31, 2018, the Company repurchased 459,251 shares of common stock at a total cost of \$10.8 million. At December 31, 2019, there were 2.7 million shares available to be repurchased under the stock repurchase programs.

Cash dividends on common stock declared and paid during the year ended December 31, 2019 were \$34.2 million, as compared to \$29.6 million for the prior year. The increase in dividends was a result of an increase in the dividend rate and the additional shares issued in the Capital Bank acquisition. On January 27, 2020, the Company's Board of Directors declared a quarterly cash dividend of seventeen cents (\$0.17) per common share. The dividend was payable on February 19, 2020 to common stockholders of record at the close of business on February 5, 2020.

The primary sources of liquidity specifically available to the 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. For the year ended December 31, 2019, the Company received dividend payments of \$79.0 million from the Bank. 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 restraints imposed by the applicable regulations. The Company cannot predict whether the Bank will be permitted under applicable regulations to pay a dividend to the Company. If applicable regulations or regulatory bodies prevent the Bank from paying a dividend 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 December 31, 2019, OceanFirst Financial Corp. held \$33.3 million in cash.

The Company and the Bank satisfy the criteria to be "well-capitalized" under the Prompt Corrective Action Regulations. See Regulation and Supervision—Bank Regulation – Capital Requirements.

At December 31, 2019, the Company maintained tangible common equity of \$762.9 million for a tangible common equity to tangible assets ratio of 9.71%.

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 unused consumer lines of credit and commitments to extend credit and are discussed in Note 13 Commitments, Contingencies and Concentrations of Credit Risk, to the Consolidated Financial Statements.

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 December 31, 2019 and 2018, the reserve for repurchased loans and loss sharing obligations amounted to \$1.1 million and \$1.3 million, respectively.

The following table shows the contractual obligations of the Company by expected payment period as of December 31, 2019 (in thousands). Refer to Note 17 Leases, to the Consolidated Financial Statements for lease obligations. Further discussion of these commitments is included in Note 9 Borrowed Funds, and Note 13 Commitments, Contingencies, and Concentrations of Credit Risk, to the Consolidated Financial Statements.

Contractual Obligation	Total	Less than one year	1-3 years	3-5 years	More than 5 years
Debt Obligations	\$ 687,800	\$ 431,178	\$ 116,925	\$ 41,330	\$ 98,367
Commitments to Originate Loans	327,714	327,714	—	—	—
Commitments to Fund Unused Lines of Credit:					
Commercial	451,535	451,535	—	—	—
Consumer and Residential Construction	333,074	333,074	—	—	—
Purchase Obligations	60,386	13,063	23,392	23,931	—

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.

Purchase obligations represent legally binding and enforceable agreements to purchase goods and services from third parties and consist primarily of contractual obligations under data processing servicing agreements. Actual amounts expended vary based on transaction volumes, number of users and other factors.

Impact of New Accounting Pronouncements

Accounting Pronouncements Adopted in 2019

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 may be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. On July 30, 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements", which provided an option to apply the transition provisions of the new standard at the adoption date rather than the earliest comparative period presented. Additionally, the ASU provides a practical expedient permitting lessors to not separate non-lease components from the associated lease component if certain conditions are met. The Company adopted this ASU in its entirety on January 1, 2019, and has appropriately reflected the changes throughout the Company's consolidated financial statements. The Company elected to apply the new standard as of the adoption date and will not restate comparative prior periods. Additionally, the Company elected to apply the package of practical expedients standard under which the Company need not

reassess whether any expired or existing contracts are leases or contain leases, the Company need not reassess the lease classification for any expired or existing lease, and the Company need not reassess initial direct costs for any existing leases. The adoption of this ASU resulted in the recognition of a right-of-use asset of \$20.6 million in other assets and a lease liability of \$20.7 million in other liabilities. Refer to Note 17 Leases, for additional information.

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 after 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 did not have an impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities.” The amendments in this ASU was issued to better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. As a result, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Current GAAP contains limitations on how an entity can designate the hedged risk in certain cash flow and fair value hedging relationships. To address those current limitations, the amendments in this ASU permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk. In addition, the amendments in this ASU change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption was permitted. The Company does not enter into derivatives that are designated as hedging instruments and as such, the adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU was issued to address a narrow-scope financial reporting issue that arose as a result of the enactment of the Tax Cuts and Jobs Act (“Tax Reform”) on December 22, 2017. The objective of ASU 2018-02 is to address the tax effects of items within accumulated other comprehensive income (referred to as “stranded tax effects”) that do not reflect the appropriate tax rate enacted in the Tax Reform. As a result, the ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate of 35 percent and the newly enacted corporate income tax rate of 21 percent. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, including adoption in an interim period. The amendments in this ASU may be applied retrospectively to each period in which the effect of the change in the U.S. Federal corporate income tax rate in the Tax Reform is recognized. The Company has early adopted ASU 2018-02 for the year ended December 31, 2017, and has elected not to reclassify the income tax effects of the Tax Reform from accumulated other comprehensive loss to retained earnings.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” This ASU significantly changed how entities will measure credit losses for financial assets and certain other instruments that are measured at amortized cost. The standard replaced today’s “incurred loss” approach with an “expected loss” model, which necessitates a forecast of lifetime losses. The new model, referred to as the current expected credit loss (“CECL”) model, applies to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale (“AFS”) debt securities. The ASU simplifies the accounting model for purchased credit-impaired debt securities and loans. 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 will utilize the modified retrospective approach. The Company’s CECL implementation efforts are in process and continue to focus on model validation, developing new disclosures, establishing formal policies and procedures and other governance and control documentation. Certain elements of the calculation are pending finalization, including refinement of the model assumptions, the qualitative framework, internal control design, model validation, and the operational control framework to support the new process. Furthermore, changes to the

economic forecasts within the model could positively or negatively impact the actual results. Due to these items, the quantitative impact to the consolidated financial statements cannot yet be reasonably estimated.

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 will not have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU updates the disclosure requirements on Fair Value measurements by 1) removing: the disclosures for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements; 2) modifying: disclosures for timing of liquidation of an investee’s assets and disclosures for uncertainty in measurement as of reporting date; and 3) adding: disclosures for changes in unrealized gains and losses included in other comprehensive income for recurring level 3 fair value measurements and disclosures for the range and weighted average of the significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted to any removed or modified disclosures and delay adoption of additional disclosures until the effective date. With the exception of the following, which should be applied prospectively, disclosures relating to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the disclosures for uncertainty measurement, all other changes should be applied retrospectively to all periods presented upon the effective date. The adoption of this update will not have a material impact on the Company’s consolidated financial statements.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollar amounts without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company’s operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company’s performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Management of Interest Rate Risk (“IRR”)

Market risk is the risk of loss from adverse changes in market prices and rates. The Company’s market risk arises primarily from IRR inherent in its lending, investment and deposit-taking activities. The Company’s profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company’s earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. To that end, management actively monitors and manages IRR.

The principal objectives of the Company’s IRR management function are to evaluate the IRR inherent in certain balance sheet accounts; determine the level of risk appropriate given the Company’s business focus, operating environment, capital and liquidity requirements and performance objectives; and manage the risk consistent with Board approved guidelines. Through such management, the Company seeks to reduce the exposure of its operations to changes in interest rates. The Company monitors its IRR as such risk relates to its operating strategies. The Bank’s Board has established an Asset Liability Committee (“ALCO”) consisting of members of the Bank’s management, responsible for reviewing the asset liability policies and IRR position. ALCO meets monthly and reports trends and the Company’s IRR position to the Board on a quarterly basis. The extent of the movement of interest rates, higher or lower, is an uncertainty that could have a substantial impact on the earnings of the Company.

The Bank utilizes the following strategies to manage IRR: (1) emphasizing the origination for portfolio of fixed-rate consumer mortgage loans generally having terms to maturity of not more than fifteen years, adjustable-rate loans, floating-rate and balloon maturity commercial loans, and consumer loans consisting primarily of home equity loans and lines of credit; (2) attempting to reduce the overall interest rate sensitivity of liabilities by emphasizing core and longer-term deposits; and (3) managing the maturities of wholesale borrowings. The Bank may also sell fixed-rate mortgage loans into the secondary market. In determining

whether to retain fixed-rate mortgages or to purchase fixed-rate MBS, management considers the Bank's overall IRR position, the volume of such loans originated or the amount of MBS to be purchased, the loan or MBS yield and the types and amount of funding sources. The Bank may retain fixed-rate mortgage loan production or purchase fixed-rate MBS in order to improve yields and increase balance sheet leverage. During periods when fixed-rate mortgage loan production is retained, the Bank generally attempts to extend the maturity on part of its wholesale borrowings. Prior to 2017, the Bank generally sold much of its 30 year fixed-rate one-to-four family mortgage loan originations in the secondary market primarily to manage interest rate risk. However, since the beginning of 2017 and through 2019, the Bank generally retained newly originated mortgage loans in its portfolio. Given the recent decline in the interest rate environment, the Company will evaluate the portfolio for potential sales in the future. The Company currently does not participate in financial futures contracts, interest rate swaps or other activities involving the use of off-balance-sheet derivative financial instruments, but may do so in the future to manage IRR.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, an institution with a negative gap position theoretically would not be in as favorable a position, compared to an institution with a positive gap, to invest in higher-yielding assets. This may result in the yield on the institution's assets increasing at a slower rate than the increase in its cost of interest-bearing liabilities. Conversely, during a period of falling interest rates, an institution with a negative gap might experience a repricing of its assets at a slower rate than its interest-bearing liabilities, which, consequently, may result in its net interest income growing at a faster rate than an institution with a positive gap position.

The Company's interest rate sensitivity is monitored through the use of an IRR model. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2019, which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. At December 31, 2019, the Company's one-year gap was positive 4.31% as compared to positive 4.89% at December 31, 2018. Except as stated below, the amount of assets and liabilities which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table is intended to provide an approximation of the projected repricing of assets and liabilities at December 31, 2019, on the basis of contractual maturities, anticipated prepayments, scheduled rate adjustments and the rate sensitivity of non-maturity deposits within a three month period and subsequent selected time intervals. Loans receivable reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Loans were projected to prepay at rates between 8% and 19% annually. Mortgage-backed securities were projected to prepay at rates between 8% and 20% annually. Money market deposit accounts, savings accounts and interest-bearing checking accounts are assumed to have average lives of 7.3 years, 6.2 years and 8.2 years, respectively. Prepayment and average life assumptions can have a significant impact on the Company's estimated gap.

There can be no assurance that projected prepayment rates for loans and mortgage-backed securities will be achieved or that projected average lives for deposits will be realized.

At December 31, 2019	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	\$ 25,534	\$ 980	\$ 2,695	\$ —	\$ —	\$ 29,209
Investment securities	58,210	69,136	131,434	71,647	27,679	358,106
Mortgage-backed securities	64,790	87,004	176,115	120,149	116,451	564,509
Equity investments	—	—	—	—	10,136	10,136
Restricted equity investments	—	—	—	—	62,356	62,356
Loans receivable ⁽²⁾	1,227,176	1,015,411	1,592,049	992,073	1,387,943	6,214,652
Total interest-earning assets	1,375,710	1,172,531	1,902,293	1,183,869	1,604,565	7,238,968
Interest-bearing liabilities:						
Interest-bearing checking accounts	910,956	130,404	294,704	232,500	970,864	2,539,428
Money market deposit accounts	15,141	43,199	100,429	82,092	337,286	578,147
Savings accounts	37,267	75,331	171,576	133,293	480,707	898,174
Time deposits	140,804	381,442	361,281	51,243	862	935,632
FHLB advances	295,000	64,724	117,536	42,000	—	519,260
Securities sold under agreements to repurchase and other borrowings	141,600	191	416	466	25,867	168,540
Total interest-bearing liabilities	1,540,768	695,291	1,045,942	541,594	1,815,586	5,639,181
Interest sensitivity gap ⁽³⁾	\$ (165,058)	\$ 477,240	\$ 856,351	\$ 642,275	\$ (211,021)	\$ 1,599,787
Cumulative interest sensitivity gap	\$ (165,058)	\$ 312,182	\$ 1,168,533	\$ 1,810,808	\$ 1,599,787	\$ 1,599,787
Cumulative interest sensitivity gap as a percent of total interest-earning assets	(2.28)%	4.31%	16.14%	25.01%	22.10%	22.10%

- (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.

Certain shortcomings are inherent in gap analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features which restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, loan prepayment rates and average lives of deposits would likely deviate significantly from those assumed in the calculation. Finally, the ability of many borrowers to service their adjustable-rate loans may be impaired in the event of an interest rate increase.

Another method of analyzing an institution's exposure to IRR is by measuring the change in the institution's economic value of equity ("EVE") and net interest income under various interest rate scenarios. EVE is the difference between the net present value of assets, liabilities and off-balance-sheet contracts. The EVE ratio, in any interest rate scenario, is defined as the EVE in that scenario divided by the fair value of assets in the same scenario. The Company's interest rate sensitivity is monitored by management through the use of an IRR model which measures IRR by modeling the change in EVE and net interest income over a range of interest rate scenarios.

The following table sets forth the Company's EVE and net interest income projections as of December 31, 2019 and 2018 (dollars in thousands). For purposes of this table, the Company used prepayment and average life assumptions similar to those used in calculating the Company's gap.

Change in Interest Rates in Basis Points (Rate Shock)	December 31, 2019					December 31, 2018				
	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	\$ 1,242,674	5.1 %	16.4%	\$ 253,184	(0.6)%	\$ 1,325,144	2.7 %	19.4%	\$ 254,556	(0.6)%
200	1,246,011	5.4	16.0	254,424	(0.1)	1,337,463	3.6	19.0	255,979	(0.1)
100	1,227,428	3.8	15.3	254,996	0.1	1,326,352	2.8	18.4	256,474	0.1
Static	1,182,696	—	14.4	254,721	—	1,290,369	—	17.4	256,181	—
(100)	1,090,184	(7.8)	12.9	252,662	(0.8)	1,220,289	(5.4)	16.1	253,979	(0.9)

The sensitivity of the economic value of equity increased in the rising interest rate scenarios from December 31, 2018 to December 31, 2019 due to increased holdings in longer-term fixed-rate commercial and residential loan products. There was no change to the sensitivity of net interest income in the rising interest rate scenarios year-over-year.

As is the case with the gap calculation, certain shortcomings are inherent in the methodology used in the EVE and net interest income IRR measurements. The model requires the making of certain assumptions which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. First, the model assumes that the composition of the Company's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured. Second, the model assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Third, the model does not take into account the Company's business or strategic plans. Accordingly, although the above measurements do provide an indication of the Company's IRR exposure at a particular point in time, such measurements are not intended to provide a precise forecast of the effect of changes in market interest rates on the Company's EVE and net interest income and can be expected to differ from actual results.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OceanFirst Financial Corp.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of OceanFirst Financial Corp. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for loan losses related to loans collectively evaluated for impairment

As discussed in Notes 1 and 5 to the consolidated financial statements, the Company's allowance for loan losses related to loans collectively evaluated for impairment (ALLL) was \$16.4 million of a total allowance for loan losses of \$16.9 million as of December 31, 2019. The Company determines the ALLL by applying quantitative loss factors to the loans for each portfolio segment based upon type of loan, risk rating or delinquency status. Quantitative loss factors for each portfolio segment are determined based on the Company's historical loss experience over an appropriate look-back period. Additionally, the Company assesses the loss emergence period for the expected losses of each portfolio segment and adjusts each quantitative loss factor accordingly. The quantitative loss factors may also be adjusted for qualitative factors, both internal and external to the Company to take into account estimated credit losses inherent in the portfolio that differ from historical loss experience.

We identified the assessment of the ALLL as a critical audit matter. The assessment involved significant measurement uncertainty requiring complex auditor judgment, and knowledge and experience in the industry, in order to evaluate the methodologies used to estimate (1) the quantitative loss factors developed from the historical loss experience, including key factors and assumptions, such as the segmenting of the loan portfolio by type of loan, risk ratings or delinquency status, the look-back period and the loss emergence periods, and (2) the qualitative factors.

The primary procedures we performed to address the critical audit matter included the following. We tested certain internal controls over the (1) development of the ALLL methodology, including key factors and assumptions, (2) the determination of qualitative factors, and (3) analysis of the ALLL results, trends and ratios. We assessed the Company's process to develop the ALLL estimate by testing certain sources of data, factors, and assumptions that the Company used by considering their relevance and reliability. In addition, we involved credit risk professionals with specialized industry knowledge and experience who assisted in:

- evaluating the Company's ALLL methodology for compliance with U.S. generally accepted accounting principles,
- determining whether loans are pooled for segmentation by similar risk characteristics,
- testing the look-back period assumption to evaluate the length of that period,
- evaluating the methodology used to develop the loss emergence periods,
- testing individual loan risk ratings for a selection of loans in the current year by evaluating the financial performance of the borrower, and
- evaluating the methodology used to develop the resulting qualitative factors and the effect of those factors on the ALLL compared with relevant credit risk factors and consistency with credit trends.

/s/ KPMG LLP

We have served as the Company's auditor since 1989.

Short Hills, New Jersey
February 28, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
OceanFirst Financial Corp.:

Opinion on Internal Control Over Financial Reporting

We have audited OceanFirst Financial Corp. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Short Hills, New Jersey
February 28, 2020

OCEANFIRST FINANCIAL CORP.
Consolidated Statements of Financial Condition
(dollars in thousands, except per share amounts)

	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	\$ 120,544	\$ 120,792
Debt securities available-for-sale (encumbered \$21,646 at December 31, 2019 and \$26,509 at December 31, 2018)	150,960	100,717
Debt securities held-to-maturity, net (estimated fair value of \$777,290 at December 31, 2019 and \$832,815 at December 31, 2018) (encumbered \$452,212 at December 31, 2019 and \$550,735 at December 31, 2018)	768,873	846,810
Equity investments, at estimated fair value	10,136	9,655
Restricted equity investments, at cost	62,356	56,784
Loans receivable, net	6,207,680	5,579,222
Interest and dividends receivable	21,674	19,689
Other real estate owned	264	1,381
Premises and equipment, net	102,691	111,209
Bank Owned Life Insurance	237,411	222,482
Deferred tax asset	50,067	63,377
Assets held for sale	3,785	4,522
Other assets	119,465	24,101
Core deposit intangible	15,607	16,971
Goodwill	374,632	338,442
Total assets	<u>\$ 8,246,145</u>	<u>\$ 7,516,154</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 6,328,777	\$ 5,814,569
Federal Home Loan Bank advances	519,260	449,383
Securities sold under agreements to repurchase with retail customers	71,739	61,760
Other borrowings	96,801	99,530
Advances by borrowers for taxes and insurance	13,884	14,066
Other liabilities	62,565	37,488
Total liabilities	<u>7,093,026</u>	<u>6,476,796</u>
Stockholders' equity:		
Preferred stock, \$0.01 par value, \$1,000 liquidation preference, 5,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value, 150,000,000 shares authorized, 51,991,856 shares issued and 50,405,048 and 47,951,168 shares outstanding at December 31, 2019 and December 31, 2018, respectively	519	483
Additional paid-in capital	840,691	757,963
Retained earnings	358,668	305,056
Accumulated other comprehensive loss	(1,208)	(3,450)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(8,648)	(9,857)
Treasury stock, 1,586,808 and 459,251 shares at December 31, 2019 and December 31, 2018, respectively	(36,903)	(10,837)
Common stock acquired by Deferred Compensation Plan	(92)	(87)
Deferred Compensation Plan Liability	92	87
Total stockholders' equity	<u>1,153,119</u>	<u>1,039,358</u>
Total liabilities and stockholders' equity	<u>\$ 8,246,145</u>	<u>\$ 7,516,154</u>

See accompanying notes to consolidated financial statements.

