

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2021

☐ **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)

110 West Front Street, Red Bank, NJ
(Address of principal executive offices)

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

07701
(Zip Code)

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(s)	Name of each exchange on which registered
Common stock, \$0.01 par value per share	OCFC	NASDAQ
Depository Shares (each representing a 1/40th interest in a share of 7.0% Series A Non-Cumulative, perpetual preferred stock)	OCFCP	NASDAQ

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 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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒.

As of November 1, 2021 there were 59,423,626 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

OceanFirst Financial Corp.

INDEX TO FORM 10-Q

	<u>PAGE</u>
PART I.	FINANCIAL INFORMATION
Item 1.	Consolidated Financial Statements (unaudited)
	Consolidated Statements of Financial Condition as of September 30, 2021 (unaudited) and December 31, 2020
	20
	Consolidated Statements of Income (Loss) (unaudited) for the three and nine months ended September 30, 2021 and 2020
	21
	Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three and nine months ended September 30, 2021 and 2020
	22
	Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the three and nine months ended September 30, 2021 and 2020
	23
	Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2021 and 2020
	25
	Notes to Unaudited Consolidated Financial Statements
	27
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	3
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
	18
Item 4.	Controls and Procedures
	19
PART II.	Other Information
	52
Item 1.	Legal Proceedings
	52
Item 1A.	Risk Factors
	52
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
	52
Item 3.	Defaults Upon Senior Securities
	52
Item 4.	Mine Safety Disclosures
	52
Item 5.	Other Information
	52
Item 6.	Exhibits
	54
Signatures	55

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
FINANCIAL SUMMARY⁽¹⁾

(dollars in thousands, except per share amounts)

	At or for the Quarters Ended		
	September 30, 2021	June 30, 2021	September 30, 2020
SELECTED FINANCIAL CONDITION DATA:			
Total assets	\$ 11,829,688	\$ 11,483,901	\$ 11,651,297
Loans receivable, net of allowance for loan credit losses	8,139,961	7,774,351	7,943,390
Deposits	9,774,097	9,415,286	9,283,288
Stockholders' equity	1,513,249	1,508,789	1,461,714
SELECTED OPERATING DATA:			
Net interest income	77,132	74,016	76,788
Credit loss (benefit) expense	(3,179)	(6,460)	35,714
Other income	9,883	11,803	8,179
Operating expenses	58,673	51,670	56,787
Net income (loss)	24,167	30,555	(4,926)
Net income (loss) available to common stockholders	23,163	29,551	(6,019)
Diluted earnings (loss) per share	0.39	0.49	(0.10)
SELECTED FINANCIAL RATIOS:			
Stockholders' equity per common share at end of period	25.47	25.22	24.21
Cash dividend per share	0.17	0.17	0.17
Dividend payout ratio per common share	43.59 %	34.69 %	(170.00)%
Stockholders' equity to total assets	12.79	13.14	12.55
Return on average assets ^{(2) (3)}	0.78	1.03	(0.21)
Return on average stockholders' equity ^{(2) (3)}	6.05	7.88	(1.61)
Net interest rate spread ⁽⁴⁾	2.80	2.75	2.77
Net interest margin ⁽⁵⁾	2.93	2.89	2.97
Operating expenses to average assets ^{(2) (3)}	1.98	1.80	1.94
Efficiency ratio ^{(3) (6)}	67.43	60.21	66.83
Loans to deposits ratio	83.71	83.06	86.19
ASSET QUALITY:			
Non-performing loans held-for-investment ⁽⁸⁾	\$ 23,344	\$ 31,680	\$ 29,895
Non-performing assets ⁽⁸⁾	23,450	31,786	97,490
Allowance for loan credit losses as a percent of total loans held-for-investment ^{(7) (9)}	0.61 %	0.69 %	0.70 %
Allowance for loan credit losses as a percent of total non-performing loans held-for-investment ^{(8) (9)}	214.84	170.06	188.49
Non-performing loans held-for-investment as a percent of total loans held-for-investment ^{(7) (8)}	0.29	0.41	0.37
Non-performing assets as a percent of total assets ⁽⁸⁾	0.20	0.28	0.84

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

(2) Ratios are annualized.