OCEANFIRST FINANCIAL CORP.
Consolidated Statements of Income
(in thousands, except per share amount)

	For the Year Ended December 31,		
	2019	2018	2017
Interest income:			
Loans	\$ 279,931	\$ 249,549	\$ 170,588
Mortgage-backed securities	15,300	16,034	11,108
Debt securities, equity investments and other	13,563	11,071	7,133
Total interest income	308,794	276,654	188,829
Interest expense:			
Deposits	38,432	22,578	12,336
Borrowed funds	14,391	13,574	7,275
Total interest expense	52,823	36,152	19,611
Net interest income	255,971	240,502	169,218
Provision for loan losses	1,636	3,490	4,445
Net interest income after provision for loan losses	254,335	237,012	164,773
Other income:			
Bankcard services revenue	10,263	9,228	6,965
Trust and asset management revenue	2,102	2,245	2,150
Fees and service charges	18,500	19,461	15,058
Net gain on sales of loans	16	668	100
Net unrealized gain (loss) on equity investments	267	(199)	—
Net loss from other real estate operations	(330)	(3,812)	(874)
Income from Bank Owned Life Insurance	5,420	5,105	3,299
Other	5,927	2,131	374
Total other income	42,165	34,827	27,072
Operating expenses:			
Compensation and employee benefits	89,912	83,135	60,100
Occupancy	17,159	17,915	10,657
Equipment	7,719	8,319	6,769
Marketing	3,469	3,415	2,678
Federal deposit insurance and regulatory assessments	2,227	3,713	2,564
Data processing	14,814	13,286	8,849
Check card processing	5,956	4,209	3,561
Professional fees	9,338	4,963	3,995
Other operating expense	14,968	13,509	10,810
Amortization of core deposit intangible	4,027	3,811	2,039
Branch consolidation expenses	9,050	3,151	6,205
Merger related expenses	10,503	26,911	8,293
Total operating expenses	189,142	186,337	126,520
Income before provision for income taxes	107,358	85,502	65,325
Provision for income taxes	18,784	13,570	22,855
Net income	\$ 88,574	\$ 71,932	\$ 42,470
Basic earnings per share	\$ 1.77	\$ 1.54	\$ 1.32
Diluted earnings per share	\$ 1.75	\$ 1.51	\$ 1.28
Average basic shares outstanding	50,166	46,773	32,113
Average diluted shares outstanding	50,746	47,657	33,125

See accompanying notes to consolidated financial statements.

OCEANFIRST FINANCIAL CORP.
Consolidated Statements of Comprehensive Income
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Net income	\$ 88,574	\$ 71,932	\$ 42,470
Other comprehensive income:			
Unrealized gain (loss) on debt securities (net of tax expense of \$470 in 2019, and net of tax benefit of \$33 and \$204 in 2018 and 2017, respectively)	1,655	(162)	(295)
Accretion of unrealized loss on debt securities reclassified to held-to-maturity (net of tax expense of \$404, \$1,186, and \$480 in 2019, 2018 and 2017, respectively)	587	1,719	695
Reclassification adjustment for gains included in net income (net of tax expense of \$53 in 2018)	—	195	—
Total other comprehensive income	2,242	1,752	400
Total comprehensive income	\$ 90,816	\$ 73,684	\$ 42,870

See accompanying notes to consolidated financial statements.

OCEANFIRST FINANCIAL CORP.
Consolidated Statements of Changes in Stockholders' Equity
(in thousands, except per share amounts)

For the Year Ended December 31, 2019, 2018 and 2017

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Gain	Employee Stock Ownership Plan	Treasury Stock	Common Stock Acquired by Deferred Compensation Plan	Deferred Compensation Plan Liability	Total
Balance at December 31, 2016	\$ —	\$ 336	\$ 364,433	\$ 238,192	\$ (5,749)	\$ (2,761)	\$ (22,548)	\$ (313)	\$ 313	\$ 571,903
Net income	—	—	—	42,470	—	—	—	—	—	42,470
Other comprehensive income, net of tax	—	—	—	—	400	—	—	—	—	400
Stock awards	—	—	2,181	—	—	—	—	—	—	2,181
Effect of adopting Accounting Standards Update ("ASU") No. 2016-09	—	—	(11,129)	11,129	—	—	—	—	—	—
Treasury stock allocated to restricted stock plan	—	—	(1,745)	822	—	—	923	—	—	—
Allocation of ESOP stock	—	—	637	—	—	282	—	—	—	919
Cash dividend – \$0.60 per share	—	—	—	(19,286)	—	—	—	—	—	(19,286)
Exercise of stock options	—	—	—	(2,304)	—	—	5,658	—	—	3,354
Sale of stock for the deferred compensation plan, net	—	—	—	—	—	—	—	229	(229)	—
Balance at December 31, 2017	—	336	354,377	271,023	(5,349)	(2,479)	(15,967)	(84)	84	601,941
Net income	—	—	—	71,932	—	—	—	—	—	71,932
Other comprehensive income, net of tax	—	—	—	—	1,752	—	—	—	—	1,752
Stock awards	—	2	3,036	—	—	—	—	—	—	3,038
Effect of adopting Accounting Standards Update ("ASU") No. 2016-01	—	—	—	(147)	147	—	—	—	—	—
Acquisition of common stock by ESOP	—	—	—	—	—	(8,400)	—	—	—	(8,400)
Allocation of ESOP stock	—	—	596	—	—	1,022	—	—	—	1,618
Cash dividend – \$0.62 per share	—	—	—	(29,564)	—	—	—	—	—	(29,564)
Exercise of stock options	—	4	13,306	(8,188)	—	—	202	—	—	5,324
Acquisition of Sun Bancorp Inc.	—	141	386,648	—	—	—	15,765	—	—	402,554
Purchase of stock for the deferred compensation plan	—	—	—	—	—	—	—	(3)	3	—
Purchase 459,251 shares of common stock	—	—	—	—	—	—	(10,837)	—	—	(10,837)
Balance at December 31, 2018	—	483	757,963	305,056	(3,450)	(9,857)	(10,837)	(87)	87	1,039,358
Net income	—	—	—	88,574	—	—	—	—	—	88,574
Other comprehensive income, net of tax	—	—	—	—	2,242	—	—	—	—	2,242
Stock awards	—	2	3,859	—	—	—	—	—	—	3,861
Allocation of ESOP stock	—	—	366	—	—	1,209	—	—	—	1,575
Cash dividend – \$0.68 per share	—	—	—	(34,241)	—	—	—	—	—	(34,241)
Exercise of stock options	—	2	2,054	(721)	—	—	—	—	—	1,335
Acquisition of Capital Bank of New Jersey	—	32	76,449	—	—	—	—	—	—	76,481
Purchase of stock for the deferred compensation plan	—	—	—	—	—	—	—	(5)	5	—
Purchase 1,127,557 shares of common stock	—	—	—	—	—	—	(26,066)	—	—	(26,066)
Balance at December 31, 2019	\$ —	\$ 519	\$ 840,691	\$ 358,668	\$ (1,208)	\$ (8,648)	\$ (36,903)	\$ (92)	\$ 92	\$ 1,153,119

See accompanying notes to consolidated financial statements.

OCEANFIRST FINANCIAL CORP.
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 88,574	\$ 71,932	\$ 42,470
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	8,363	8,706	6,303
Allocation of ESOP stock	1,575	1,618	919
Stock awards	3,861	3,038	2,181
Net excess tax benefit on stock compensation	(357)	(722)	(1,823)
Amortization of core deposit intangible	4,027	3,811	2,039
Net accretion of purchase accounting adjustments	(14,094)	(16,733)	(8,216)
Amortization of servicing asset	42	98	85
Net premium amortization in excess of discount accretion on securities	3,232	3,893	3,216
Net amortization of deferred costs on borrowings	216	262	74
Net amortization of deferred fees and discounts on loans	1,584	669	509
Provision for loan losses	1,636	3,490	4,445
Deferred tax provision (benefit)	16,053	(4,568)	35,440
Net loss on sale and write-down of other real estate owned	20	2,359	1,119
Write-down of fixed assets held for sale to net realizable value	7,532	4,024	6,084
Net (gain) loss on sale of fixed assets	(27)	(26)	150
Net unrealized (gain) loss on equity securities	(267)	199	—
Net gain on sales of loans	(16)	(668)	(100)
Proceeds from sales of mortgage loans held for sale	1,023	2,794	5,282
Mortgage loans originated for sale	(1,007)	(2,498)	(3,872)
Increase in value of Bank Owned Life Insurance	(5,420)	(5,105)	(3,299)
Net loss (gain) on sale of assets held for sale	17	(1,245)	—
(Increase) decrease in interest and dividends receivable	(397)	186	(2,265)
(Increase) decrease in other assets	(32,871)	27,301	(5,375)
Increase (decrease) in other liabilities	16,948	(10,264)	(5,235)
Total adjustments	11,673	20,619	37,661
Net cash provided by operating activities	100,247	92,551	80,131
Cash flows from investing activities:			
Net (increase) decrease in loans receivable	(215,881)	103,889	(138,271)
Purchases of loans receivable	(101,674)	(199,580)	(37,337)
Proceeds from sale of under performing loans	5,901	10,412	11,186
Purchase of debt investment securities available-for-sale	(60,158)	(33,040)	(69,987)
Purchase of debt investment securities held-to-maturity	(4,381)	(6,486)	(125,324)
Purchase of debt mortgage-backed securities held-to-maturity	—	—	(165,501)
Purchase of equity investments	(214)	(191)	—
Proceeds from maturities and calls of debt investment securities available-for-sale	29,299	18,501	—
Proceeds from maturities and calls of debt investment securities held-to-maturity	43,256	52,543	18,233
Principal repayments on debt mortgage-backed securities available-for-sale	503	655	—
Principal repayments on debt mortgage-backed securities held-to-maturity	123,833	119,125	96,383
Proceeds from Bank Owned Life Insurance	870	2,708	624
Proceeds from the redemption of restricted equity investments	122,535	106,807	19,738
Purchases of restricted equity investments	(127,794)	(127,048)	(20,149)
Proceeds from sales of other real estate owned	2,060	5,438	3,880

OCEANFIRST FINANCIAL CORP.
Consolidated Statements of Cash Flows (Continued)
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Cash flows from investing activities (continued):			
Proceeds from sales of assets held for sale	\$ 2,353	\$ 10,050	\$ —
Purchases of premises and equipment	(5,075)	(11,487)	(48,698)
Cash held in escrow for acquisitions	(46,950)	—	—
Cash consideration received (paid) for acquisition, net of cash received	59,395	(3,743)	—
Net cash (used in) provided by investing activities	(172,122)	48,553	(455,223)
Cash flows from financing activities:			
Increase (decrease) in deposits	65,687	(143,025)	155,849
Increase in short-term borrowings	105,979	126,092	39,733
Proceeds from Federal Home Loan Bank advances	80,000	—	10,000
Repayments of Federal Home Loan Bank advances	(106,618)	(67,155)	(1,922)
Repayments of other borrowings	(263)	(439)	—
(Decrease) increase in advances by borrowers for taxes and insurance	(182)	2,910	(2,874)
Exercise of stock options	1,335	5,324	3,354
Payment of employee taxes withheld from stock awards	(2,858)	(3,295)	(1,522)
Purchase of treasury stock	(26,066)	(10,837)	—
Acquisition of common stock by ESOP	—	(8,400)	—
Dividends paid	(34,241)	(29,564)	(19,286)
Net cash provided by (used in) financing activities	82,773	(128,389)	183,332
Net increase (decrease) in cash and due from banks and restricted cash	10,898	12,715	(191,760)
Cash and due from banks and restricted cash at beginning of year	122,328	109,613	301,373
Cash and due from banks and restricted cash at end of year	\$ 133,226	\$ 122,328	\$ 109,613
Supplemental disclosure of cash flow information:			
Cash and due from banks at beginning of year	\$ 120,792	\$ 109,613	\$ 301,373
Restricted cash at beginning of year	1,536	—	—
Cash and due from banks and restricted cash at beginning of year	\$ 122,328	\$ 109,613	\$ 301,373
Cash and due from banks at end of year	\$ 120,544	\$ 120,792	\$ 109,613
Restricted cash at end of year	12,682	1,536	—
Cash and due from banks and restricted cash at end of year	\$ 133,226	\$ 122,328	\$ 109,613
Cash paid during the year for:			
Interest	\$ 52,315	\$ 36,447	\$ 20,219
Income taxes	20,006	2,317	6,008
Non-cash activities:			
Accretion of unrealized loss on securities reclassified to held-to-maturity	991	2,905	1,145
Net loan charge-offs	1,361	2,634	3,907
Transfer of premises and equipment to assets held-for-sale	2,189	11,092	5,729
Transfer of loans receivable to other real estate owned	963	992	3,726

OCEANFIRST FINANCIAL CORP.
Consolidated Statements of Cash Flows (Continued)
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Supplemental disclosure of cash flow information (continued):			
Acquisition:			
Non-cash assets acquired:			
Securities	\$ 103,775	\$ 254,522	\$ —
Restricted equity investments	313	16,967	—
Loans	307,778	1,517,345	—
Premises and equipment	3,389	19,892	—
Accrued interest receivable	1,390	5,621	—
Bank Owned Life Insurance	10,460	85,238	—
Deferred tax asset	3,967	57,574	—
Other assets	1,278	6,343	—
Goodwill and other intangible assets, net	38,875	199,838	—
Total non-cash assets acquired	<u>\$ 471,225</u>	<u>\$ 2,163,340</u>	<u>\$ —</u>
Liabilities assumed:			
Deposits	\$ 449,018	\$ 1,616,073	\$ —
Borrowings	—	127,727	—
Other liabilities	5,121	13,242	—
Total liabilities assumed	<u>\$ 454,139</u>	<u>\$ 1,757,042</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of OceanFirst Financial Corp. (the “Company”) and its wholly-owned subsidiaries, OceanFirst Bank N.A. (the “Bank”) and OceanFirst Risk Management, Inc., and the Bank’s wholly-owned subsidiaries, OceanFirst REIT Holdings, Inc., and its wholly-owned subsidiary OceanFirst Management Corp., and its wholly-owned subsidiary OceanFirst Realty Corp., OceanFirst Services, LLC and its wholly-owned subsidiary OFB Reinsurance, Ltd., Hooper Holdings, LLC., TRREO Holdings LLC, Casaba Real Estate Holdings Corporation, Cohensey Bridge, L.L.C., Prosperis Financial, LLC and CBNJ Investments Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain amounts previously reported have been reclassified to conform to the current year’s presentation.

Business

The Bank provides a range of community banking services to customers through a network of branches and offices throughout New Jersey and the metropolitan areas of Philadelphia and New York City. The Bank is subject to competition from other financial institutions and certain technology companies; it is also subject to the regulations of certain regulatory agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of the accompanying consolidated financial statements in conformity with these accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and the evaluation of securities and goodwill for other-than-temporary impairment. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Cash Equivalents

Cash equivalents consist of interest-bearing deposits in other financial institutions. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Securities

Securities include debt securities held-to-maturity, and debt and equity securities available-for-sale. Management determines the appropriate classification at the time of purchase. If management has the positive intent not to sell and the Company would not be required to sell prior to maturity, the securities are classified as held-to-maturity debt securities. Such securities are stated at amortized cost. During 2013, the Company transferred \$536.0 million of previously designated available-for-sale debt securities to held-to-maturity designation at estimated fair value. The Company has the ability and intent to hold these securities as an investment until maturity or call. The securities transferred had an unrealized loss of \$13.3 million at the time of transfer which continues to be reflected in accumulated other comprehensive income, net of subsequent amortization, which is being recognized over the remaining life of the securities. Securities in the available-for-sale category are securities which the Company may sell prior to maturity as part of its asset/liability management strategy. Such securities are carried at estimated fair value and unrealized gains and losses, net of related tax effect, are excluded from earnings, but are included as a separate component of stockholders’ equity and as part of comprehensive income. Discounts and premiums on securities are accreted or amortized using the level-yield method over the estimated lives of the securities, including the effect of prepayments. Gains or losses on the sale of such securities are included in other income using the specific identification method.

Other-Than-Temporary Impairment on Securities

One of the significant estimates related to securities is the evaluation for other-than-temporary impairment. If a determination is made that a debt security is other-than-temporarily impaired, the Company will estimate the amount of the unrealized loss that is attributable to credit and all other non-credit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in non-interest income as a component of gain (loss) on securities, net. The non-credit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the estimated fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period.

On a quarterly basis the Company evaluates the securities portfolio for other-than-temporary impairment. Securities that are in an unrealized loss position are reviewed to determine if an other-than-temporary impairment is present based on certain quantitative factors. The primary factors considered in evaluating whether a decline in value is other-than-temporary include: (a) the length of time and extent to which the estimated fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments and (d) whether the Company intends to sell the security and whether it is more likely than not that the Company will not be required to sell the security.

Loans Receivable

Loans receivable, other than loans held-for-sale, are stated at unpaid principal balance, plus unamortized premiums less unearned discounts, net of deferred loan origination and commitment fees and costs, and the allowance for loan losses.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net fee or cost is recognized in interest income using the level-yield method over the contractual life of the specifically identified loans, adjusted for actual prepayments. For each loan class, a loan is considered past due when a payment has not been received in accordance with the contractual terms. Loans which are more than 90 days past due, including impaired loans, and other loans in the process of foreclosure are placed on non-accrual status. Interest income previously accrued on these loans, but not yet received, is reversed in the current period. Any interest subsequently collected is credited to income in the period of recovery only after the full principal balance has been brought current. A loan is returned to accrual status when all amounts due have been received and the remaining principal balance is deemed collectible.

A loan is considered impaired when it is deemed probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. The Company has defined the population of impaired loans to be all non-accrual commercial real estate, multi-family, land, construction and commercial and industrial loans in excess of \$250,000. Impaired loans are individually assessed to determine that the loan's carrying value is not in excess of the estimated fair value of the collateral or the present value of the loan's expected future cash flows. Smaller balance homogeneous loans that are collectively evaluated for impairment, such as residential mortgage loans and consumer loans, are specifically excluded from the impaired loan portfolio, except when they are modified in a trouble debt restructuring.

Loan losses are charged-off in the period the loans, or portion, thereof are deemed uncollectible, generally after the loan becomes 120 days delinquent. The Company will record a loan charge-off (including a partial charge-off) to reduce a loan to the estimated fair value of the underlying collateral, less cost to sell, if it is determined that it is probable that recovery will come primarily from the sale of the collateral.

Purchased credit-impaired ("PCI") loans are acquired at a discount that is due, in part, to credit quality. PCI loans are initially recorded at fair value (as determined by the present value of expected future cash flows) with no allowance for loan losses. Interest income on loans acquired at a discount is based on the acquired loans' expected cash flows. The acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flow.

The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the “accretable yield”, is recognized as interest income utilizing the level-yield method over the life of each pool. Increases in expected cash flows subsequent to the acquisition are recognized prospectively through adjustment of the yield on the pool over its remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Therefore, the allowance for loan losses on these impaired pools reflect only losses incurred after the acquisition (representing the present value of all cash flows that were expected at acquisition but currently are not expected to be received).

The Bank periodically evaluates the remaining contractual required payments due and estimates of cash flows expected to be collected. These evaluations require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Changes in the contractually required payments due and estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications between accretable yield and the non-accretable difference. For the pools with better than expected cash flows, the forecasted increase is recorded as an additional accretable yield that is recognized as a prospective increase to interest income on loans.

Loans Held for Sale

The Company may sell part of its mortgage loan originations in order to manage interest rate risk and liquidity. Prior to 2017, the Bank had generally sold fixed-rate mortgage loans with final maturities in excess of 15 years. However, with few exceptions, since the beginning of 2017 and through 2019, the Bank generally retained newly originated mortgage loans in its portfolio. Given the recent decline in the interest rate environment, the Bank will evaluate the portfolio for potential sales in the future.

In determining whether to retain mortgages, management considers the Company’s overall interest rate risk position, the volume of such loans, the loan yield and the types and amount of funding sources. The Company may also retain mortgage loan production in order to improve yields and increase balance sheet leverage.

In addition, management periodically considers the sale of commercial and other loans as part of its management of credit risk.

Loans held for sale are carried at the lower of unpaid principal balance, net, or estimated fair value on an aggregate basis. Estimated fair value is determined based on bid quotations from securities dealers.

Allowance for Loan Losses

The allowance for loan losses is a valuation account that reflects probable incurred losses in the loan portfolio. The adequacy of the allowance for loan losses is based on management’s evaluation of the Bank’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, current economic and regulatory conditions, as well as organizational changes. Additions to the allowance arise from charges to operations through the provision for loan losses or from the recovery of amounts previously charged-off. The allowance is reduced by loan charge-offs. The allowance for loan losses is maintained at an amount management considers sufficient to provide for probable losses.

Acquired loans are marked to fair value on the date of acquisition and are evaluated on a quarterly basis to ensure the necessary purchase accounting updates are made in parallel with the allowance for loan loss calculation. Acquired loans that have been renewed since acquisition are included in the allowance for loan loss calculation since these loans have been underwritten to the Bank’s guidelines. Acquired loans that have not been renewed since acquisition, or that have a PCI mark, are excluded from the allowance for loan loss calculation. The Bank calculates a general valuation allowance for these excluded acquired loans without a PCI mark and compares that to the remaining general credit and interest rate marks. To the extent the remaining general credit and interest rate marks exceed the calculated general valuation allowance, no additional reserve is required. If the calculated general valuation allowance exceeds the remaining general credit and interest rate marks, the Bank would record an adjustment to the extent necessary.

The Bank’s allowance for loan losses includes specific allowances and a general allowance, each updated on a quarterly basis. A specific allowance is determined for all impaired loans (excluding PCI loans). The Bank defines an impaired loan as all non-accrual commercial real estate, multi-family, land, construction and commercial loans in excess of \$250,000 for which it is probable, based on current information, that the Company will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings. For collateral dependent loans, the specific allowance represents the difference between the Bank’s recorded investment in the loan, net of any interim charge-offs, and the estimated fair value of the collateral, less estimated selling costs. Impairment for all other impaired loans is calculated based on a combination of the estimated fair value of non-real estate collateral, personal guarantees, or the present value of the expected future cash flows.

Generally, for collateral dependent real estate loans, the Bank obtains an updated collateral appraisal once the loan is impaired. For impaired residential real estate loans, the appraisal is generally updated annually if the loan remains delinquent for an extended

period. For impaired commercial real estate loans, the Bank assesses whether there has likely been an adverse change in the collateral value supporting the loan. The Bank utilizes information based on its knowledge of changes in real estate conditions in its lending area to identify whether a possible deterioration of collateral value has occurred. Based on the severity of the changes in market conditions, management determines if an updated commercial real estate appraisal is warranted or if downward adjustments to the previous appraisal are warranted. If it is determined that the deterioration of the collateral value is significant enough to warrant ordering a new appraisal, an estimate of the downward adjustments to the existing appraised value is used in assessing if additional specific reserves are necessary until the updated appraisal is received.

A general allowance is determined for all loans that are not individually evaluated for impairment (excluding acquired loans that have not been renewed under the Bank's underwriting criteria). In determining the level of the general allowance, the Bank segments the loan portfolio into the following portfolio segments: residential real estate; consumer; investor-owned commercial real estate; owner-occupied commercial real estate; construction and land; and commercial and industrial.

The portfolio segments are further segmented by delinquency status or risk rating. An estimated loss factor is then applied to the outstanding principal loan balance of the delinquency status or risk rating category for each portfolio segment. To determine the loss factor, the Bank utilizes historical loss experience adjusted for certain qualitative factors and the loss emergence period.

The Bank's historical loss experience is based on a rolling 36-month look-back period for each portfolio segment. The look-back period was selected based on (1) management's judgment that this period captures sufficient loss events (in both dollar terms and number of individual events) to be relevant; and (2) that the Bank's underwriting criteria and risk characteristics have remained relatively stable throughout this period.

The historical loss experience is adjusted for certain qualitative factors including, but not limited to, (1) delinquency trends, (2) net charge-off trends, (3) nature and volume of the loan portfolio, (4) loan policies and underwriting standards, (5) experience and ability of lending personnel, (6) concentrations of credit, (7) loan review system, and external factors such as (8) changes in current economic conditions, (9) local competition and (10) regulation. Economic factors that the Bank considers in its estimate of the allowance for loan losses include: local and regional trends in economic growth, unemployment and real estate values. The Bank considers the applicability of each of these qualitative factors in estimating the general allowance for each portfolio segment. Each quarter, the Bank considers the current conditions for each of the qualitative factors, as well as a forward looking view on trends and events, to support an assessment unique to each portfolio segment.

The Bank calculates and analyzes the loss emergence period on an annual basis or more frequently if conditions warrant. The Bank's methodology is to use loss events in the past 12 quarters to determine the loss emergence period for each loan segment. The loss emergence period is specific to each portfolio segment. It represents the amount of time that has elapsed between (1) the occurrence of a loss event, which resulted in a potential loss and (2) the confirmation of the potential loss, when the Bank records an initial charge-off or downgrades the risk-rating of the loan to substandard.

The Bank also maintains an unallocated portion of the allowance for loan losses. The primary purpose of the unallocated component is to account for the inherent factors that cannot be practically assigned to individual loss categories, including the periodic update of appraisals, subjectivity of the Bank's credit review and risk rating process, and economic conditions that may not be fully captured in the Bank's loss history or qualitative factors.

Upon completion of the aforementioned procedures, an overall management review is performed including ratio analyses to identify divergent trends compared with the Bank's own historical loss experience, the historical loss experience of the Bank's peer group and management's understanding of general regulatory expectations. Based on that review, management may identify issues or factors that previously had not been considered in the estimation process, which may warrant further analysis or adjustments to estimated loss or qualitative factors applied in the calculation of the allowance for loan losses.

Reserve for Repurchased Loans and Loss Sharing Obligations

The reserve for repurchased loans and loss sharing obligations relates to potential losses on loans sold which may have to be repurchased due to a violation of representations and warranties and an estimate of the Bank's obligation under a loss sharing arrangement for loans sold to the Federal Home Loan Bank ("FHLB") as well as the potential repair requests for guaranteed loans sold to the Small Business Administration ("SBA"). Provisions for losses are charged to gain on sale of loans and credited to the reserve while actual losses are charged to the reserve. The reserve represents the Company's estimate of the total losses expected to occur and is considered to be adequate by management based upon the Company's evaluation of the potential exposure related to the loan sale agreements over the period of repurchase risk. The reserve for repurchased loans and loss sharing obligations is included in other liabilities on the Company's consolidated statement of financial condition as well as SBA repair requests.

Other Real Estate Owned

Other real estate owned (“OREO”) is carried at the lower of cost or estimated fair value, less estimated costs to sell. When a property is acquired, the excess of the loan balance over estimated fair value is charged to the allowance for loan losses. Operating results from other real estate owned, including rental income, operating expenses, gains and losses realized from the sales of other real estate owned and subsequent write-downs are recorded as incurred.

Premises and Equipment

Land is carried at cost and premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization or, in the case of acquired premises, the value on the acquisition date. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or leases. Generally, depreciable lives are as follows: computer equipment: 3 years; furniture, fixtures and other electronic equipment: 5 years; building improvements: 10 years; and buildings: 30 years. Repair and maintenance items are expensed and improvements are capitalized. Gains and losses on dispositions are reflected in current operations.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Any interest and penalties on taxes payable are included as part of the provision for income taxes.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes items recorded directly in equity, such as unrealized gains or losses on debt securities available-for-sale and accretion of unrealized loss on debt securities reclassified to held-to-maturity.

Bank Owned Life Insurance

Bank Owned Life Insurance (“BOLI”) is accounted for using the cash surrender value method and is recorded at its realizable value. Part of the Company’s BOLI is invested in a separate account insurance product which is invested in a fixed income portfolio. The separate account includes stable value protection which maintains realizable value at book value with investment gains and losses amortized over future periods. Increases in cash surrender value are included in other non-interest income, while proceeds from death benefits are generally recorded as a reduction to the carrying value.

Intangible Assets

Intangible assets resulting from acquisitions under the acquisition method of accounting consist of goodwill and core deposit intangible. Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired through purchase acquisitions. Goodwill with an indefinite useful life is not amortized, but is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. The Company prepares a qualitative assessment in determining whether goodwill may be impaired. The factors considered in the assessment include macroeconomic conditions, industry and market conditions and overall financial performance of the Company, among others. The Company completed its annual goodwill impairment test as of August 31, 2019. Based upon its qualitative assessment of goodwill, the Company concluded that goodwill was not impaired and no further quantitative analysis was warranted.

Segment Reporting

The Company’s operations are solely in the financial services industry and include providing traditional banking and other financial services to its customers. The Company operates throughout New Jersey and the metropolitan areas of Philadelphia and New York City. Management makes operating decisions and assesses performance based on an ongoing review of the Bank’s consolidated financial results. Therefore, the Company has a single operating segment for financial reporting purposes.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding plus potential common stock, utilizing the treasury stock method. All share amounts exclude unallocated shares of stock held by the Employee Stock Ownership Plan ("ESOP") and the 2006 and 2011 Incentive Plans (refer to Note 12 Incentive Plan, for further discussion).

Impact of New Accounting Pronouncements

Accounting Pronouncements Adopted in 2019

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 may be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. On July 30, 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements", which provided an option to apply the transition provisions of the new standard at the adoption date rather than the earliest comparative period presented. Additionally, the ASU provides a practical expedient permitting lessors to not separate non-lease components from the associated lease component if certain conditions are met. The Company adopted this ASU in its entirety on January 1, 2019, and has appropriately reflected the changes throughout the Company's consolidated financial statements. The Company elected to apply the new standard as of the adoption date and will not restate comparative prior periods. Additionally, the Company elected to apply the package of practical expedients standard under which the Company need not reassess whether any expired or existing contracts are leases or contain leases, the Company need not reassess the lease classification for any expired or existing lease, and the Company need not reassess initial direct costs for any existing leases. The adoption of this ASU resulted in the recognition of a right-of-use asset of \$20.6 million in other assets and a lease liability of \$20.7 million in other liabilities. Refer to Note 17 Leases, for additional information.

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 after 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 did not have an impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities." The amendments in this ASU was issued to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. As a result, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Current GAAP contains limitations on how an entity can designate the hedged risk in certain cash flow and fair value hedging relationships. To address those current limitations, the amendments in this ASU permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk. In addition, the amendments in this ASU change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption was permitted. The Company does not enter into derivatives that are designated as hedging instruments and as such, the adoption of this ASU did not have an impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU was issued to address a narrow-scope financial reporting issue that arose as a result of the enactment of the Tax Cuts and Jobs Act ("Tax Reform") on December 22, 2017. The objective of ASU 2018-02 is to address the tax effects of items within accumulated other comprehensive income (referred to as "stranded tax effects") that do not reflect the appropriate tax rate enacted in the Tax Reform. As a result, the ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate of 35 percent and the newly enacted corporate income tax rate of 21 percent. ASU

2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, including adoption in an interim period. The amendments in this ASU may be applied retrospectively to each period in which the effect of the change in the U.S. Federal corporate income tax rate in the Tax Reform is recognized. The Company has early adopted ASU 2018-02 for the year ended December 31, 2017, and has elected not to reclassify the income tax effects of the Tax Reform from accumulated other comprehensive loss to retained earnings.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” This ASU significantly changed how entities will measure credit losses for financial assets and certain other instruments that are measured at amortized cost. The standard replaced today’s “incurred loss” approach with an “expected loss” model, which necessitates a forecast of lifetime losses. The new model, referred to as the current expected credit loss (“CECL”) model, applies to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale (“AFS”) debt securities. The ASU simplifies the accounting model for purchased credit-impaired debt securities and loans. 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 will utilize the modified retrospective approach. The Company’s CECL implementation efforts are in process and continue to focus on model validation, developing new disclosures, establishing formal policies and procedures and other governance and control documentation. Certain elements of the calculation are pending finalization, including refinement of the model assumptions, the qualitative framework, internal control design, model validation, and the operational control framework to support the new process. Furthermore, changes to the economic forecasts within the model could positively or negatively impact the actual results. Due to these items, the quantitative impact to the consolidated financial statements cannot yet be reasonably estimated.

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 will not have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU updates the disclosure requirements on Fair Value measurements by 1) removing: the disclosures for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements; 2) modifying: disclosures for timing of liquidation of an investee’s assets and disclosures for uncertainty in measurement as of reporting date; and 3) adding: disclosures for changes in unrealized gains and losses included in other comprehensive income for recurring level 3 fair value measurements and disclosures for the range and weighted average of the significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted to any removed or modified disclosures and delay adoption of additional disclosures until the effective date. With the exception of the following, which should be applied prospectively, disclosures relating to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the disclosures for uncertainty measurement, all other changes should be applied retrospectively to all periods presented upon the effective date. The adoption of this update will not have a material impact on the Company’s consolidated financial statements.

Note 2. Regulatory Matters

Applicable regulations require the Bank to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2019, the Bank was required to maintain a minimum ratio of Tier 1 capital to total adjusted assets of 4.0%; a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 7.0%; a minimum ratio of Tier 1 capital to risk weighted assets of 8.5%; and, a minimum ratio of total (core and supplementary) capital to risk-weighted assets of 10.5%. These ratios include the impact of the required capital conservation buffer. With its conversion to a bank holding company on January 31, 2018, the Company became subject to substantially similar consolidated capital requirements imposed by FRB regulation.

Under the regulatory framework for prompt corrective action, Federal regulators are required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on the institution's financial statements. The regulations establish a framework for the classification of banking institutions into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, an institution is considered well-capitalized if it has a Tier 1 capital ratio of 5.0%; a common equity Tier 1 risk-based ratio of at least 6.5%; a Tier 1 risk-based ratio of at least 8.0%; and a total risk-based capital ratio of at least 10.0%. At December 31, 2019 and 2018, the Company and the Bank exceeded all regulatory capital requirements currently applicable.

The following is a summary of the Bank and the Company's regulatory capital amounts and ratios as of December 31, 2019 and 2018 compared to the regulatory minimum capital adequacy requirements and the regulatory requirements for classification as a well-capitalized institution then in effect (dollars in thousands):

As of December 31, 2019		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)	\$	779,108	10.03%	\$	310,798	4.00%	\$ 388,498 5.00%
Common equity Tier 1 (to risk-weighted assets)		779,108	12.98		420,106	7.00 ⁽¹⁾	390,099 6.50
Tier 1 capital (to risk-weighted assets)		779,108	12.98		510,129	8.50 ⁽¹⁾	480,121 8.00
Total capital (to risk-weighted assets)		797,339	13.29		630,159	10.50 ⁽¹⁾	600,152 10.00
OceanFirst Financial Corp:							
Tier 1 capital (to average assets)	\$	791,746	10.17%	\$	311,289	4.00%	N/A N/A
Common equity Tier 1 (to risk-weighted assets)		729,095	12.14		420,273	7.00 ⁽¹⁾	N/A N/A
Tier 1 capital (to risk-weighted assets)		791,746	13.19		510,331	8.50 ⁽¹⁾	N/A N/A
Total capital (to risk-weighted assets)		844,977	14.07		630,409	10.50 ⁽¹⁾	N/A N/A

As of December 31, 2018		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)	\$	712,900	10.01%	\$	284,772	4.000%	\$ 355,965 5.00%
Common equity Tier 1 (to risk-weighted assets)		712,900	13.39		339,513	6.375 ⁽²⁾	346,170 6.50
Tier 1 capital (to risk-weighted assets)		712,900	13.39		419,398	7.875 ⁽²⁾	426,056 8.00
Total capital (to risk-weighted assets)		730,484	13.72		525,912	9.875 ⁽²⁾	532,570 10.00
OceanFirst Financial Corp:							
Tier 1 capital (to average assets)	\$	709,972	9.96%	\$	285,199	4.000%	N/A N/A
Common equity Tier 1 (to risk-weighted assets)		647,773	12.15		339,791	6.375 ⁽²⁾	N/A N/A
Tier 1 capital (to risk-weighted assets)		709,972	13.32		419,742	7.875 ⁽²⁾	N/A N/A
Total capital (to risk-weighted assets)		762,556	14.31		526,343	9.875 ⁽²⁾	N/A N/A

(1) Includes the Capital Conservation Buffer of 2.500%.

(2) Includes the Capital Conservation Buffer of 1.875%.

The Bank satisfies the criteria to be "well-capitalized" under the Prompt Corrective Action Regulations.