(3) Performance ratios include merger related expenses, branch consolidation expenses, and net loss on equity investments of \$4.7 million, or \$3.6 million, net of tax benefit, for the quarter ended September 30, 2021. Performance ratios include merger related expenses, branch consolidation expenses, and net gain on equity investments of \$104,000, or \$78,000, net of tax expense, for the quarter ended June 30, 2021. Performance ratios include merger related expenses, branch consolidation expenses, and net loss on equity investments of \$7.6 million, or \$5.8 million, net of tax benefit, for the quarter ended September 30, 2020.

(4) 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) 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 excludes loans held-for-sale.

- (8) Non-performing assets consist of non-performing loans held-for-investment and real estate acquired through foreclosure. Non-performing loans held-for-investment 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) Loans acquired from prior bank acquisitions were recorded at fair value. The net unamortized credit and purchased with credit deterioration ("PCD") marks on these loans, not reflected in the allowance for loan credit losses, was \$21.3 million, \$23.6 million, and \$31.6 million at September 30, 2021, June 30, 2021 and September 30, 2020, respectively.

Summary

OceanFirst Financial Corp. is the holding company for OceanFirst Bank N.A. (the “Bank”), a regional bank serving business and retail customers throughout New Jersey and in the major metropolitan areas of Philadelphia, New York, Baltimore, Washington D.C., and Boston. The term “Company” refers to OceanFirst Financial Corp., the Bank and all of their subsidiaries on a consolidated basis. The Company’s results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense on 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 products and services, sales of loans and securities, deposit account services, bank owned life insurance, commercial loan swap 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.

The Company has grown significantly through the acquisitions of Two River Bancorp (“Two River”) and Country Bank Holding Company, Inc. (“Country Bank”), each on January 1, 2020. These acquisitions added \$2.03 billion in assets, \$1.56 billion in loans and \$1.59 billion in deposits.

Key developments relating to the Company’s financial results and corporate activities were as follows:

- **Loan Growth:** Total loan growth for the quarter was \$361.0 million. Total loan growth, excluding the impact of Paycheck Protection Program (“PPP”) loans of \$30.5 million, was \$391.5 million for the quarter, reflecting quarterly loan originations of \$771.8 million and the purchase of a residential loan pool of \$219.7 million. Along with record loan production during the quarter, the committed loan pipeline remains strong at \$651.4 million.
- **Deposit Growth:** Deposits increased \$358.8 million during the third quarter, while cost of deposits decreased 5 basis points to 0.22% from 0.27% in the prior linked quarter, reflecting a trend in improving deposit quality.
- **Net Interest Income and Margin:** Net interest income increased by \$3.1 million to \$77.1 million from \$74.0 million in the prior linked quarter. Net interest margin increased to 2.93%, compared to 2.89% in the prior linked quarter, largely driven by the Bank’s disciplined deposit pricing practices.

Net income available to common stockholders for the three months ended September 30, 2021 was \$23.2 million, or \$0.39 per diluted share, as compared to net loss available to common stockholders of \$6.0 million, or \$0.10 per diluted share, for the corresponding prior year period. Net income available to common stockholders for the nine months ended September 30, 2021 was \$84.4 million, or \$1.41 per diluted share, as compared to \$29.2 million, or \$0.49 per diluted share, for the corresponding prior year period. The dividends paid to preferred stockholders were \$1.0 million and \$3.0 million for the three and nine months ended September 30, 2021, respectively, as compared to \$1.1 million for each of the corresponding prior year periods. Net income available to common stockholders for the three and nine months ended September 30, 2021 included merger related expenses of \$225,000 and \$1.1 million, respectively, branch consolidation expenses of \$4.0 million and \$5.1 million, respectively, and net loss on equity investments of \$466,000 and net gain on equity investments of \$8.4 million, respectively. Net loss available to common stockholders for the three months ended September 30, 2020, included merger related expenses, branch consolidation expenses and a net loss on equity investments of \$3.2 million, \$830,000, and \$3.6 million, respectively. Net income for the nine months ended September 30, 2020, included merger related expenses, branch consolidation expenses, a net loss on equity investments, the impact of the Two River and Country Bank opening credit loss expense under the Current Expected Credit Loss (“CECL”) model, and Federal Home Loan Bank (“FHLB”) advance prepayment fees of \$14.8 million, \$4.3 million, \$3.6 million, \$2.4 million and \$924,000, respectively.