The capital conservation buffer requirement has been phased in, incrementally, over the past four years beginning January 1, 2016. The phase in of the capital conservation buffer started at 0.625% on January 1, 2016, and increased to 1.25% on January 1, 2017, 1.875% on January 1, 2018, and 2.50% on January 1, 2019, when the full capital conservation buffer requirement became effective. Capital distributions and certain discretionary bonus payments are limited if the capital conservation buffer is not maintained. Applicable regulations also impose limitations upon capital distributions by the Company, such as dividends and payments to repurchase or otherwise acquire shares. The Company may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital minimum requirements or if such declaration and payment would otherwise violate regulatory requirements.

Note 3. Business Combinations

As a result of the following acquisitions and the acquisitions of Two River Bancorp (“Two River”) and Country Bank Holding Company, Inc. (“Country Bank”), which closed on January 1, 2020, the Company incurred merger related expenses of \$10.5 million, \$26.9 million, and \$8.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. Refer to Note 19 Subsequent Events, for additional information related to the Two River and Country Bank acquisitions. The following table summarizes the merger related expenses for the years ended December 31, 2019, 2018 and 2017 is as follows:

	For the Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Data processing fees	\$ 2,514	\$ 6,017	\$ 3,956
Professional fees	4,239	4,414	2,771
Employee severance payments	2,942	15,660	1,177
Other/miscellaneous fees	808	820	389
Merger related expenses	<u>\$ 10,503</u>	<u>\$ 26,911</u>	<u>\$ 8,293</u>

Capital Bank of New Jersey Acquisition

On January 31, 2019, the Company completed its acquisition of Capital Bank of New Jersey (“Capital Bank”), which after purchase accounting adjustments added \$494.8 million to assets, \$307.8 million to loans, and \$449.0 million to deposits. Total consideration paid for Capital Bank was \$76.8 million, including cash consideration of \$353,000. Capital Bank 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 Capital Bank, net of total consideration paid (in thousands):

	At January 31, 2019
	Estimated Fair Value
Total Purchase Price:	<u>\$ 76,834</u>
Assets acquired:	
Cash and cash equivalents	\$ 59,748
Securities	103,775
Loans	307,778
Accrued interest receivable	1,390
Bank Owned Life Insurance	10,460
Deferred tax asset	3,967
Other assets	4,980
Core deposit intangible	2,662
Total assets acquired	<u>494,760</u>
Liabilities assumed:	
Deposits	(449,018)
Other liabilities	(5,121)
Total liabilities assumed	<u>(454,139)</u>
Net assets acquired	\$ 40,621
Goodwill recorded in the merger	<u>\$ 36,213</u>

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.

Sun Bancorp. Inc Acquisition

On January 31, 2018, the Company completed its acquisition of Sun Bancorp, Inc. (“Sun”), which after purchase accounting adjustments, added \$2.0 billion to assets, \$1.5 billion to loans, and \$1.6 billion to deposits. Total consideration paid for Sun was \$474.9 million, including cash consideration of \$72.4 million. Sun 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 Sun, net of the total consideration paid (in thousands):

	At January 31, 2018	
	Fair Value	
Total Purchase Price:	\$	474,930
Assets acquired:		
Cash and cash equivalents	\$	68,632
Securities		254,522
Loans		1,517,345
Accrued interest receivable		5,621
Bank Owned Life Insurance		85,238
Deferred tax asset		57,597
Other assets		43,202
Core deposit intangible		11,897
Total assets acquired		2,044,054
Liabilities assumed:		
Deposits		(1,616,073)
Borrowings		(127,727)
Other liabilities		(13,242)
Total liabilities assumed		(1,757,042)
Net assets acquired	\$	287,012
Goodwill recorded in the merger	\$	187,918

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. On January 31, 2019, the Company finalized its review of the acquired assets and liabilities and will not be recording any further adjustments to the carrying value.

Supplemental Pro Forma Financial Information

The following table presents financial information regarding the former Sun operations included in the Consolidated Statements of Income from the date of the acquisition (January 31, 2018) through December 31, 2018 and regarding the former Capital Bank operations included in the Consolidated Statements of Income from the date of the acquisition (January 31, 2019) through December 31, 2019. In addition, the table provides condensed pro forma financial information assuming the Sun and Capital Bank acquisitions had been completed as of January 1, 2017, for the year ended December 31, 2017, and January 1, 2018 for the year ended December 31, 2018. The table has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisitions occurred as of the beginning of the periods presented, nor is it indicative of future results. Furthermore, the pro forma information does not reflect management’s estimate of any revenue-enhancing opportunities nor anticipated cost savings that may have occurred as a result of the integration and consolidation of Sun’s and Capital Bank’s operations. The pro forma information shown reflects adjustments related to certain purchase accounting fair value adjustments; amortization of core deposit and other intangibles; and related income tax effects.

	Capital Bank Actual from January 31, 2019 to December 31, 2019	Sun Actual from January 31, 2018 to December 31, 2018	Pro forma Year ended December 31, 2019	Pro forma Year ended December 31, 2018	Pro forma Year ended December 31, 2017
(in thousands, except per share amounts)	(Unaudited)				
Net interest income	\$ 17,090	\$ 63,889	\$ 257,703	\$ 266,014	\$ 260,520
Provision for loan losses	385	1,215	1,636	3,070	3,239
Non-interest income	1,456	7,961	42,277	37,554	40,914
Non-interest expense	12,482	35,184	190,934	214,713	201,605
Provision for income taxes	1,193	7,090	18,798	15,100	26,111
Net income	<u>\$ 4,486</u>	<u>\$ 28,361</u>	<u>\$ 88,612</u>	<u>\$ 70,685</u>	<u>\$ 70,479</u>
Fully diluted earnings per share			\$ 1.74	\$ 1.36	\$ 1.37

Core Deposit Intangible

The estimated future amortization expense for the core deposit intangible over the next five years is as follows (in thousands):

For the Year Ended December 31,	Amortization Expense
2020	\$ 3,596
2021	3,121
2022	2,646
2023	2,171
2024	1,695
Thereafter	2,378
Total	<u>\$ 15,607</u>

Fair Value Measurement of Assets Acquired and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and liabilities assumed in the Sun and Capital Bank acquisitions were as follows. Refer to Note 15 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 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, Sun operated twenty one properties subject to lease agreements, and Capital Bank operated one property subject to a lease agreement.

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 \$11.9 million and \$2.7 million, for the acquisitions of Sun and Capital Bank, 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.

Note 4. Securities

The amortized cost and estimated fair value of debt securities available-for-sale and held-to-maturity at December 31, 2019 and 2018 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2019				
Debt securities available-for-sale:				
Investment securities:				
U.S. government and agency obligations	\$ 149,120	\$ 1,408	\$ (93)	\$ 150,435
State and municipal obligations	25	—	—	25
Total investment securities	149,145	1,408	(93)	150,460
Mortgage-backed securities - FNMA	495	5	—	500
Total debt securities available-for-sale	\$ 149,640	\$ 1,413	\$ (93)	\$ 150,960
Debt securities held-to-maturity:				
Investment securities:				
U.S. government and agency obligations	\$ 4,984	\$ 14	\$ —	\$ 4,998
State and municipal obligations	124,430	1,537	(208)	125,759
Corporate debt securities	79,547	833	(2,421)	77,959
Total investment securities	208,961	2,384	(2,629)	208,716
Mortgage-backed securities:				
FHLMC	206,985	2,221	(524)	208,682
FNMA	244,428	2,680	(493)	246,615
GNMA	110,661	939	(212)	111,388
SBA	1,940	—	(51)	1,889
Total mortgage-backed securities	564,014	5,840	(1,280)	568,574
Total debt securities held-to-maturity	\$ 772,975	\$ 8,224	\$ (3,909)	\$ 777,290
Total debt securities	\$ 922,615	\$ 9,637	\$ (4,002)	\$ 928,250
At December 31, 2018				
Debt securities available-for-sale:				
Investment securities - U.S. government and agency obligations	\$ 100,524	\$ 163	\$ (963)	\$ 99,724
Mortgage-backed securities - FNMA	998	—	(5)	993
Total debt securities available-for-sale	\$ 101,522	\$ 163	\$ (968)	\$ 100,717
Debt securities held-to-maturity:				
Investment securities:				
U.S. government and agency obligations	\$ 14,975	\$ —	\$ (130)	\$ 14,845
State and municipal obligations	123,987	67	(1,697)	122,357
Corporate debt securities	66,834	126	(4,984)	61,976
Total investment securities	205,796	193	(6,811)	199,178
Mortgage-backed securities:				
FHLMC	237,703	159	(5,110)	232,752
FNMA	277,266	753	(6,030)	271,989
GNMA	127,611	198	(2,360)	125,449
SBA	3,527	—	(80)	3,447
Total mortgage-backed securities	646,107	1,110	(13,580)	633,637
Total debt securities held-to-maturity	\$ 851,903	\$ 1,303	\$ (20,391)	\$ 832,815
Total debt securities	\$ 953,425	\$ 1,466	\$ (21,359)	\$ 933,532

During the third quarter 2013, the Bank transferred \$536.0 million of previously designated available-for-sale debt 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 debt securities held-to-maturity at December 31, 2019 and 2018 are as follows (in thousands):

	December 31,	
	2019	2018
Amortized cost	\$ 772,975	\$ 851,903
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	9,245	8,254
Carrying value	<u>\$ 768,873</u>	<u>\$ 846,810</u>

Realized gains were \$0 and \$248,000 for the year ended December 31, 2019 and 2018, respectively.

The amortized cost and estimated fair value of investment securities at December 31, 2019 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 December 31, 2019, corporate debt securities with an amortized cost and estimated fair value of \$59.4 million and \$57.4 million, respectively, were callable prior to the maturity date.

December 31, 2019	Amortized Cost	Estimated Fair Value
Less than one year	\$ 69,635	\$ 69,723
Due after one year through five years	203,081	205,520
Due after five years through ten years	71,590	70,118
Due after ten years	13,800	13,815
	<u>\$ 358,106</u>	<u>\$ 359,176</u>

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.

The estimated fair value of securities pledged as required security for deposits and for other purposes required by law amounted to \$475.6 million and \$563.1 million, at December 31, 2019 and 2018, respectively, including \$81.4 million and \$74.1 million at December 31, 2019 and 2018, respectively, pledged as collateral for securities sold under agreements to repurchase.

The estimated fair value and unrealized losses for debt securities available-for-sale and held-to-maturity at December 31, 2019 and December 31, 2018, segregated by the duration of the unrealized losses, are as follows (in thousands):

	As of December 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Debt securities available-for-sale:						
Investment securities - U.S. government and agency obligations	\$ 25,021	\$ (54)	\$ 22,451	\$ (39)	\$ 47,472	\$ (93)
Total debt securities available-for-sale	25,021	(54)	22,451	(39)	47,472	(93)
Debt securities held-to-maturity:						
Investment securities:						
State and municipal obligations	7,308	(58)	14,531	(150)	21,839	(208)
Corporate debt securities	9,727	(213)	37,628	(2,208)	47,355	(2,421)
Total investment securities	17,035	(271)	52,159	(2,358)	69,194	(2,629)
Mortgage-backed securities:						
FHLMC	6,329	(29)	38,641	(495)	44,970	(524)
FNMA	13,682	(59)	38,568	(434)	52,250	(493)
GNMA	30,268	(93)	19,828	(119)	50,096	(212)
SBA	—	—	1,889	(51)	1,889	(51)
Total mortgage-backed securities	50,279	(181)	98,926	(1,099)	149,205	(1,280)
Total debt securities held-to-maturity	67,314	(452)	151,085	(3,457)	218,399	(3,909)
Total debt securities	\$ 92,335	\$ (506)	\$ 173,536	\$ (3,496)	\$ 265,871	\$ (4,002)
As of December 31, 2018						
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Debt securities available-for-sale:						
Investment securities - U.S. government and agency obligations	\$ 985	\$ (3)	\$ 66,438	\$ (960)	\$ 67,423	\$ (963)
Mortgage-backed securities - FNMA	993	(5)	—	—	993	(5)
Total debt securities available-for-sale	1,978	(8)	66,438	(960)	68,416	(968)
Debt securities held-to-maturity:						
Investment securities:						
U.S. government and agency obligations	—	—	14,845	(130)	14,845	(130)
State and municipal obligations	2,856	(4)	106,073	(1,693)	108,929	(1,697)
Corporate debt securities	2,470	(21)	43,059	(4,963)	45,529	(4,984)
Total investment securities	5,326	(25)	163,977	(6,786)	169,303	(6,811)
Mortgage-backed securities:						
FHLMC	46,615	(159)	147,763	(4,951)	194,378	(5,110)
FNMA	27,594	(125)	185,328	(5,905)	212,922	(6,030)
GNMA	35,221	(535)	59,468	(1,825)	94,689	(2,360)
SBA	3,447	(80)	—	—	3,447	(80)
Total mortgage-backed securities	112,877	(899)	392,559	(12,681)	505,436	(13,580)
Total debt securities held-to-maturity	118,203	(924)	556,536	(19,467)	674,739	(20,391)
Total debt securities	\$ 120,181	\$ (932)	\$ 622,974	\$ (20,427)	\$ 743,155	\$ (21,359)

At December 31, 2019, 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	As of December 31, 2019		
	Amortized Cost	Estimated Fair Value	Credit Rating Moody's/S&P
Chase Capital	\$ 10,000	\$ 9,632	Baa1/BBB-
Wells Fargo Capital	5,000	4,744	A1/BBB
Huntington Capital	5,000	4,500	Baa2/BB+
Keycorp Capital	5,000	4,625	Baa2/BB+
PNC Capital	5,000	4,700	Baa1/BBB-
State Street Capital	3,332	3,199	A3/BBB
SunTrust Capital	5,000	4,725	Not Rated/BBB-
Southern Company	1,504	1,503	Baa2/BBB+
	<u>\$ 39,836</u>	<u>\$ 37,628</u>	

At December 31, 2019, 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 December 31, 2019. 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 intend 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 December 31, 2019.

State and municipal obligations are securities issued by state and local governments for various purposes. The Company is not aware of any information subsequent to the purchase of any state and municipal obligation that indicates an inability on the part of an issuer to meet all of its financial commitments. The weighted average credit rating of these securities is Aa/AA with no credit rating below A3/A-. The Company has the ability and stated intention to hold these securities to maturity at which time the Company expects to receive full repayment. Current unrealized losses are considered 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 securities. As a result, the Company concluded that these securities were only temporarily impaired as of December 31, 2019.

Note 5. Loans Receivable, Net

Loans receivable, net, at December 31, 2019 and 2018 consisted of the following (in thousands):

	December 31,	
	2019	2018
Commercial:		
Commercial and industrial	\$ 396,091	\$ 304,994
Commercial real estate - owner occupied	791,941	740,375
Commercial real estate - investor	2,284,698	2,015,210
Total commercial	3,472,730	3,060,579
Consumer:		
Residential real estate	2,320,821	2,044,286
Home equity loans and lines	318,414	353,386
Other consumer	89,422	121,561
Total consumer	2,728,657	2,519,233
	6,201,387	5,579,812
Purchased credit impaired ("PCI") loans	13,265	8,901
Total loans	6,214,652	5,588,713
Deferred origination costs, net	9,880	7,086
Allowance for loan losses	(16,852)	(16,577)
Loans receivable, net	\$ 6,207,680	\$ 5,579,222

The Bank's eligible mortgage loans are pledged to secure FHLB advances. At December 31, 2019 the Bank pledged \$3.851 billion of eligible mortgage loans to secure FHLB advances.

An analysis of the allowance for loan losses for the years ended December 31, 2019, 2018 and 2017 is as follows (in thousands):

	At or For the Year Ended December 31,		
	2019	2018	2017
Balance at beginning of year	\$ 16,577	\$ 15,721	\$ 15,183
Provision charged to operations	1,636	3,490	4,445
Charge-offs	(2,804)	(3,841)	(5,384)
Recoveries	1,443	1,207	1,477
Balance at end of year	\$ 16,852	\$ 16,577	\$ 15,721

The following table presents an analysis of the allowance for loan losses for the years ended December 31, 2019 and 2018, the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2019 and 2018 excluding PCI loans (in thousands):

	Commercial and Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Investor	Residential Real Estate	Consumer	Unallocated	Total
For the year ended December 31, 2019							
Allowance for loan losses:							
Balance at beginning of year	\$ 1,609	\$ 2,277	\$ 8,770	\$ 2,413	\$ 486	\$ 1,022	\$ 16,577
Provision (benefit) charged to operations	(311)	947	638	792	567	(997)	1,636
Charge-offs	—	(663)	(236)	(1,299)	(606)	—	(2,804)
Recoveries	160	332	711	96	144	—	1,443
Balance at end of year	<u>\$ 1,458</u>	<u>\$ 2,893</u>	<u>\$ 9,883</u>	<u>\$ 2,002</u>	<u>\$ 591</u>	<u>\$ 25</u>	<u>\$ 16,852</u>
For the year ended December 31, 2018							
Allowance for loan losses:							
Balance at beginning of year	\$ 1,801	\$ 3,175	\$ 7,952	\$ 1,804	\$ 614	\$ 375	\$ 15,721
Provision (benefit) charged to operations	(66)	(783)	2,550	1,056	86	647	3,490
Charge-offs	(230)	(314)	(1,939)	(1,021)	(337)	—	(3,841)
Recoveries	104	199	207	574	123	—	1,207
Balance at end of year	<u>\$ 1,609</u>	<u>\$ 2,277</u>	<u>\$ 8,770</u>	<u>\$ 2,413</u>	<u>\$ 486</u>	<u>\$ 1,022</u>	<u>\$ 16,577</u>
December 31, 2019							
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	\$ —	\$ 474	\$ —	\$ —	\$ 2	\$ —	\$ 476
Collectively evaluated for impairment	1,458	2,419	9,883	2,002	589	25	16,376
Total ending allowance balance	<u>\$ 1,458</u>	<u>\$ 2,893</u>	<u>\$ 9,883</u>	<u>\$ 2,002</u>	<u>\$ 591</u>	<u>\$ 25</u>	<u>\$ 16,852</u>
Loans:							
Loans individually evaluated for impairment	\$ 243	\$ 6,163	\$ 5,584	\$ 11,009	\$ 3,511	\$ —	\$ 26,510
Loans collectively evaluated for impairment	395,848	785,778	2,279,114	2,309,812	404,325	—	6,174,877
Total ending loan balance	<u>\$ 396,091</u>	<u>\$ 791,941</u>	<u>\$ 2,284,698</u>	<u>\$ 2,320,821</u>	<u>\$ 407,836</u>	<u>\$ —</u>	<u>\$ 6,201,387</u>
December 31, 2018							
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	1,609	2,277	8,770	2,413	486	1,022	16,577
Total ending allowance balance	<u>\$ 1,609</u>	<u>\$ 2,277</u>	<u>\$ 8,770</u>	<u>\$ 2,413</u>	<u>\$ 486</u>	<u>\$ 1,022</u>	<u>\$ 16,577</u>
Loans:							
Loans individually evaluated for impairment	\$ 1,626	\$ 5,395	\$ 9,738	\$ 10,064	\$ 2,974	\$ —	\$ 29,797
Loans collectively evaluated for impairment	303,368	734,980	2,005,472	2,034,222	471,973	—	5,550,015
Total ending loan balance	<u>\$ 304,994</u>	<u>\$ 740,375</u>	<u>\$ 2,015,210</u>	<u>\$ 2,044,286</u>	<u>\$ 474,947</u>	<u>\$ —</u>	<u>\$ 5,579,812</u>

A summary of impaired loans at December 31, 2019 and 2018 is as follows, excluding PCI loans (in thousands):

	December 31,	
	2019	2018
Impaired loans with no allocated allowance for loan losses	\$ 24,313	\$ 29,797
Impaired loans with allocated allowance for loan losses	2,197	—
	<u>\$ 26,510</u>	<u>\$ 29,797</u>
Amount of the allowance for loan losses allocated	<u>\$ 476</u>	<u>\$ —</u>

The Company defines an impaired loan as a non-accrual commercial real estate, multi-family, land, construction and commercial loan in excess of \$250,000 for which it is probable, based on current information, that the Company will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings. At December 31, 2019, the impaired loan portfolio totaled \$26.5 million, for which there was \$476,000 specific allocation in the allowance for loan losses. At December 31, 2018, the impaired loan portfolio totaled \$29.8 million, for which there was no specific allocation in the allowance for loan losses. The average balance of impaired loans for the years ended December 31, 2019, 2018 and 2017 was \$29.4 million, \$38.1 million, and \$39.8 million, respectively. If interest income on non-accrual loans and impaired loans had been current in accordance with their original terms, approximately \$372,000, \$419,000, and \$639,000 of interest income for the years ended December 31, 2019, 2018 and 2017, respectively, would have been recorded.

At December 31, 2019, impaired loans include troubled debt restructured (“TDR”) loans of \$24.6 million, of which \$18.0 million were performing in accordance with their restructured terms for a minimum of six months and were accruing interest. At December 31, 2018 impaired loans include troubled debt restructured loans of \$26.5 million, of which \$22.9 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 December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018 is as follows, excluding PCI loans (in thousands):

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
At December 31, 2019			
With no related allowance recorded:			
Commercial and industrial	\$ 265	\$ 243	\$ —
Commercial real estate – owner occupied	4,062	3,968	—
Commercial real estate – investor	6,665	5,584	—
Residential real estate	11,009	11,009	—
Consumer	3,734	3,509	—
	<u>\$ 25,735</u>	<u>\$ 24,313</u>	<u>\$ —</u>
With an allowance recorded:			
Commercial and industrial	\$ —	\$ —	\$ —
Commercial real estate – owner occupied	2,376	2,195	474
Commercial real estate – investor	—	—	—
Residential real estate	—	—	—
Consumer	2	2	2
	<u>\$ 2,378</u>	<u>\$ 2,197</u>	<u>\$ 476</u>
At December 31, 2018			
With no related allowance recorded:			
Commercial and industrial	\$ 1,750	\$ 1,626	\$ —
Commercial real estate – owner occupied	5,413	5,395	—
Commercial real estate – investor	12,633	9,738	—
Residential real estate	10,441	10,064	—
Consumer	3,301	2,974	—
	<u>\$ 33,538</u>	<u>\$ 29,797</u>	<u>\$ —</u>
With an allowance recorded:			
Commercial and industrial	\$ —	\$ —	\$ —
Commercial real estate – owner occupied	—	—	—
Commercial real estate – investor	—	—	—
Residential real estate	—	—	—
Consumer	—	—	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(continued)

	For the Year Ended December 31,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	\$ 523	\$ 5	\$ 1,075	\$ 107
Commercial real estate – owner occupied	4,171	179	8,264	297
Commercial real estate – investor	9,012	222	13,934	382
Residential real estate	10,275	548	10,787	475
Consumer	3,275	178	2,764	155
	<u>\$ 27,256</u>	<u>\$ 1,132</u>	<u>\$ 36,824</u>	<u>\$ 1,416</u>
With an allowance recorded:				
Commercial and industrial	\$ —	\$ —	\$ 589	\$ —
Commercial real estate – owner occupied	2,173	138	—	—
Commercial real estate – investor	—	—	670	—
Residential real estate	—	—	—	—
Consumer	—	—	—	—
	<u>\$ 2,173</u>	<u>\$ 138</u>	<u>\$ 1,259</u>	<u>\$ —</u>

The following table presents the recorded investment in non-accrual loans by loan portfolio segment as of December 31, 2019 and 2018, excluding PCI loans (in thousands):

	December 31,	
	2019	2018
Commercial and industrial	\$ 207	\$ 1,587
Commercial real estate – owner occupied	4,811	501
Commercial real estate – investor	2,917	5,024
Residential real estate	7,181	7,389
Consumer	2,733	2,914
	<u>\$ 17,849</u>	<u>\$ 17,415</u>

At December 31, 2019, there were no commitments to lend additional funds to borrowers whose loans are in non-accrual status.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2019 and 2018 by loan portfolio segment, excluding PCI loans (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2019						
Commercial and industrial	\$ 100	\$ —	\$ 207	\$ 307	\$ 395,784	\$ 396,091
Commercial real estate – owner occupied	1,541	1,203	1,040	3,784	788,157	791,941
Commercial real estate – investor	381	938	2,792	4,111	2,280,587	2,284,698
Residential real estate	8,161	3,487	2,859	14,507	2,306,314	2,320,821
Consumer	1,048	491	2,388	3,927	403,909	407,836
	<u>\$ 11,231</u>	<u>\$ 6,119</u>	<u>\$ 9,286</u>	<u>\$ 26,636</u>	<u>\$ 6,174,751</u>	<u>\$ 6,201,387</u>
December 31, 2018						
Commercial and industrial	\$ —	\$ —	\$ —	\$ —	\$ 304,994	\$ 304,994
Commercial real estate – owner occupied	5,104	236	197	5,537	734,838	740,375
Commercial real estate – investor	3,979	2,503	2,461	8,943	2,006,267	2,015,210
Residential real estate	10,199	4,979	4,451	19,629	2,024,657	2,044,286
Consumer	2,200	955	2,464	5,619	469,328	474,947
	<u>\$ 21,482</u>	<u>\$ 8,673</u>	<u>\$ 9,573</u>	<u>\$ 39,728</u>	<u>\$ 5,540,084</u>	<u>\$ 5,579,812</u>

At December 31, 2019, 2018 and 2017, loans in the amount of \$17.8 million, \$17.4 million, and \$20.9 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 December 31, 2019, there were no loans that were ninety days or greater past due and still accruing interest. Non-accrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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 December 31, 2019 and 2018, and based on the most recent analysis performed, the risk category of loans by loan portfolio segment, excluding PCI loans, is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2019					
Commercial and industrial	\$ 378,154	\$ 2,657	\$ 15,280	\$ —	\$ 396,091
Commercial real estate – owner occupied	756,592	3,985	31,364	—	791,941
Commercial real estate – investor	2,240,104	23,559	21,035	—	2,284,698
	<u>\$ 3,374,850</u>	<u>\$ 30,201</u>	<u>\$ 67,679</u>	<u>\$ —</u>	<u>\$ 3,472,730</u>
December 31, 2018					
Commercial and industrial	\$ 291,265	\$ 2,777	\$ 10,952	\$ —	\$ 304,994
Commercial real estate – owner occupied	706,825	3,000	30,550	—	740,375
Commercial real estate – investor	1,966,495	23,727	24,988	—	2,015,210
	<u>\$ 2,964,585</u>	<u>\$ 29,504</u>	<u>\$ 66,490</u>	<u>\$ —</u>	<u>\$ 3,060,579</u>

For residential and consumer loans, 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 December 31, 2019 and 2018, excluding PCI loans (in thousands):

	Residential	Consumer
December 31, 2019		
Performing	\$ 2,313,640	\$ 405,103
Non-performing	7,181	2,733
	<u>\$ 2,320,821</u>	<u>\$ 407,836</u>
December 31, 2018		
Performing	\$ 2,036,897	\$ 472,033
Non-performing	7,389	2,914
	<u>\$ 2,044,286</u>	<u>\$ 474,947</u>

The recorded investment in residential and consumer loans collateralized by residential real estate, which are in the process of foreclosure, amounted to \$1.8 million at December 31, 2019. The amount of foreclosed residential real estate property held by the Company was \$51,000 at December 31, 2019.

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. One-to-four family and consumer loans where the borrower's debt is discharged in a bankruptcy filing are also considered troubled debt restructurings. For these loans, the Bank retains its security interest in the real estate collateral. Included in the non-accrual loan total at December 31, 2019, 2018 and 2017 were \$6.6 million, \$3.6 million, and \$8.8 million, respectively, of troubled debt restructurings. At December 31, 2019, there were \$476,000 specific reserves allocated to loans which were classified as troubled debt restructurings. At December 31, 2018 and 2017, there were no specific reserves allocated to loans which were 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 restructuring at December 31, 2019, 2018 and 2017, which totaled \$18.0 million, \$22.9 million, and \$33.3 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 years ended December 31, 2019 and 2018, and troubled debt restructurings modified within the previous year and which defaulted during the years ended December 31, 2019 and 2018 (dollars in thousands):

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
For the year ended December 31, 2019			
Troubled Debt Restructurings:			
Commercial real estate – owner occupied	1	\$ 154	\$ 198
Commercial real estate – investor	1	272	393
Residential real estate	6	1,036	1,091
Consumer	7	663	683
		Number of Loans	Recorded Investment
Troubled Debt Restructurings			
Which Subsequently Defaulted:			
Consumer		1	\$ 115
	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
For the year ended December 31, 2018			
Troubled Debt Restructurings:			
Commercial and industrial	2	\$ 496	\$ 502
Commercial real estate – owner occupied	1	49	50
Commercial real estate – investor	3	1,395	1,435
Residential real estate	5	558	598
		Number of Loans	Recorded Investment
Troubled Debt Restructurings			
Which Subsequently Defaulted:			
Consumer		1	\$ 29

As part of the Capital Bank acquisition, 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 Capital Bank at January 31, 2019 (in thousands):

	Capital Bank January 31, 2019
Contractually required principal and interest	\$ 6,877
Contractual cash flows not expected to be collected (non-accretable discount)	(769)
Expected cash flows to be collected at acquisition	6,108
Interest component of expected cash flows (accretable yield)	(691)
Fair value of acquired loans	\$ 5,417

The following table summarizes the changes in accretable yield for PCI loans during the years ended December 31, 2019 and 2018 (in thousands):

	For the Year Ended December 31,	
	2019	2018
Beginning balance	\$ 3,630	\$ 161
Acquisition	691	2,646
Accretion	(2,613)	(2,257)
Reclassification from non-accretable difference	1,317	3,080
Ending balance	<u>\$ 3,025</u>	<u>\$ 3,630</u>

Note 6. Interest and Dividends Receivable

Interest and dividends receivable at December 31, 2019 and 2018 are summarized as follows (in thousands):

	December 31,	
	2019	2018
Loans	\$ 17,664	\$ 15,905
Investment securities and other	2,827	2,490
Mortgage-backed securities	1,183	1,294
	<u>\$ 21,674</u>	<u>\$ 19,689</u>

Note 7. Premises and Equipment, Net

Premises and equipment, net at December 31, 2019 and 2018 are summarized as follows (in thousands):

	December 31,	
	2019	2018
Land	\$ 24,446	\$ 25,415
Buildings and improvements	97,653	101,211
Leasehold improvements	9,274	7,465
Furniture and equipment	25,558	22,373
Finance lease	2,572	8,630
Other	2,764	2,444
Total	<u>162,267</u>	<u>167,538</u>
Accumulated depreciation and amortization	<u>(59,576)</u>	<u>(56,329)</u>
	<u>\$ 102,691</u>	<u>\$ 111,209</u>

Depreciation and amortization expense for the years ended December 31, 2019, 2018, and 2017 amounted to \$8.2 million, \$8.7 million and \$6.3 million, respectively.

Note 8. Deposits

Deposits, including accrued interest payable of \$238,000 at December 31, 2019 and \$430,000 at December 31, 2018, are summarized as follows (in thousands):

	December 31,			
	2019		2018	
	Amount	Weighted Average Cost	Amount	Weighted Average Cost
Non-interest-bearing accounts	\$ 1,377,396	—%	\$ 1,151,362	—%
Interest-bearing checking accounts	2,539,428	0.68	2,350,106	0.51
Money market deposit accounts	578,147	0.68	569,680	0.66
Savings accounts	898,174	0.13	877,177	0.12
Time deposits	935,632	1.82	866,244	1.50
Total deposits	<u>\$ 6,328,777</u>	<u>0.62%</u>	<u>\$ 5,814,569</u>	<u>0.51%</u>

Included in time deposits at December 31, 2019 and 2018, were \$150.6 million and \$124.3 million, respectively, in deposits of \$250,000 and over.

Time deposits at December 31, 2019 mature as follows (in thousands):

For the Year Ended December 31,	Time Deposit Maturities
2020	\$ 522,246
2021	257,040
2022	104,241
2023	34,341
2024	16,902
Thereafter	862
Total	<u>\$ 935,632</u>

Interest expense on deposits for the years ended December 31, 2019, 2018 and 2017 is as follows (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Interest-bearing checking accounts	\$ 16,820	\$ 9,219	\$ 4,533
Money market deposit accounts	4,919	2,818	1,213
Savings accounts	1,195	990	345
Time deposits	15,498	9,551	6,245
Total interest expense on deposits	<u>\$ 38,432</u>	<u>\$ 22,578</u>	<u>\$ 12,336</u>

Note 9. Borrowed Funds

Borrowed funds are summarized as follows (in thousands):

	December 31,			
	2019		2018	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Federal Home Loan Bank advances	\$ 519,260	1.84%	\$ 449,383	2.15%
Securities sold under agreements to repurchase	71,739	0.42	61,760	0.30
Other borrowings	96,801	4.64	99,530	5.24
	<u>\$ 687,800</u>	<u>2.09%</u>	<u>\$ 610,673</u>	<u>2.47%</u>

Information concerning FHLB advances and securities sold under agreements to repurchase (“reverse repurchase agreements”) is summarized as follows (in thousands):

	FHLB Advances		Reverse Repurchase Agreements	
	2019	2018	2019	2018
Average balance	\$ 387,925	\$ 382,464	\$ 64,525	\$ 66,340
Maximum amount outstanding at any month end	519,260	675,802	71,739	82,463
Average interest rate for the year	2.18%	2.06%	0.43%	0.25%
Amortized cost of collateral:				
Mortgage-backed securities	\$ —	\$ —	\$ 80,436	\$ 75,425
Estimated fair value of collateral:				
Mortgage-backed securities	—	—	81,365	74,144

The securities collateralizing the reverse repurchase agreements are delivered to the lender with whom each transaction is executed or to a third-party custodian. The lender, who may sell, loan or otherwise dispose of such securities to other parties in the normal course of their operations, agrees to resell to the Company substantially the same securities at the maturity of the reverse repurchase agreements (Refer to Note 4 Securities).

FHLB advances and reverse repurchase agreements have contractual maturities at December 31, 2019 as follows (in thousands):

	FHLB Advances	Reverse Repurchase Agreements
For the Year Ended December 31,		
2020	\$ 359,724	\$ 71,739
2021	24,743	—
2022	92,793	—
2023	—	—
2024	42,000	—
Total	\$ 519,260	\$ 71,739

The other borrowings at December 31, 2019 include the following (in thousands):

Type of Debt	Stated Value	Carrying Value	Interest Rate	Maturity
Subordinated debt	\$ 35,000	\$ 34,542	5.125% ⁽¹⁾	September 30, 2026
Trust preferred	5,000	5,000	3 month LIBOR plus 165 basis points	August 1, 2036
Trust preferred	30,000	22,645	3 month LIBOR plus 135 basis points	March 15, 2036
Trust preferred	7,500	7,500	3 month LIBOR plus 166 basis points	November 1, 2036
Trust preferred	10,000	7,652	3 month LIBOR plus 153 basis points	April 19, 2037
Trust preferred	10,000	10,000	3 month LIBOR plus 175 basis points	September 1, 2037
Trust preferred	10,000	7,509	3 month LIBOR plus 139 basis points	October 1, 2037
Capital lease	1,953	1,953	5.625%	June 30, 2029
	\$ 109,453	\$ 96,801		

(1) Adjusts to a floating rate of 392 basis points over 3 month LIBOR on September 30, 2021.

All of the trust preferred debt is currently callable.

Interest expense on borrowings for the years ended December 31, 2019, 2018, and 2017 is as follows (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Federal Home Loan Bank advances	\$ 8,441	\$ 7,885	\$ 4,486
Securities sold under agreements to repurchase	276	168	121
Other borrowings	5,674	5,521	2,668
	<u>\$ 14,391</u>	<u>\$ 13,574</u>	<u>\$ 7,275</u>

All FHLB advances are secured by the Bank's residential and commercial mortgage loans and FHLB stock. As a member of the FHLB of New York, the Bank is required to maintain a minimum investment in the capital stock of the FHLB, at cost, in an amount equal to 0.125% of the Bank's mortgage-related assets, plus 4.5% of the specified value of certain transactions between the Bank and the FHLB.

Note 10. Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2019, 2018 and 2017 consists of the following (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Current			
Federal	\$ 1,991	\$ 18,030	\$ (12,754)
State	740	108	169
Total current	<u>2,731</u>	<u>18,138</u>	<u>(12,585)</u>
Deferred			
Federal	18,846	(4,568)	35,440
State	(2,793)	—	—
Total deferred	<u>16,053</u>	<u>(4,568)</u>	<u>35,440</u>
	<u>\$ 18,784</u>	<u>\$ 13,570</u>	<u>\$ 22,855</u>

Included in other comprehensive income is income tax expense attributable to the net accretion of unrealized losses on debt securities available-for-sale arising during the year in the amount of \$874,000, \$1.1 million, and \$276,000 for the years ended December 31, 2019, 2018 and 2017, respectively. Effective January 1, 2017, the Company adopted ASU 2016-09 "Compensation - Stock Compensation," which decreased income tax expense by \$1.8 million for the year ended December 31, 2017. 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 which they occur.