The Company remains well-capitalized with a stockholders’ equity to total assets ratio of 12.79% at September 30, 2021.

The Company’s Board of Directors declared a quarterly cash dividend of \$0.17 per share. The dividend, related to the quarter ended September 30, 2021, will be paid on November 19, 2021 to common stockholders of record on November 8, 2021. The Board also declared a quarterly cash dividend on preferred stock of \$0.4375 per depositary share, representing a 1/40th interest in the Series A Preferred Stock. This dividend will be paid on November 15, 2021 to preferred stockholders of record on October 29, 2021.

As previously announced on August 4, 2021, the Bank entered into a definitive agreement to sell two New Jersey branch locations to First Bank, including the owned premises and equipment, all deposits associated with the branches, which totaled

approximately \$124 million as of June 30, 2021, as well as selected performing loans totaling approximately \$14 million as of June 30, 2021. The Bank has received the required regulatory approval and the closing of the sale and customer conversion is expected to take place in early December.

Impact of COVID-19

On March 16, 2020, the Company announced a series of actions intended to help mitigate the impact of the COVID-19 pandemic on customers, employees and communities. The Company began offering its Borrower Relief Programs to address the needs of customers who were current on their loan payments as of either December 31, 2019 or the date of the modification. In keeping with regulatory guidance under the Coronavirus Aid, Relief and Economic Security (“CARES”) Act, these loan deferrals were not considered troubled debt restructured (“TDR”) loans at September 30, 2021 and will not be reported as past due during the deferral period. As of September 30, 2021, 98.7% of total loans comply with pre-COVID-19 terms.

Further, due to conditions caused by COVID-19, appraisals ordered in the current environment may not be indicative of the underlying loan collateral value. As such, the Company may require multiple valuation approaches (sales comparison approach, income approach, cost approach), as applicable. The Company will assess the individual facts and circumstances of COVID-19 related loan downgrades and, if a new appraisal is not necessary, an additional discount may be applied to an existing appraisal.

The Company also accepted and processed applications for loans under the PPP, which was originally established under the CARES Act. At September 30, 2021, \$52.5 million in PPP loans and \$2.0 million in deferred fees remained on the consolidated statements of financial condition. There were no PPP loans originated during the quarter ended September 30, 2021.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations (“CRRSA”) Act of 2021 was signed into law, which contained provisions that directly impacted financial institutions. The CRRSA Act extended the PPP and provided the Company the ability to continue its Borrower Relief Programs and related TDR and past due reporting considerations.

For further discussion, refer to Part I, Item 1A in the December 31, 2020 Form 10-K - [Risk Factors - Risks Related to the COVID-19 Pandemic](#).

Analysis of Net Interest Income

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

The following tables set forth certain information relating to the Company for the three and nine months ended September 30, 2021 and 2020. The yields and costs, which are annualized, are derived by dividing the income or expense by the average balance of the related assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees and costs which are considered adjustments to yields.