A reconciliation between the provision for income taxes and the expected amount computed by multiplying income before the provision for income taxes times the applicable statutory Federal income tax rate for the years ended December 31, 2019, 2018 and 2017 is as follows (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Income before provision for income taxes	\$ 107,358	\$ 85,502	\$ 65,325
Applicable statutory Federal income tax rate	21.0%	21.0%	35.0%
Computed “expected” Federal income tax expense	\$ 22,545	\$ 17,955	\$ 22,864
(Decrease) increase in Federal income tax expense resulting from			
Tax exempt interest	(665)	(615)	(839)
ESOP fair market value adjustment	77	125	223
ESOP dividends	(151)	(136)	(230)
Earnings on BOLI	(1,138)	(1,072)	(1,155)
Merger related expenses	297	322	478
State income taxes net of Federal benefit	583	85	110
Stock compensation	(386)	(758)	(1,823)
Revaluation of state deferred tax asset	(2,205)	—	—
Impact of Tax Cuts and Jobs Act (“Tax Reform”)	—	(1,854)	3,643
Reclassification of certain tax effect from accumulated other comprehensive income	(221)	(586)	—
Other items, net	48	104	(416)
	<u>\$ 18,784</u>	<u>\$ 13,570</u>	<u>\$ 22,855</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are presented in the following table (in thousands):

	December 31,	
	2019	2018
Deferred tax assets:		
Allowance for loan losses	\$ 4,107	\$ 3,501
Reserve for repurchased loans	112	55
Reserve for uncollected interest	212	119
Incentive compensation	1,397	1,302
Deferred compensation	591	529
Other reserves	2,737	334
Stock plans	1,270	950
ESOP	178	142
Purchase accounting adjustments	8,475	16,142
Net operating loss carryforward related to acquisition	39,519	44,436
Other real estate owned	—	90
Unrealized loss on securities	826	1,225
Unrealized loss on properties available-for-sale	1,438	1,266
Federal and state alternative minimum tax	4,746	1,410
Total gross deferred tax assets	65,608	71,501
Deferred tax liabilities:		
Investments, discount accretion	(380)	(232)
Deferred loan and commitment costs, net	(2,379)	(1,478)
Premises and equipment, differences in depreciation	(7,340)	(4,350)
Undistributed REIT income	(4,735)	(1,730)
Other	(707)	(334)
Total gross deferred tax liabilities	(15,541)	(8,124)
Net deferred tax assets	\$ 50,067	\$ 63,377

The 2019 deferred tax expense does not equal the change in net deferred tax assets as a result of deferred taxes recorded in connection with the Capital Bank acquisition of approximately \$3.1 million.

The Company has Federal net operating losses from the acquisitions of Colonial American, Cape and Sun. At December 31, 2019 and 2018, the net operating losses from Colonial American were \$4.9 million and \$5.3 million, respectively. These net operating losses are subject to annual limitation under Code Section 382 of approximately \$330,000, and will expire between 2029 and 2034. At December 31, 2019 and 2018, the net operating losses from Cape were \$0 and \$3.0 million, respectively. These net operating losses were subject to annual limitation under Code Section 382 of approximately \$4.5 million. At December 31, 2019 and 2018, the net operating losses from Sun were \$175.9 million and \$198.9 million, respectively. These net operating losses are subject to annual limitation under Code Section 382 of approximately \$23.3 million, which will expire in 2022 and \$9.3 million, which will expire between 2029 and 2036.

As of December 31, 2019 and 2018, the Company had \$1.8 million of New Jersey AMA Tax Credits. These credits do not expire. As of December 31, 2019 and 2018, the Company had \$1.0 million of AMT Tax Credits that were part of the Cape acquisition and \$2.3 million of AMT Tax Credits that were part of the Sun acquisition. These credits are subject to the same Code Section 382 limitation as indicated above but do not expire.

At December 31, 2019, 2018 and 2017, the Company determined that it is not required to establish a valuation reserve for the remaining net deferred tax assets since it is “more likely than not” that the net deferred tax assets will be realized through future reversals of existing taxable temporary differences, future taxable income and tax planning strategies. The conclusion that it is “more likely than not” that the remaining net deferred tax assets will be realized is based on the history of earnings and the prospects for continued growth. Management will continue to review the tax criteria related to the recognition of deferred tax assets.

Retained earnings at December 31, 2019 includes approximately \$10.8 million for which no provision for income tax has been made. This amount represents an allocation of income to bad debt deductions for tax purposes only. Events that would result in

taxation of these reserves include failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to stockholders. At December 31, 2019, the Company had an unrecognized deferred tax liability of \$2.6 million with respect to this reserve.

There were no unrecognized tax benefits for the years ended December 31, 2019, 2018 and 2017. The tax years that remain subject to examination by the Federal government and the state of New York include the years ended December 31, 2016 and forward. The tax years that remain subject to examination by the state of New Jersey include the years ended December 31, 2015 and forward.

On July 1, 2018, New Jersey enacted changes to the corporate business tax laws. This legislation required a combined group to file combined returns for tax years beginning in 2019 and thereafter. However, due to technical issues and inconsistencies with existing tax law, it was initially determined that the tax law change did not have an impact on deferred taxes. In December 2019, the State of New Jersey issued a clarifying technical bulletin related to the impact of the new tax legislation enacted in July 2018. This technical bulletin provided clarification to the combined income tax reporting for certain members of a unitary business group. Accordingly, this required a revaluation of some of the Company's deferred tax assets. As a result of the revaluation of the state deferred tax assets, the Company recognized additional income tax benefit of \$2.2 million for the year ended December 31, 2019.

With the enactment of the Tax Reform on December 22, 2017, the federal corporate income tax rate was reduced from 35% to 21% effective January 1, 2018. Accounting guidance requires that the effect of income tax law changes on deferred taxes should be recognized as a component of income tax expense related to continuing operations, but also to items initially recognized in other comprehensive income. As a result of the reduction in the U.S. federal statutory income tax rate, the Company recognized additional income tax benefit of \$1.9 million for the year ended December 31, 2018 and additional income tax expense of \$3.6 million for the year ended December 31, 2017. Because accounting guidance requires the effect of income tax law changes on deferred taxes to be recognized as a component of income tax expense related to continuing operations, this additional income tax expense included \$1.8 million related to items recognized in other comprehensive income. These amounts will continue to be reported as separate components of accumulated other comprehensive income until such time as the underlying transactions from which such amounts arose are settled through continuing operations. At such time, the reclassification from accumulated other comprehensive income will be recognized as a net tax benefit. The amount included in accumulated other comprehensive income at December 31, 2019, subject to reclassification, was \$1.1 million.

Note 11. Employee Stock Ownership Plan

The Bank maintains an Employee Stock Ownership Plan ("ESOP"). All full-time employees are eligible to participate in the ESOP after they attain age 21 and complete one year of service during which they work at least 1000 hours. ESOP shares are allocated among participants on the basis of compensation earned during the year. Employees are fully vested in their ESOP account after the completion of five years of credited service or completely if service was terminated due to death, retirement, disability or change in control of the Company. ESOP participants are entitled to receive distributions from the ESOP account only upon termination of service, which includes retirement and death except that a participant may elect to have dividends distributed as a cash payment on a quarterly basis.

The ESOP originally borrowed \$13.4 million from the Company to purchase 2,013,137 shares of common stock. On May 12, 1998, the initial loan agreement was amended to allow the ESOP to borrow an additional \$8.2 million in order to fund the purchase of 633,750 shares of common stock. At the same time, the term of the loan was extended from the initial twelve years to thirty years. On May 1, 2018, the loan agreement was amended to allow the ESOP to borrow an additional \$8.4 million in order to fund the purchase of 292,592 shares of common stock. At the same time, the fixed interest rate of the loan was reduced from 8.25% to 3.25%. The amended loan is to be repaid from contributions by the Bank to the ESOP trust. The Bank is required to make contributions to the ESOP in amounts at least equal to the principal and interest requirement of the debt.

The Bank's obligation to make such contributions is reduced to the extent of any dividends paid by the Company on unallocated shares and any investment earnings realized on such dividends. As of December 31, 2019 and 2018, contributions to the ESOP, which were used to fund principal and interest payments on the ESOP debt, totaled \$1.5 million and \$1.4 million, respectively. During 2019 and 2018, \$357,000 and \$287,000, respectively, of dividends paid on unallocated ESOP shares were used for debt service. At December 31, 2019 and 2018, the loan had an outstanding balance of \$9.3 million and \$10.4 million, respectively, and the ESOP had unallocated shares of 459,711 and 525,241, respectively. At December 31, 2019, the unallocated shares had a fair value of \$11.7 million. The unamortized balance of the ESOP is shown as unallocated common stock held by the ESOP and is reflected as a reduction of stockholders' equity.

For the years ended December 31, 2019, 2018 and 2017, the Bank recorded compensation expense related to the ESOP of \$1.6 million, \$1.6 million, and \$919,000, respectively, including \$366,000, \$596,000, and \$637,000, respectively, representing additional compensation expense to reflect the increase in the average fair value of committed to be released and allocated shares in excess

of the Bank's cost. As of December 31, 2019, 2,412,132 shares had been allocated to participants and 65,531 shares were committed to be released.

Note 12. Incentive Plan

On April 20, 2006, the OceanFirst Financial Corp. 2006 Stock Incentive Plan, which authorizes the granting of stock options or awards of common stock, was approved by stockholders. On May 5, 2011, the OceanFirst Financial Corp. 2011 Stock Incentive Plan, which also authorizes the granting of stock options or awards of common stock, was approved by stockholders. This plan was subsequently amended on June 2, 2017. In January 2018, the Company implemented a performance-based stock plan for directors and select senior management executives. The purpose of these plans is to attract and retain qualified personnel in key positions, provide officers, employees and non-employee directors ("Outside Directors") with a proprietary interest in the Company as an incentive to contribute to the success of the Company, align the interests of management with those of other stockholders and reward employees for outstanding performance. All officers, other employees and Outside Directors of the Company and its affiliates are eligible to receive awards under the plans.

Under the amended 2011 Stock Incentive Plan, the Company is authorized to issue up to an additional 4,000,000 shares subject to option or, in lieu of options, up to 1,600,000 shares in the form of stock awards. At December 31, 2019, 261,527 options or 104,611 awards remain to be issued. Under the 2006 Stock Incentive Plan, the Company was authorized to issue up to an additional 1,000,000 shares subject to options, or in lieu of options, up to 333,333 shares in the form of stock awards. At December 31, 2019, no options or awards remain to be issued.

As part of the Cape acquisition, 599,373 options were granted in 2016 for the conversion of outstanding Cape options. These options had a weighted average exercise price of \$10.34 per option and were fully vested upon acquisition. As part of the Ocean Shore acquisition, 287,595 options were granted in 2016 for the conversion of outstanding Ocean Shore options. These options had a weighted average exercise price of \$9.37 per option and were fully vested upon acquisition. As part of the Sun acquisition, 491,248 options were granted in 2018 for the conversion of outstanding Sun options. These options had a weighted average exercise price of \$21.92 per option and were fully vested upon acquisition. The Company will not recognize compensation expense in the future on these options as they have been accounted for as part of the acquisition.

Stock awards generally vest at the rate of 20% per year. In 2019 and 2018, the Company granted performance-based awards, which vest in equal amounts over a 3 year period when a specific performance metric has been attained or exceeded. Options expire 10 years from the date of grant and generally vest at the rate of 20% per year. The exercise price of each option equals the closing market price of the Company's stock on the date of grant. The Company typically issues Treasury shares or authorized but unissued shares to satisfy stock option exercises.

The Company recognizes the grant-date fair value of stock options and other stock-based compensation issued to employees in the income statement. The modified prospective transition method was adopted and, as a result, the income statement includes \$973,000, \$1.0 million, and \$1.2 million, of expense for stock option grants and \$2.9 million, \$2.0 million, and \$1.0 million, of expense for stock award grants, for the years ended December 31, 2019, 2018 and 2017, respectively. At December 31, 2019, the Company had \$10.4 million in compensation cost related to non-vested options and stock awards not yet recognized. This cost will be recognized over the remaining vesting period of 3.35 years.

The fair value of stock options granted by the Company was estimated through the use of the Black-Scholes option pricing model applying the following assumptions:

	2019	2018	2017
Risk-free interest rate	2.63%	2.65%	2.31%
Expected option life	7 years	7 years	7 years
Expected volatility	21%	21%	21%
Expected dividend yield	2.70%	2.19%	2.07%
Weighted average fair value of an option share granted during the year	\$ 4.47	\$ 5.44	\$ 5.62
Intrinsic value of options exercised during the year (in thousands)	2,994	8,513	7,882

The risk-free interest rate is based on the U.S. Treasury rate with a term equal to the expected option life. The expected option life conforms to the Company's actual experience. Expected volatility is based on actual historical results. Compensation cost is recognized on a straight line basis over the vesting period.

A summary of option activity for the years ended December 31, 2019, 2018 and 2017 is as follows:

	2019		2018		2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,340,842	\$ 18.25	2,489,314	\$ 16.91	2,758,833	\$ 14.94
Granted	461,407	25.20	135,107	27.39	335,150	29.01
Assumed in acquisition	—	—	491,248	21.92	—	—
Exercised	(227,189)	11.24	(765,624)	17.69	(567,153)	14.39
Forfeited	(149,158)	24.71	(9,203)	28.42	(35,099)	18.42
Expired	(1,870)	29.59	—	—	(2,417)	11.70
Outstanding at end of year	2,424,032	\$ 19.80	2,340,842	\$ 18.25	2,489,314	\$ 16.91
Options exercisable	1,612,946		1,604,576		1,608,762	

The following table summarizes information about stock options outstanding at December 31, 2019:

	Options Outstanding			Options Exercisable		
Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$8.45 to 12.95	293,334	1.3 years	\$ 9.78	290,334	1.3 years	\$ 9.76
12.95 to 17.45	900,520	3.7	15.45	765,149	3.3	15.13
17.45 to 21.95	196,744	4.2	17.98	196,744	4.2	17.98
21.95 to 26.45	457,563	8.8	24.99	34,570	4.8	23.18
26.45 to 30.95	575,871	5.9	28.21	326,149	4.6	28.04
	2,424,032	4.9 years	\$ 19.80	1,612,946	3.3 years	\$ 17.29

The aggregate intrinsic value for stock options outstanding and stock options exercisable at December 31, 2019 is \$15.4 million and \$14.1 million, respectively.

A summary of the granted but unvested stock award activity for the years ended December 31, 2019, 2018 and 2017 are as follows:

	2019		2018		2017	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of year:	330,598	\$ 25.92	169,703	\$ 21.79	156,945	\$ 17.25
Granted	249,651	24.80	272,668	27.52	69,175	28.70
Vested	(105,307)	24.49	(58,754)	20.81	(47,379)	17.32
Forfeited	(23,499)	26.38	(53,019)	26.60	(9,038)	19.14
Outstanding at end of year	451,443	\$ 25.61	330,598	\$ 25.92	169,703	\$ 21.79

Note 13. Commitments, Contingencies and Concentrations of Credit Risk

The Company, in the normal course of business, is party to financial instruments and commitments which involve, to varying degrees, elements of risk in excess of the amounts recognized in the consolidated financial statements. These financial instruments and commitments include unused consumer lines of credit and commitments to extend credit.

At December 31, 2019, the following commitments and contingent liabilities existed which are not reflected in the accompanying consolidated financial statements (in thousands):

	December 31, 2019
Unused consumer and construction loan lines of credit (primarily floating-rate)	\$ 333,074
Unused commercial loan lines of credit (primarily floating-rate)	451,535
Other commitments to extend credit:	
Fixed-Rate	197,940
Adjustable-Rate	2,764
Floating-Rate	127,010

The Company's fixed-rate loan commitments expire within 90 days of issuance and carried interest rates ranging from 2.25% to 6.75% at December 31, 2019.

The Company's maximum exposure to credit losses in the event of nonperformance by the other party to these financial instruments and commitments is represented by the contractual amounts. The Company uses the same credit policies in granting commitments and conditional obligations as it does for financial instruments recorded in the consolidated statements of financial condition.

These commitments and obligations do not necessarily represent future cash flow requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's assessment of risk. Substantially all of the unused consumer and construction loan lines of credit are collateralized by mortgages on real estate.

At December 31, 2019, the Company is obligated under noncancelable operating leases for premises and equipment. Rental and lease expense under these leases aggregated approximately \$5.0 million, \$5.2 million, and \$3.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Refer to Note 17 Leases, for the projected minimum lease commitments as of December 31, 2019.

The Company grants one-to-four family and commercial first mortgage real estate loans to borrowers primarily located throughout New Jersey and the metropolitan areas of Philadelphia and New York City. The ability of borrowers to repay their obligations is dependent upon various factors including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company's control; the Company is, therefore, subject to risk of loss. A decline in real estate values could cause some residential and commercial real estate loans to become inadequately collateralized, which would expose the Bank to a greater risk of loss.

The Company believes its lending policies and procedures adequately minimize the potential exposure to such risks. Collateral and/or guarantees are required for all loans.

The Company is a defendant in certain claims and legal actions arising in the ordinary course of business. Management and its legal counsel are of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

Note 14. Earnings Per Share

The following reconciles average shares outstanding for basic and diluted earnings per share for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	December 31,		
	2019	2018	2017
Weighted average shares outstanding	50,701	47,266	32,490
Less: Unallocated ESOP shares	(493)	(435)	(311)
Unallocated incentive award shares and shares held by deferred compensation plan	(42)	(58)	(66)
Average basic shares outstanding	50,166	46,773	32,113
Add: Effect of dilutive securities:			
Incentive awards and shares held by deferred compensation plan	580	884	1,012
Average diluted shares outstanding	50,746	47,657	33,125

For the years ended December 31, 2019, 2018 and 2017, antidilutive stock options of 993,000, 504,000, and 331,000, respectively, were excluded from earnings per share calculations.

Note 15. 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 unadjusted 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 years ended December 31, 2019, 2018 and 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).

Debt Securities Available-For-Sale

Debt securities classified as available-for-sale are reported at fair value. Fair value for these debt securities is determined using inputs other than quoted prices that are based on market observable information (Level 2). Level 2 debt 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 debt securities without relying exclusively on quoted prices for the specific securities, but comparing the debt securities to benchmark or comparable debt securities.

Equity Investments

Equity investments are reported at fair value. Fair value for these investments is determined using a quoted price in an active market or exchange (Level 1).

Interest Rate Swaps

The Company's interest rate swaps are reported at fair value utilizing models provided by an independent, third-party and observable market data. When entering into an interest rate swap agreement, the Company is exposed to fair value changes due to interest rate movements, and also the potential nonperformance of our contract counterparty.

Other Real Estate Owned and Impaired Loans

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

The following table summarizes financial assets and financial liabilities measured at fair value as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Total Fair Value	Fair Value Measurements at Reporting Date Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2019				
Items measured on a recurring basis:				
Debt securities available-for-sale	\$ 150,960	\$ —	\$ 150,935	\$ 25
Equity investments	10,136	10,136	—	—
Interest rate swap asset	10,141	—	10,141	—
Interest rate swap liability	(10,708)	—	(10,708)	—
Items measured on a non-recurring basis:				
Other real estate owned	264	—	—	264
Loans measured for impairment based on the fair value of the underlying collateral	8,794	—	—	8,794
December 31, 2018				
Items measured on a recurring basis:				
Debt securities available-for-sale	\$ 100,717	\$ —	\$ 100,717	\$ —
Equity investments	9,655	9,655	—	—
Interest rate swap asset	1,722	—	1,722	—
Interest rate swap liability	(1,813)	—	(1,813)	—
Items measured on a non-recurring basis:				
Other real estate owned	1,381	—	—	1,381
Loans measured for impairment based on the fair value of the underlying collateral	11,639	—	—	11,639

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.

Debt Securities Held-to-Maturity

Debt securities classified as held-to-maturity are carried at amortized cost, as the Company has the positive intent and ability to hold these debt securities to maturity. The Company determines the fair value of the debt securities utilizing Level 2 and, infrequently, Level 3 inputs. Most of the Company's investment and mortgage-backed securities, 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 debt securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain debt securities without relying exclusively on quoted prices for the specific debt securities, but comparing the debt securities to benchmark or comparable debt securities.

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 decides as to the level of the valuation inputs. Based on the Company's review of the available documentation from the third-party pricing service, management concluded that Level 2 inputs were utilized for all securities except for certain state and municipal obligations known as bond anticipation notes ("BANs") where management utilized Level 3 inputs.

Restricted Equity Investments

The fair value for Federal Home Loan Bank of New York and Federal Reserve Bank 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 as stipulated by the respective agencies.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential real estate, 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.

In accordance with the prospective adoption of ASU 2016-01, the fair value of loans was measured using the exit price notion.

Deposits Other than Time Deposits

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

Time Deposits

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

Securities Sold Under Agreements to Repurchase with Retail Customers

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

Borrowed Funds

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

The book value and estimated fair value of the Bank's significant financial instruments not recorded at fair value as of December 31, 2019 and December 31, 2018 are presented in the following tables (in thousands):

	Book Value	Fair Value Measurements at Reporting Date Using:			
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
December 31, 2019					
Financial Assets:					
Cash and due from banks	\$ 120,544	\$ 120,544	\$ —	\$ —	
Debt securities held-to-maturity	768,873	—	774,805	2,485	
Restricted equity investments	62,356	—	—	62,356	
Loans receivable, net and loans held-for-sale	6,207,680	—	—	6,173,237	
Financial Liabilities:					
Deposits other than time deposits	5,393,145	—	5,393,145	—	
Time deposits	935,632	—	936,318	—	
Federal Home Loan Bank advances and other borrowings	616,061	—	626,225	—	
Securities sold under agreements to repurchase with retail customers	71,739	71,739	—	—	
December 31, 2018					
Financial Assets:					
Cash and due from banks	\$ 120,792	\$ 120,792	\$ —	\$ —	
Debt securities held-to-maturity	846,810	—	830,999	1,816	
Restricted equity investments	56,784	—	—	56,784	
Loans receivable, net and loans held-for-sale	5,579,222	—	—	5,474,306	
Financial Liabilities:					
Deposits other than time deposits	4,948,325	—	4,948,325	—	
Time deposits	866,244	—	853,678	—	
Federal Home Loan Bank advances and other borrowings	548,913	—	554,692	—	
Securities sold under agreements to repurchase with retail customers	61,760	61,760	—	—	

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.

Note 16. Derivatives, Hedging Activities and Other Financial Instruments

The Company enters into derivative financial instruments which involve, to varying degrees, interest rate, market and credit risk. The Company manages these risks as part of its asset and liability management process and through credit policies and procedures, seeking to minimize counterparty credit risk by establishing credit limits and collateral agreements. The Company utilizes certain derivative financial instruments to enhance its ability to manage interest rate risk that exists as part of its ongoing business operations. The derivative financial instruments entered into by the Company are an economic hedge of a derivative offering to Bank customers. The Company does not use derivative financial instruments for trading purposes.

Customer Derivatives – Interest Rate Swaps

The Company enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate loan into a fixed-rate loan. The Company then enters into a corresponding swap agreement with a third party in order to economically hedge its exposure through the customer agreement. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging, and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC Topic 820, Fair Value Measurements. For the periods ended December 31, 2019 and 2018, the Company recognized a loss of \$478,000 and \$87,000, respectively, in other income resulting from a fair value adjustment. The notional amount of derivatives not designated as hedging instruments was \$337.6 million and \$59.3 million at December 31, 2019 and 2018, respectively.

The table below presents the fair value of derivatives not designated as hedging instruments as well as their location on the consolidated statements of financial condition (in thousands):

Balance Sheet Location	Fair Value	
	December 31,	
	2019	2018
Other assets	\$ 10,141	\$ 1,722
Other liabilities	10,708	1,813

Credit Risk-Related Contingent Features

The Company is a party to International Swaps and Derivatives Association agreements with third party broker-dealers that require a minimum dollar transfer amount upon a margin call. This requirement is dependent on certain specified credit measures. The amount of collateral posted with third parties was \$13.7 million and \$4.1 million at December 31, 2019 and 2018, respectively. The amount of collateral posted with third parties is deemed to be sufficient to collateralize both the fair market value change as well as any additional amounts that may be required as a result of a change in the specified credit measures. The aggregate fair value of all derivative financial instruments in a liability position with credit measure contingencies and entered into with third parties was \$10.7 million and \$1.8 million at December 31, 2019 and 2018, respectively.

Note 17. Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU No. 2016-02, "Leases (Topic 842)" and all subsequent ASUs that modified Leases (Topic 842). For the Company, Leases (Topic 842) primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

The Company's leases are comprised of real estate property for branches, ATM locations and office space with terms extending through 2050. The majority of the Company's leases are classified as operating leases, and therefore, were not previously included on the consolidated statements of financial condition. As part of the adoption of Leases (Topic 842), operating lease agreements are required to be recognized on the consolidated statements of financial condition as a right-of-use ("ROU") asset and a corresponding lease liability. The Company has one existing finance lease (previously referred to as capital leases), which was acquired in the Sun acquisition and has a lease term through 2029. This lease was previously required to be recorded on the Company's consolidated statements of financial condition. As such, the adoption of Leases (Topic 842) did not have a material impact on the accounting for this lease.

The following table represents the classification of the Company's ROU assets and lease liabilities on the consolidated statements of financial condition (in thousands):

		December 31, 2019	
Lease ROU Assets		Classification	
Operating lease ROU asset	Other assets	\$	18,682
Finance lease ROU asset	Premises and equipment, net		1,534
Total Lease ROU Asset		\$	20,216
Lease Liabilities			
Operating lease liability	Other liabilities	\$	18,893
Finance lease liability	Other borrowings		1,953
Total Lease Liability		\$	20,846

The calculated amount of the ROU assets and lease liabilities are impacted by the lease term and the discount rate used to calculate the present value of the minimum lease payments. Lease agreements often include one or more options to renew the lease at the Company's discretion. If the exercise of a renewal option is considered to be reasonably certain, the Company includes the extended term in the calculation of the ROU asset and lease liability. For the discount rate, Leases (Topic 842) requires the Company to use the rate implicit in the lease, provided the rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate, at lease inception, over a similar term. For operating leases existing prior to January 1, 2019, the Company used the incremental borrowing rate for the remaining lease term as of January 1, 2019. For the finance lease, the Company utilized its incremental borrowing rate at lease inception.

		December 31, 2019
Weighted-Average Remaining Lease Term		
Operating leases		9.69 years
Finance lease		9.60 years
Weighted-Average Discount Rate		
Operating leases		3.45%
Finance lease		5.63%

The following table represents lease expenses and other lease information (in thousands):

	For Year Ended December 31, 2019
Lease Expense	
Operating Lease Expense	\$ 3,904
Finance Lease Expense:	
Amortization of ROU assets	274
Interest on lease liabilities ⁽¹⁾	174
Total	\$ 4,352
Other Information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 3,625
Operating cash flows from finance leases	174
Financing cash flows from finance leases	263

(1) Included in borrowed funds interest expense on the consolidated statements of income. All other costs are included in occupancy expense.

Future minimum payments for the finance lease and operating leases with initial or remaining terms of one year or more as of December 31, 2019 were as follows (in thousands):

	Finance Lease	Operating Leases
For the Twelve Months Ended December 31,		
2020	\$ 295	\$ 3,425
2021	295	3,256
2022	295	2,869
2023	295	2,132
2024	295	1,878
Thereafter	942	9,165
Total	\$ 2,417	\$ 22,725
Less: Imputed Interest	(464)	(3,832)
Total Lease Liabilities	\$ 1,953	\$ 18,893

Note 18. Parent-Only Financial Information

The following condensed statements of financial condition at December 31, 2019 and 2018 and condensed statements of operations and cash flows for the years ended December 31, 2019, 2018 and 2017 for OceanFirst Financial Corp. (parent company only) reflect the Company's investment in its wholly-owned subsidiaries, the Bank and OceanFirst Risk Management, Inc., using the equity method of accounting.

Condensed Statement of Financial Condition
(in thousands)

	December 31,	
	2019	2018
Assets:		
Cash and due from banks	\$ 5,442	\$ 3,930
Advances to subsidiary Bank	27,878	14,026
Investment securities	1,000	1,000
ESOP loan receivable	9,271	10,431
Investment in subsidiaries	1,206,479	1,107,539
Other assets	327	234
Total assets	<u>\$ 1,250,397</u>	<u>\$ 1,137,160</u>
Liabilities and Stockholders' Equity:		
Borrowings	\$ 94,848	\$ 94,134
Other liabilities	2,430	3,668
Stockholders' equity	1,153,119	1,039,358
Total liabilities and stockholders' equity	<u>\$ 1,250,397</u>	<u>\$ 1,137,160</u>

Condensed Statements of Operations
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Dividend income – subsidiary Bank	\$ 79,000	\$ 32,000	\$ 32,000
Interest and dividend income – investment securities	63	63	63
Interest income – advances to subsidiary Bank	426	525	280
Interest income – ESOP loan receivable	321	321	321
Other income	—	15	—
Total income	<u>79,810</u>	<u>32,924</u>	<u>32,664</u>
Interest expense – borrowings	5,402	4,997	2,592
Operating expenses	2,686	2,397	1,788
Income before income taxes and undistributed earnings of subsidiary Bank	71,722	25,530	28,284
Benefit for income taxes	924	846	973
Income before undistributed earnings of subsidiary Bank	72,646	26,376	29,257
Undistributed earnings of subsidiary Bank	15,928	45,556	13,213
Net Income	<u>\$ 88,574</u>	<u>\$ 71,932</u>	<u>\$ 42,470</u>

Condensed Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 88,574	\$ 71,932	\$ 42,470
(Increase) decrease in advances to subsidiary Bank	(13,852)	15,262	(23,371)
Undistributed earnings of subsidiary Bank	(15,928)	(45,556)	(13,213)
Amortization of deferred costs on borrowings	261	262	121
Net amortization of purchase accounting adjustments	453	395	—
Change in other assets and other liabilities	(184)	4,076	607
Net cash provided by operating activities	59,324	46,371	6,614
Cash flows from investing activities:			
Increase in ESOP loan receivable	—	(8,400)	—
Repayments on ESOP loan receivable	1,160	1,020	234
Net cash provided by (used in) investing activities	1,160	(7,380)	234
Cash flows from financing activities:			
Dividends paid	(34,241)	(29,564)	(19,286)
Purchase of treasury stock	(26,066)	(10,837)	—
Exercise of stock options	1,335	5,324	3,354
Net cash used in financing activities	(58,972)	(35,077)	(15,932)
Net increase (decrease) in cash and due from banks	1,512	3,914	(9,084)
Cash and due from banks at beginning of year	3,930	16	9,100
Cash and due from banks at end of year	\$ 5,442	\$ 3,930	\$ 16

Note 19. Subsequent Events

On January 1, 2020, the Company completed its acquisitions of Two River and Country Bank. The transactions closed on January 1, 2020, and based on the \$25.54 per share closing price of the Company's common stock, the total transaction values were \$197 million for Two River and \$113 million for Country Bank. The total number of shares issued in the transaction were approximately 5,818,687 for Two River and 4,418,000 for Country Bank.

Two River operated 14 branches and one loan production office. The Two River acquisition added \$1.1 billion to assets, \$938 million to loans, and \$942 million to deposits.

Country Bank operated 5 branches and one loan production office. The Country Bank acquisition added \$798 million to assets, \$616 million to loans, and \$654 million to deposits.

As a result of the Two River and Country Bank acquisitions on January 1, 2020, consolidated assets were \$10.2 billion, loans were \$7.8 billion, and deposits were \$7.9 billion.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA

(dollars in thousands, except per share data)

(Unaudited)

	For the Quarter Ended			
	December 31	September 30	June 30	March 31
2019				
Interest income	\$ 77,075	\$ 76,887	\$ 78,410	\$ 76,422
Interest expense	13,721	13,495	13,573	12,034
Net interest income	63,354	63,392	64,837	64,388
Provision for loans losses	355	305	356	620
Net interest income after provision for loan losses	62,999	63,087	64,481	63,768
Other income	11,231	11,543	9,879	9,512
Operating expenses (excluding merger related and branch consolidation expenses)	43,589	40,884	43,289	41,827
Merger related and branch consolidation expenses	4,010	2,473	7,626	5,444
Income before provision for income taxes	26,631	31,273	23,445	26,009
Provision for income taxes	3,181	6,302	4,465	4,836
Net income	\$ 23,450	\$ 24,971	\$ 18,980	\$ 21,173
Basic earnings per share	\$ 0.47	\$ 0.50	\$ 0.37	\$ 0.43
Diluted earnings per share	\$ 0.47	\$ 0.49	\$ 0.37	\$ 0.42
2018				
Interest income	\$ 72,358	\$ 71,382	\$ 70,078	\$ 62,837
Interest expense	10,517	9,878	8,631	7,126
Net interest income	61,841	61,504	61,447	55,711
Provision for loans losses	506	907	706	1,371
Net interest income after provision for loan losses	61,335	60,597	60,741	54,340
Other income	8,748	8,285	8,883	8,910
Operating expenses (excluding merger related expenses and branch consolidation expenses)	37,794	37,503	42,470	38,508
Merger related and branch consolidation expenses	1,288	2,030	8,434	18,310
Income before provision for income taxes	31,001	29,349	18,720	6,432
Provision for income taxes	4,269	5,278	3,018	1,005
Net income	\$ 26,732	\$ 24,071	\$ 15,702	\$ 5,427
Basic earnings per share	\$ 0.56	\$ 0.50	\$ 0.33	\$ 0.12
Diluted earnings per share	\$ 0.55	\$ 0.50	\$ 0.32	\$ 0.12

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure 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 (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.

(b) Management Report on Internal Control Over Financial Reporting

Management of OceanFirst Financial Corp. and its subsidiaries are responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that: (1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, and oversight of the Board of Directors, evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013) ("COSO 2013 Framework").

Based on this assessment, management determined that, as of December 31, 2019, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 54.

(c) Remediation of Material Weakness

As previously disclosed in Item 9A Controls and Procedures in the Annual Report on Form 10-K for the year end December 31, 2018, management identified a material weakness in internal control related to ineffective information technology general controls ("ITGCs") associated with user access over the core banking information technology ("IT") system used for financial reporting as well as ineffective monitoring controls designed to address the completeness and accuracy of daily reports generated by the core banking IT system.

During 2019, management implemented the previously disclosed remediation plan that included: i) improving policies and procedures regarding the granting and review of access to IT systems impacting financial reporting to ensure access is limited to functions required for the performance of an employee's role and responsibilities thereby reducing segregation of duties conflicts; and (ii) enhancing the compensating controls related to the monitoring and review of activities performed by employees serving in conflicting capacities with a specific focus on access to systems supporting financial reporting processes. Management evaluated

the new controls and procedures designed to remediate the material weakness and determined that the Company's internal control over financial reporting was effective as of December 31, 2019.

(d) Changes in Internal Control Over Financial Reporting

Except as noted above in Item 9A(c) relative to the remediation of the prior year material weakness, there were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information relating to directors, executive officers and corporate governance and the Registrant's compliance with Section 16(a) of the Exchange Act required by Part III is incorporated herein by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2020 under the captions "Corporate Governance", "Proposal 1. Election of Directors" and "Delinquent Section 16(a) Reports."

Item 11. Executive Compensation

The information relating to executive compensation required by Part III is incorporated herein by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2020 under the captions "Compensation Discussion and Analysis," "Executive Compensation," "Director Compensation," "Compensation Committee Report," and "Compensation Committee Interlocks and Insider Participation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information relating to security ownership of certain beneficial owners and management and related stockholder matters required by Part III is incorporated herein by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2020 under the caption "Stock Ownership."

Information regarding the Company's equity compensation plans existing as of December 31, 2019 is as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	2,424,032	\$ 19.80	261,527
Equity compensation plans not approved by stockholders	—	—	—
Total	2,424,032	\$ 19.80	261,527

Item 13. Certain Relationships and Related Transactions and Director Independence

The information relating to certain relationships and related transactions and director independence required by Part III is incorporated herein by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2020 under the caption "Transactions with Management."

Item 14. Principal Accountant Fees and Services

The information relating to the principal accounting fees and services is incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting to be held on May 20, 2020 under the caption "Proposal 3. Ratification of Appointment of the Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements

The following documents are filed as a part of this report:

	PAGE
<u>Report of Independent Registered Public Accounting Firm</u>	<u>52</u>
<u>Consolidated Statements of Financial Condition at December 31, 2019 and 2018</u>	<u>55</u>
<u>Consolidated Statements of Income for the Years Ended December 31, 2019, 2018 and 2017</u>	<u>56</u>
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017</u>	<u>57</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2019, 2018 and 2017</u>	<u>58</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017</u>	<u>59</u>
<u>Notes to Consolidated Financial Statements for the Years Ended December 31, 2019, 2018 and 2017</u>	<u>62</u>

(a) (2) Financial Statement Schedules

All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(a) (3) Exhibits

Exhibit No:	Exhibit Description	Reference
<u>2.1</u>	Agreement and Plan of Merger, dated as of August 9, 2019, by and among OceanFirst Financial Corp., Midtown Merger Sub Corp. and Country Bank Holding Company, Inc.	Incorporated herein by reference from the Exhibits to the Current Report on Form 8-K filed by OceanFirst Financial Corp. on August 13, 2019.
<u>2.2</u>	Agreement and Plan of Merger, dated as of August 9, 2019, by and among OceanFirst Financial Corp., Hammerhead Merger Sub Corp. and Two River Bancorp.	Incorporated herein by reference from the Exhibits to the Current Report on Form 8-K filed by OceanFirst Financial Corp. on August 13, 2019
<u>3.1</u>	Certificate of Incorporation of OceanFirst Financial Corp.	Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.
<u>3.1A</u>	Certificate of Amendment to the Certificate of Incorporation of OceanFirst Financial Corp.	Incorporated herein by reference from Exhibit to Form 8-K filed on June 4, 2018.
<u>3.2</u>	Bylaws of OceanFirst Financial Corp.	Incorporated herein by reference from Exhibit to Form 8-K filed on December 21, 2017.
<u>4.0</u>	Stock Certificate of OceanFirst Financial Corp.	Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.
<u>4.0(vi)</u>	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	Filed herewith.
<u>10.1</u>	Form of OceanFirst Bank Employee Stock Ownership Plan	Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.
<u>10.1(a)</u>	Amendment to OceanFirst Bank Employee Stock Ownership Plan	Incorporated herein by reference from the Exhibits to Form 10-K filed on March 25, 1997.
<u>10.1(b)</u>	Amended Employee Stock Ownership Plan	Incorporated by reference from Exhibit to Form 10-K filed on March 17, 2008.
<u>10.3</u>	OceanFirst Bank 1995 Supplemental Executive Retirement Plan	Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.
<u>10.3(a)</u>	OceanFirst Bank Executive Supplemental Retirement Income Agreement	Incorporated by reference from Exhibit to Form 8-K filed on September 23, 2008.
<u>10.4</u>	OceanFirst Bank Deferred Compensation Plan for Directors	Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.
<u>10.4(a)</u>	OceanFirst Bank New Executive Deferred Compensation Master Agreement	Incorporated by reference from Exhibit to Form 8-K filed on September 23, 2008.
<u>10.5</u>	OceanFirst Bank Deferred Compensation Plan for Officers	Incorporated herein by reference from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.
<u>10.5(a)</u>	OceanFirst Bank New Director Deferred Compensation Master Agreement	Incorporated by reference from Exhibit to Form 8-K filed on September 23, 2008.
<u>10.15</u>	Amendment of the OceanFirst Financial Corp. 2000 Stock Option Plan	Incorporated herein by reference from the Schedule 14-A Definitive Proxy Statement filed on March 21, 2003.
<u>10.16</u>	Form of OceanFirst Financial Corp. 2000 Stock Option Plan Non-Statutory Option Award Agreement	Incorporated by reference from Exhibit to Form 10-K filed on March 15, 2005.
<u>10.18</u>	Amendment and form of OceanFirst Bank Employee Severance Compensation Plan	Incorporated herein by reference from Exhibits to Form 10-Q filed on August 9, 2005.