(dollars in thousands)	For the Three Months Ended September 30,					
	2021			2020		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ 1,053,797	\$ 441	0.17 %	\$ 805,863	\$ 236	0.12 %
Securities ⁽¹⁾	1,542,630	6,090	1.57	1,112,174	6,793	2.43
Loans receivable, net ⁽²⁾						
Commercial	5,361,472	55,387	4.10	5,554,897	58,639	4.20
Residential real estate	2,260,673	20,076	3.55	2,462,513	23,091	3.75
Home equity loans and lines and other consumer	289,011	3,426	4.70	379,299	4,203	4.41
Allowance for loan credit losses, net of deferred loan costs and fees	(46,436)	—	—	(45,912)	—	—
Loans receivable, net	7,864,720	78,889	3.98	8,350,797	85,933	4.09
Total interest-earning assets	10,461,147	85,420	3.24	10,268,834	92,962	3.60
Non-interest-earning assets	1,276,890			1,353,135		
Total assets	\$ 11,738,037			\$ 11,621,969		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing checking	\$ 3,841,475	2,854	0.29 %	\$ 3,289,319	4,627	0.56 %
Money market	767,854	245	0.13	675,841	571	0.34
Savings	1,609,197	146	0.04	1,460,232	296	0.08
Time deposits	904,384	2,134	0.94	1,606,632	5,876	1.45
Total	7,122,910	5,379	0.30	7,032,024	11,370	0.64
FHLB advances	—	—	—	343,412	1,470	1.70
Securities sold under agreements to repurchase	142,494	51	0.14	144,720	174	0.48
Other borrowings	228,695	2,858	4.96	246,903	3,160	5.09
Total borrowings	371,189	2,909	3.11	735,035	4,804	2.60
Total interest-bearing liabilities	7,494,099	8,288	0.44	7,767,059	16,174	0.83
Non-interest-bearing deposits	2,576,123			2,209,241		
Non-interest-bearing liabilities	148,327			162,987		
Total liabilities	10,218,549			10,139,287		
Stockholders' equity	1,519,488			1,482,682		
Total liabilities and equity	\$ 11,738,037			\$ 11,621,969		
Net interest income		\$ 77,132			\$ 76,788	
Net interest rate spread ⁽³⁾			2.80 %			2.77 %
Net interest margin ⁽⁴⁾			2.93 %			2.97 %
Total cost of deposits (including non-interest-bearing deposits)			0.22 %			0.49 %

(dollars in thousands)	For the Nine Months Ended September 30,					
	2021			2020		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ 1,061,419	\$ 958	0.12 %	\$ 409,321	\$ 693	0.23 %
Securities ⁽¹⁾	1,452,778	18,832	1.73	1,143,049	22,129	2.59
Loans receivable, net ⁽²⁾						
Commercial	5,270,138	163,315	4.14	5,309,275	177,973	4.48
Residential real estate	2,269,066	59,242	3.48	2,480,932	71,590	3.85
Home equity loans and lines and other consumer	306,681	11,288	4.92	403,348	14,661	4.86
Allowance for loan credit losses, net of deferred loan costs and fees	(50,912)	—	—	(27,186)	—	—
Loans receivable, net	7,794,973	233,845	4.01	8,166,369	264,224	4.32
Total interest-earning assets	10,309,170	253,635	3.29	9,718,739	287,046	3.95
Non-interest-earning assets	1,264,347			1,306,568		
Total assets	\$ 11,573,517			\$ 11,025,307		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing checking	\$ 3,753,457	10,549	0.38 %	\$ 3,023,093	14,559	0.64 %
Money market	761,975	823	0.14	647,566	2,316	0.48
Savings	1,571,345	490	0.04	1,436,594	2,266	0.21
Time deposits	1,041,371	8,338	1.07	1,563,449	18,470	1.58
Total	7,128,148	20,200	0.38	6,670,702	37,611	0.75
FHLB Advances	—	—	—	483,267	6,239	1.72
Securities sold under agreements to repurchase	135,754	203	0.20	119,495	408	0.46
Other borrowings	228,472	8,480	4.96	195,754	7,688	5.25
Total borrowings	364,226	8,683	3.19	798,516	14,335	2.40
Total interest-bearing liabilities	7,492,374	28,883	0.52	7,469,218	51,946	0.93
Non-interest-bearing deposits	2,416,866			1,971,622		
Non-interest-bearing liabilities	157,821			133,928		
Total liabilities	10,067,061			9,574,768		
Stockholders' equity	1,506,456			1,450,539		
Total liabilities and equity	\$ 11,573,517			\$ 11,025,307		
Net interest income		\$ 224,752			\$ 235,100	
Net interest rate spread ⁽³⁾			2.77 %			3.02 %
Net interest margin ⁽⁴⁾			2.91 %			3.23 %
Total cost of deposits (including non-interest-bearing deposits)			0.28 %			0.58 %

- (1) Amounts represent debt and equity securities, including FHLB and Federal Reserve Bank stock, and are recorded at average amortized cost net of allowance for securities credit losses.
- (2) Amount is net of deferred loan costs and fees, undisbursed loan funds, discounts and premiums and allowance for loan credit losses, and includes loans held for sale and non-performing loans.
- (3) Net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average interest-earning assets.

Comparison of Financial Condition at September 30, 2021 and December 31, 2020

Total assets increased by \$381.4 million to \$11.83 billion at September 30, 2021, from \$11.45 billion at December 31, 2020. Cash and due from banks decreased \$291.0 million, to \$981.1 million at September 30, 2021, from \$1.27 billion at December 31, 2020 as excess liquidity was primarily used to purchase securities and fund loan growth. Total debt securities increased by \$319.4 million at September 30, 2021, as compared to December 31, 2020. Total loans, excluding PPP loans of \$52.5 million and \$95.4 million at September 30, 2021 and December 31, 2020, respectively, increased by \$468.6 million, to \$8.13 billion at September 30, 2021, from \$7.66 billion at December 31, 2020.

Deposits increased by \$346.5 million to \$9.77 billion at September 30, 2021, from \$9.43 billion at December 31, 2020. Excluding time deposits of \$855.4 million at September 30, 2021 and \$1.37 billion at December 31, 2020, total deposits increased by \$863.8 million to \$8.92 billion at September 30, 2021 from \$8.05 billion at December 31, 2020. The loans-to-deposit ratio at September 30, 2021 was 83.7%, as compared to 82.3% at December 31, 2020.

Stockholders' equity increased to \$1.51 billion at September 30, 2021, as compared to \$1.48 billion at December 31, 2020. On June 25, 2021, the Company announced the authorization of the Board of Directors of the 2021 Stock Repurchase Program to repurchase up to an additional 3.0 million shares, which is approximately 5% of the Company's outstanding common stock. For the nine months ended September 30, 2021, the Company repurchased 1,460,009 shares under its stock repurchase program at a weighted average cost of \$20.98, and there were 3,559,136 shares available for repurchase at September 30, 2021 under the existing repurchase programs. Stockholders' equity per common share increased to \$25.47 at September 30, 2021, as compared to \$24.57 at December 31, 2020.

Comparison of Operating Results for the Three and Nine Months Ended September 30, 2021 and September 30, 2020

General

Net income available to common stockholders for the three months ended September 30, 2021 was \$23.2 million, or \$0.39 per diluted share, as compared to net loss available to common stockholders of \$6.0 million, or \$0.10 per diluted share, for the corresponding prior year period. Net income available to common stockholders for the nine months ended September 30, 2021 was \$84.4 million, or \$1.41 per diluted share, as compared to \$29.2 million, or \$0.49 per diluted share, for the corresponding prior year period. Net income available to common stockholders for the three and nine months ended September 30, 2021 included merger related expenses of \$225,000 and \$1.1 million, respectively, branch consolidation expenses of \$4.0 million and \$5.1 million, respectively, and net loss on equity investments of \$466,000 and net gain on equity investments of \$8.4 million, respectively. These items decreased net income by \$3.6 million and increased net income by \$1.7 million, net of tax, for the three and nine months ended September 30, 2021, respectively. Net loss available to common stockholders for the three months ended September 30, 2020, included merger related expenses, branch consolidation expenses and a net loss on equity investments of \$3.2 million, \$830,000, and \$3.6 million, respectively. Net income for the nine months ended September 30, 2020, included merger related expenses, branch consolidation expenses, a net loss on equity investments, the impact of the Two River and Country Bank opening credit loss expense under the CECL model, and FHLB advance prepayment fees of \$14.8 million, \$4.3 million, \$3.6 million, \$2.4 million and \$924,000, respectively. These items decreased net loss by \$5.8 million and decreased net income by \$19.9 million, net of tax, for the three and nine months ended September 30, 2020, respectively.