Exhibit No:	Exhibit Description	Reference
<u>10.19</u>	Form of OceanFirst Financial Corp. Deferred Incentive Compensation Award Program	Incorporated herein by reference from Exhibits to Form 10-K filed on March 14, 2006.
<u>10.20</u>	2006 Stock Incentive Plan	Incorporated herein by reference from Schedule 14-A Definitive Proxy Statement filed on March 15, 2006.
<u>10.23</u>	Form of Change in Control Agreement between OceanFirst Financial Corp. and Angela K. Ho	Incorporated herein by reference from Exhibit to Form 8-K filed on March 7, 2017.
<u>10.24</u>	Form of Change in Control Agreement between OceanFirst Bank and Angela K. Ho	Incorporated herein by reference from Exhibit to Form 8-K filed on March 7, 2017.
<u>10.25</u>	Form of OceanFirst Financial Corp. 2011 Stock Incentive Plan Award Agreement for Stock Options	Incorporated by reference from Exhibit to Form 8-K filed May 10, 2011.
<u>10.27</u>	Form of OceanFirst Financial Corp. 2011 Cash Incentive Compensation Plan Award Agreement	Incorporated by reference from Exhibit to Form 8-K filed May 10, 2011.
<u>10.28</u>	2011 Stock Incentive Plan	Incorporated herein by reference from Schedule 14-A Revised Definitive Proxy Statement filed on March 31, 2011.
<u>10.28A</u>	Amendment No. 1 to 2011 Stock Incentive Plan	Incorporated herein by reference from Schedule 14-A Definitive Proxy Statement filed on April 26, 2017.
<u>10.29</u>	2011 Cash Incentive Compensation Plan	Incorporated herein by reference from Schedule 14-A Revised Definitive Proxy Statement filed on March 31, 2011.
<u>10.30</u>	Form of Employment Agreement between OceanFirst Financial Corp. and certain executive officers, including Christopher D. Maher, Michael J. Fitzpatrick, and Steven J. Tsimbinos	Incorporated herein by reference from Exhibit to Form 8-K filed on April 10, 2017.
<u>10.32</u>	Supplemental Executive Retirement Account Agreement between Christopher D. Maher and OceanFirst Bank dated June 18, 2013	Incorporated herein by reference from Exhibit to Form 8-K filed June 20, 2013.
<u>10.34</u>	Form of OceanFirst Financial Corp 2011 Stock Incentive Plan Award Agreement for Stock Awards	Incorporated herein by reference from Exhibit to Form 8-K filed January 17, 2014.
<u>10.35</u>	Form of Employment Agreement between OceanFirst Financial Corp. and certain executive officers, including Joseph R. Iantosca and Joseph J. Lebel	Incorporated herein by reference from Exhibit to Form 8-K filed on April 10, 2017.
<u>10.35A</u>	Form of First Amendment to Confidentiality and Executive Restriction Agreement Employment between OceanFirst Financial Corp. and certain executive officers, including Christopher D. Maher, Michael J. Fitzpatrick, Joseph R. Iantosca, Joseph J. Lebel III, and Steven J. Tsimbinos	Incorporated herein by reference from Exhibit to Form 8-K filed on June 27, 2017.
<u>10.38</u>	Separation, Non-Competition and Consulting Agreement, dated as of August 9, 2019, by and among OceanFirst Financial Corp., OceanFirst Bank, National Association, and Joseph M. Murphy, Jr.	Incorporated herein by reference from the Exhibits to the Current Report on Form 8-K filed on December 19, 2019.
<u>10.39</u>	Consulting Agreement, dated as of December 31, 2019, by and among OceanFirst Financial Corp., OceanFirst Bank, National Association, and William D. Moss	Incorporated herein by reference from the Exhibits to the Current Report on Form 8-K/A filed on January 2, 2020.
<u>14.0</u>	OceanFirst Financial Corp. Code of Ethics and Standards of Personal Conduct	Incorporated herein by reference from the Exhibits to Form 10-K filed on March 15, 2004.
<u>21.0</u>	Subsidiary information is incorporated herein by reference to “Part I – Subsidiary Activities”	Filed herewith
<u>23.0</u>	Consent of KPMG LLP	Filed herewith
<u>31.1</u>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
<u>31.2</u>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith

Exhibit No:	Exhibit Description	Reference
<u>32.1</u>	Certifications pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes Oxley Act of 2002	Filed herewith
101.0	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2019, 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.	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document	Filed herewith

Item 16. Form 10-K Summary

Not applicable.

CONFORMED**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

OCEANFIRST FINANCIAL CORP.

By: /s/ Christopher D. Maher
Christopher D. Maher
Chairman of the Board
President and Chief Executive Officer

Date: February 28, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Name**Date**

/s/ Christopher D. Maher
Christopher D. Maher
Chairman of the Board, President, and Chief Executive Officer (principal executive officer)

February 28, 2020

/s/ Michael J. Fitzpatrick
Michael J. Fitzpatrick
Executive Vice President and Chief Financial Officer (principal financial officer)

February 28, 2020

/s/ Angela K. Ho
Angela K. Ho
(principal accounting officer)

February 28, 2020

/s/ Steven E. Brady
Steven E. Brady
Director

February 28, 2020

/s/ Angelo Catania
Angelo Catania
Director

February 28, 2020

/s/ Anthony R. Coscia
Anthony R. Coscia
Director

February 28, 2020

/s/ Michael D. Devlin
Michael D. Devlin
Director

February 28, 2020

<u>Name</u>	<u>Date</u>
/s/ Jack M. Farris Jack M. Farris Director	February 28, 2020
/s/ Kimberly A. Guadagno Kimberly A. Guadagno Director	February 28, 2020
/s/ Nicos Katsoulis Nicos Katsoulis Director	February 28, 2020
/s/ John K. Lloyd John K. Lloyd Director	February 28, 2020
/s/ William D. Moss William D. Moss Director	February 28, 2020
/s/ Joseph M. Murphy, Jr. Joseph M. Murphy, Jr. Director	February 28, 2020
/s/ Steven M. Scopellite Steven M. Scopellite Director	February 28, 2020
/s/ Grace C. Torres Grace C. Torres Director	February 28, 2020
/s/ Grace M. Vallacchi Grace M. Vallacchi Director	February 28, 2020
/s/ John E. Walsh John E. Walsh Director	February 28, 2020
/s/ Samuel R. Young Samuel R. Young Director	February 28, 2020

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, OceanFirst Financial Corp. ("OceanFirst"), the registrant and the registered banking holding Company or OceanFirst Bank N.A. ("OceanFirst Bank") had one class of security registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our common stock, par value \$0.01 per share ("Common Stock").

Description of Capital Stock

The following is a brief description of the terms of the capital stock of the OceanFirst. This summary does not purport to be complete in all respects. This description is subject to and qualified in its entirety by reference to the Delaware General Corporation Law ("DGCL"), OceanFirst's certificate of incorporation, as amended, and OceanFirst's bylaws, and, where applicable, federal banking law. Copies of OceanFirst's certificate of incorporation and amended and restated bylaws have been filed with the SEC and are also available upon request from OceanFirst.

Common Stock

OceanFirst's certificate of incorporation currently authorizes the issuance of up to 150,000,000 shares of common stock. As of December 31, 2019, there were (i) 51,991,856 shares of OceanFirst common stock issued and 50,405,048 shares outstanding, (ii) 1,586,808 shares of OceanFirst common stock held in treasury, (iii) 104,611 shares of OceanFirst common stock reserved for issuance in respect of awards of restricted OceanFirst common stock or 261,527 shares upon the exercise of outstanding stock options to purchase shares of OceanFirst common stock granted under certain OceanFirst equity compensation plans and the equity compensation plans of acquired companies, (iv) 27,339 shares reserved for issuance upon the exercise of warrants assumed in connection with the acquisition of Colonial American Bank, and (v) no other shares of capital stock or equity or voting securities of OceanFirst issued, reserved for issuance or outstanding.

OceanFirst common stock is currently listed on the Nasdaq under the symbol "OCFC."

Preemptive Rights; Redemption Rights; Terms of Conversion; Sinking Fund and Redemption Provisions

OceanFirst common stock does not have preemptive rights, redemption rights, conversion rights, or any sinking fund or redemption provisions.

Voting Rights

The holders of OceanFirst common stock have exclusive voting rights in OceanFirst. They elect the OceanFirst board and act on other matters as are required to be presented to them under Delaware law or as are otherwise presented to them by the OceanFirst board. Generally, holders of common stock are entitled to one vote per share and do not have any right to cumulate votes in the election of directors. OceanFirst's certificate of incorporation provides that stockholders who beneficially own in excess of 10% of the then-outstanding shares of OceanFirst common stock are not entitled to any vote with respect to the shares held in excess of the 10% limit. A person or entity is deemed to beneficially own shares that are owned by an affiliate as well as persons acting in concert with such person or entity. If OceanFirst issues shares of preferred stock, holders of the preferred stock may also possess voting rights. Certain matters require an 80% stockholder vote, which is calculated after giving effect to the provision in OceanFirst's certificate of incorporation limiting voting rights as described above. OceanFirst stockholders are not permitted to act by written consent.

Liquidation Rights

In the event of OceanFirst's liquidation, dissolution or winding up, holders of common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of OceanFirst available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution. In the event of any liquidation, dissolution or winding up of OceanFirst Bank, OceanFirst, as the holder of 100% of OceanFirst Bank's capital stock, would be entitled to receive, after payment or provision for payment of all debts and liabilities of OceanFirst Bank, including all deposit accounts and accrued interest thereon, and after distribution of the balance in the special liquidation account to eligible account holders and supplemental eligible account holders, all assets of OceanFirst Bank available for distribution.

Dividend Rights

Holders of OceanFirst common stock are entitled to receive ratably such dividends as may be declared by the OceanFirst board out of legally available funds. The ability of the OceanFirst board to declare and pay dividends on OceanFirst common stock is subject to the terms of applicable Delaware law and banking regulations. If OceanFirst issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends. OceanFirst's principal source of income is dividends that are declared and paid by OceanFirst Bank on its capital stock. Therefore, OceanFirst's ability to pay dividends is dependent upon its receipt of dividends from OceanFirst Bank. Insured depository institutions such as OceanFirst Bank are prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized," as such term is defined in the applicable law and regulations. In the future, any declaration and payment of cash dividends will be subject to the OceanFirst board's evaluation of OceanFirst's operating results, financial condition, future growth plans, general business and economic conditions, and tax and other relevant considerations. The payment of cash dividends by OceanFirst in the future will also be subject to certain other legal and regulatory limitations and ongoing review by OceanFirst's banking regulators.

Restrictions on Ownership

Banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the Bank Holding Company Act and the Change in Bank Control Act. Among other things, these laws require regulatory filings by a stockholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. The determination whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. OceanFirst is a bank holding company and therefore the BHC Act would require any "bank holding company" (as defined in the BHC Act) to obtain prior approval of the Federal Reserve Board before acquiring more than 5% of OceanFirst common stock. Any person (other than a bank holding company) is required to provide prior notice to the FRB before acquiring 10% or more of OceanFirst common stock under the Change in Bank Control Act. Ownership by affiliated parties, or parties acting in concert, is typically aggregated for these purposes. Any person (other than an individual) who (a) owns, controls or has the power to vote 25% or more of any class of OceanFirst's voting securities; (b) has the ability to elect or appoint a majority of the OceanFirst board; or (c) otherwise has the ability to exercise a "controlling influence" over OceanFirst, is subject to regulation as a bank holding company under the BHC Act.

Preferred Stock

OceanFirst's certificate of incorporation authorizes the OceanFirst board, without further stockholder action, to issue up to 5,000,000 shares of preferred stock. OceanFirst's certificate of incorporation further authorizes the OceanFirst board, subject to any limitations prescribed by law, to provide for the issuance of the shares of preferred stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. As of December 31, 2019, there were no shares of OceanFirst preferred stock outstanding. Preferred stock may be issued with preferences and designations as the OceanFirst board may from time to time determine. The OceanFirst board may, without stockholder approval, issue shares of preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting power of the holders of OceanFirst common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

Applicable Anti-Takeover

Set forth below is a summary of the provisions of the Certificate of Incorporation and the Bylaws that could have the effect of delaying or preventing a change in control of the Company. The following description is only a summary and it is qualified by reference to the Certificate of Incorporation, the Bylaws and relevant provisions of the Delaware General Corporation Law.

Blank Check Preferred Stock

The Certificate of Incorporation authorizes 5,000,000 undesignated shares of Preferred Stock and permits our Board of Directors to issue Preferred Stock with rights or preferences that could impede the success of any attempt to change control of the Company. For example, our Board of Directors, without stockholder approval, may create or issue Preferred Stock with conversion rights that could adversely affect the voting power of the holders of our Common Stock as well as rights to such Preferred Stock, in connection with implementing a stockholder rights plan. This provision may be deemed to have a potential anti-takeover effect, because the issuance of such Preferred Stock may delay or prevent a change of control of the Company. Furthermore, shares of Preferred Stock, if any are issued, may have other rights, including economic rights, senior to Common Stock, and, as a result, the issuance thereof could depress the market price of our Common Stock.

No Cumulative Voting

The Certificate of Incorporation and the Bylaws do not provide holders of our Common Stock cumulative voting rights in the election of directors. The absence of cumulative voting could have the effect of preventing stockholders holding a minority of our shares of Common Stock from obtaining representation on our Board of Directors. The absence of cumulative voting might also, under certain circumstances, render more difficult or discourage a merger, tender offer or proxy contest favored by a majority of our stockholders, the assumption of control by a holder of a large block of our stock or the removal of incumbent management.

Advance Notice Requirements for Stockholder Proposals and Director Nominees

The Bylaws require stockholders seeking to make nominations of candidates for election as directors or to bring other business before a meeting of our stockholders to provide timely notice of their intent in writing. To be timely, a stockholder's notice must be delivered to the Secretary at our principal executive offices not less than ninety (90) days prior to the date of the annual meeting; provided, however, that in the event that less than one hundred (100) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice must include certain information about the stockholder and the nominee or proposal as specified in the Bylaws. These advance notice provisions may restrict the ability of the stockholders to make nominations for directors at or bring business before a meeting of the Company's stockholders.

Business Combinations with an Interested Stockholder

The OceanFirst is also subject to Section 203 of the DGCL. Section 203 prohibits the Company from engaging in any business combination (as defined in Section 203) with an "interested stockholder" for a period of three years subsequent to the date on which the stockholder became an interested stockholder unless:

- prior to such date, the Company's board of directors approve either the business combination or the transaction in which the stockholder became an interested stockholder; upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of the outstanding voting stock (with certain exclusions); or
- the business combination is approved by the Company's board of directors and authorized by a vote (and not by written consent) of at least 66 2/3% of the outstanding voting stock not owned by the interested stockholder.

For purposes of Section 203, an "interested stockholder" is defined as an entity or person beneficially owning 15% or more of the Company's outstanding voting stock, based on voting power, and any entity or person affiliated with or controlling or controlled by such an entity or person. A "business combination" includes mergers, asset sales and other transactions resulting in financial benefit to a stockholder.

Section 203 could prohibit or delay mergers or other takeover or change of control attempts with respect to the Company and, accordingly, may discourage attempts that might result in a premium over the market price for the shares held by stockholders.

In addition, OceanFirst's certificate of incorporation provides that a business combination with an interested stockholder requires the affirmative vote of the holders of at least 80% of the voting power of the then-outstanding shares of voting stock of OceanFirst subject to the 10% voting restriction. The super-majority vote is not required for a business combination with an interested stockholder that is approved by a majority of disinterested directors or meets certain consideration value requirements. An interested stockholder is defined as (1) any person who beneficially owns 10% or more of the voting power of OceanFirst's voting stock; (2) an affiliate or associate of OceanFirst who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of OceanFirst; or (3) an assignee of shares of voting stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any interested stockholder.

Such provisions may have the effect of deterring hostile takeovers or delaying changes in control of management or the Company.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
OceanFirst Financial Corp.:

We consent to the incorporation by reference in the registration statement (No. 333-215270; No. 333-215269; No. 333-177243; No. 333-141746; No. 333-222811; No. 333-213307; No. 333-209590; and No. 333-220235) on Form S-8 of OceanFirst Financial Corp., of our reports dated February 28, 2020, with respect to the consolidated statements of financial condition of OceanFirst Financial Corp. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of the Company.

/s/ KPMG LLP

Short Hills, New Jersey
February 28, 2020

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

I, Christopher D. Maher, certify that:

1. I have reviewed this annual report on Form 10-K of OceanFirst Financial Corp. and subsidiaries;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 report is being prepared; and
 - 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; and
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this 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 functions):
 - 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: February 28, 2020

/s/ Christopher D. Maher

Christopher D. Maher
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 annual report on Form 10-K of OceanFirst Financial Corp. and subsidiaries;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 report is being prepared; and
 - 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; and
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this 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 functions):
 - 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: February 28, 2020

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick
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 Annual Report of OceanFirst Financial Corp. and subsidiaries (the “Company”) on Form 10-K for the period ending December 31, 2019 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. 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

Chief Executive Officer

February 28, 2020

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick

Chief Financial Officer

February 28, 2020