Interest Income

Interest income for the three and nine months ended September 30, 2021 decreased to \$85.4 million and \$253.6 million, respectively, as compared to \$93.0 million and \$287.0 million for the corresponding prior year periods, respectively. Average interest-earning assets increased by \$192.3 million and \$590.4 million for the three and nine months ended September 30, 2021, respectively, as compared to the same prior year periods, primarily concentrated in excess balance sheet liquidity. Average loans receivable, net of allowance for loan credit losses, decreased by \$486.1 million and \$371.4 million for the three and nine months ended September 30, 2021, respectively, as compared to the same prior year periods, primarily due to reductions in PPP loans. For the three and nine months ended September 30, 2021, the yield on average interest-earning assets decreased to 3.24% and 3.29%, respectively, from 3.60% and 3.95% for the corresponding prior year periods, respectively.

Interest Expense

Interest expense for the three and nine months ended September 30, 2021 was \$8.3 million and \$28.9 million, respectively, as compared to \$16.2 million and \$51.9 million in the corresponding prior year periods, respectively. Average interest-bearing liabilities decreased \$273.0 million and increased \$23.2 million for the three and nine months ended September 30, 2021, respectively, as compared to the same prior year periods. For the three and nine months ended September 30, 2021, the cost of average interest-bearing liabilities decreased to 0.44% and 0.52%, respectively, from 0.83% and 0.93%, respectively, for the corresponding prior year periods. The total cost of deposits (including non-interest bearing deposits) was 0.22% and 0.28% for the three and nine months ended September 30, 2021, respectively, as compared to 0.49% and 0.58%, respectively, for the same prior year periods.

Net Interest Income and Margin

Net interest income for the three months ended September 30, 2021, increased to \$77.1 million, as compared to \$76.8 million for the corresponding prior year period. Net interest income for the nine months ended September 30, 2021 decreased to \$224.8 million as compared to \$235.1 million for the corresponding prior year period, as a result of the lower interest rate environment. Net interest margin for the three and nine months ended September 30, 2021 decreased to 2.93% and 2.91%, respectively, from 2.97% and 3.23%, respectively, for the same prior year periods. The net interest margin compression was primarily due to the excess balance sheet liquidity and the lower interest rate environment.

Benefit/Provision for Credit Losses

For the three and nine months ended September 30, 2021, the credit loss benefit was \$3.2 million and \$10.3 million, respectively, as compared to a credit loss expense of \$35.7 million and \$55.3 million, respectively, for the corresponding prior year periods. The credit loss benefit for the three and nine months ended September 30, 2021 was significantly influenced by positive trends in the Bank's asset quality combined with stabilizing trends in economic forecasts, including strong employment levels and GDP growth, partly offset by the economic uncertainty related to supply chain and labor market constraints.

Net loan recoveries were \$386,000 and \$442,000 for the three and nine months ended September 30, 2021, respectively, as compared to net loan charge-offs of \$15.0 million and \$15.9 million for the corresponding prior year periods, respectively. The three months ended September 30, 2020 included \$14.2 million in charge-offs related to the transfer of higher-risk commercial loans to held-for-sale, which were ultimately sold in the fourth quarter of 2020. Non-performing loans held-for-investment totaled \$23.3 million at September 30, 2021, as compared to \$29.9 million at September 30, 2020.

Non-interest Income

For the three and nine months ended September 30, 2021, other income increased to \$9.9 million and \$42.5 million, respectively, as compared to \$8.2 million and \$33.3 million, respectively, for the corresponding prior year periods. Other income for the three and nine months ended September 30, 2021 included a net loss on equity investments of \$466,000 and a net gain on equity investments of \$8.4 million, respectively. Other income for both the three and nine months ended September 30, 2020 included \$3.6 million of net losses on equity investments. The remaining decrease of \$1.4 million in other income for the three months ended September 30, 2021, as compared to the corresponding prior year period, was primarily due to decreases in gain on sale of loans of \$1.0 million and fees and service charges of \$759,000. The remaining decrease of \$2.8 million in other income for the nine months ended September 30, 2021, as compared to the corresponding prior year period, was primarily due to a decrease in commercial loan swap income of \$5.2 million, as a result of lower activity, and lower fees and service charges of \$1.3 million, partially offset by increases in bankcard services of \$1.7 million, due to lower card activity in the prior year period as a result of the pandemic, gain on sale of loans of \$1.3 million, and PPP loan referral fees of \$800,000.

Non-interest Expense

Operating expenses increased to \$58.7 million and decreased to \$162.0 million for the three and nine months ended September 30, 2021, respectively, as compared to \$56.8 million and \$175.5 million, respectively, in the same prior year periods. Operating expenses for the three and nine months ended September 30, 2021 included \$4.2 million and \$6.1 million, respectively, of merger related and branch consolidation expenses. Operating expenses for the three months ended September 30, 2020 included \$4.0 million of merger related and branch consolidation expenses. Operating expenses for the nine months ended September 30, 2020 included \$20.0 million of merger related expenses, branch consolidation expenses and FHLB advance prepayment fees. The remaining increase of \$1.6 million in operating expenses for the three months ended September 30, 2021, as compared to the corresponding prior year period, was primarily due to increases in compensation and benefits expense of \$1.7 million and data processing expense of \$846,000, partly offset by a decrease in equipment expense of \$782,000. The remaining increase of \$372,000 in operating expenses for the nine months ended September 30, 2021, as compared to the corresponding prior year

period, was primarily due to increases in compensation and benefits expense of \$2.2 million, primarily related to higher benefit costs, federal deposit insurance and regulatory assessments of \$1.4 million, and data processing expense of \$953,000, partly offset by decreases in equipment expense of \$1.8 million, marketing expense of \$930,000, other operating expense of \$469,000, and occupancy expense of \$434,000.

Income Tax Expense/Benefit

The provision for income taxes was \$7.4 million and \$28.1 million for the three and nine months ended September 30, 2021, respectively, as compared to a benefit for income taxes of \$2.6 million and provision for income taxes of \$7.3 million for the same prior year periods, respectively. The effective tax rate was 23.3% and 24.3% for the three and nine months ended September 30, 2021, respectively, as compared to 34.6% and 19.5% for the same prior year periods, respectively. The higher effective tax rate for the three months ended September 30, 2020 was primarily attributable to the net loss recognized during the quarter. The higher effective tax rate for the nine months ended September 30, 2021, as compared to the prior year period, was primarily due to the impact of a New Jersey tax code change and a higher allocation of taxable income to New York.

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, access to the Federal Reserve discount window, other borrowings, including subordinated debt, and to a lesser extent, investment maturities and proceeds from the sale of loans and equity investments. While scheduled amortization of loans and mortgage-backed securities are predictable sources of funds, deposit flows, loan prepayments, and loan and equity sales 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 multiple financial institutions.

At September 30, 2021 and December 31, 2020, the Bank had no outstanding overnight borrowings from the FHLB. The Bank utilizes overnight borrowings from time-to-time to fund short-term liquidity needs. There were also no FHLB term advances at September 30, 2021 and December 31, 2020.

The Company's cash needs for the nine months ended September 30, 2021 were primarily satisfied by the increase in deposits, proceeds from sales of loans and equity investments, principal repayments on debt securities held-to-maturity, and proceeds from maturities and calls of debt securities. The cash was principally utilized for purchases of debt and equity securities, a purchase of a residential loan pool, and loan originations. The Company's cash needs for the nine months ended September 30, 2020 were primarily satisfied by the increase in deposits, net proceeds from the issuance of subordinated notes and preferred stock, principal payments on mortgage-backed securities, proceeds from maturities and calls of debt securities, proceeds from sale of loans, and acquired cash from acquisitions. The cash was principally utilized for loan originations, the repayment of short-term borrowings, and investment purchases.

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 September 30, 2021, outstanding commitments to originate loans totaled \$651.4 million and outstanding undrawn lines of credit totaled \$1.22 billion, of which \$870.7 million were commitments to commercial borrowers and \$353.0 million were commitments to consumer borrowers and residential construction borrowers. The Company 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 \$586.7 million at September 30, 2021. Management is optimistic about its ability to retain funds from maturing time deposits and placing them in market comparable deposit products.

The Company has a detailed contingency funding plan and obtains comprehensive reporting of funding trends on a monthly and quarterly basis, which are reviewed by management. Management also monitors cash on a daily basis to determine the liquidity needs of the Bank. Additionally, management performs multiple liquidity stress test scenarios on a quarterly basis. The Bank continues to maintain significant liquidity under all stress scenarios. In response to COVID-19, management identified additional sources of contingent liquidity, including expanded borrowing capacity with the FHLB, the Federal Reserve and existing correspondent bank relationships. The Company also strengthened balance sheet liquidity entering the economic downturn.

Under the Company's stock repurchase program, 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. The Company repurchased 460,009 shares of common stock for the three months ended September 30, 2021, bringing the total shares repurchased to 1,460,009 for the nine months ended September 30, 2021. At September 30, 2021, there were 3,559,136 shares available to be repurchased under the stock repurchase programs authorized.

Cash dividends on common stock declared and paid during the first nine months of September 30, 2021 were \$30.4 million, as compared to \$30.6 million for the same prior year period. On October 28, 2021, the Company's Board of Directors declared a quarterly cash dividend of \$0.17 per common share. The dividend is payable on November 19, 2021 to common stockholders of record at the close of business on November 8, 2021.

Cash dividends on preferred stock declared and paid during the first nine months of September 30, 2021 were \$3.0 million, as compared to \$1.1 million for the same prior year period. The Company's Board of Directors also declared a quarterly cash dividend of \$0.4375 per depositary share, representing 1/40th interest in the Series A Preferred Stock, payable on November 15, 2021 to preferred stockholders of record on October 29, 2021.

The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of the Bank, are capital distributions from the Bank, the issuance of preferred and common stock, and debt. For the nine months ended September 30, 2021, the Company received a dividend payment of \$30.0 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 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. Additionally, regulations of the Federal Reserve may prevent the Company from either paying or increasing the cash dividend to common stockholders. At September 30, 2021, OceanFirst Financial Corp. held \$83.9 million in cash.

As of September 30, 2021 and December 31, 2020, the Company and the Bank satisfy all regulatory capital requirements currently applicable as follows (dollars in thousands):

	Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2021						
Bank:						
Tier 1 capital (to average assets)	\$ 1,012,471	9.12 %	\$ 444,076	4.00 %	\$ 555,096	5.00 %
Common equity Tier 1 (to risk-weighted assets)	1,012,471	12.19	581,498	7.00 ⁽¹⁾	539,963	6.50
Tier 1 capital (to risk-weighted assets)	1,012,471	12.19	706,105	8.50 ⁽¹⁾	664,570	8.00
Total capital (to risk-weighted assets)	1,065,583	12.83	872,248	10.50 ⁽¹⁾	830,712	10.00
Company:						
Tier 1 capital (to average assets)	\$ 1,037,940	9.34 %	\$ 444,531	4.00 %	N/A	N/A
Common equity Tier 1 (to risk-weighted assets)	910,679	10.84	588,214	7.00 ⁽¹⁾	N/A	N/A
Tier 1 capital (to risk-weighted assets)	1,037,940	12.35	714,260	8.50 ⁽¹⁾	N/A	N/A
Total capital (to risk-weighted assets)	1,252,349	14.90	882,321	10.50 ⁽¹⁾	N/A	N/A
	Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Bank:						
Tier 1 capital (to average assets)	\$ 942,122	8.48 %	\$ 444,648	4.00 %	\$ 555,810	5.00 %
Common equity Tier 1 (to risk-weighted assets)	942,122	12.11	544,625	7.00 ⁽¹⁾	505,724	6.50
Tier 1 capital (to risk-weighted assets)	942,122	12.11	661,331	8.50 ⁽¹⁾	622,429	8.00
Total capital (to risk-weighted assets)	1,004,480	12.91	816,938	10.50 ⁽¹⁾	778,036	10.00
Company:						
Tier 1 capital (to average assets)	\$ 998,273	9.44 %	\$ 423,028	4.00 %	N/A	N/A
Common equity Tier 1 (to risk-weighted assets)	871,385	11.05	552,075	7.00 ⁽¹⁾	N/A	N/A
Tier 1 capital (to risk-weighted assets)	998,273	12.66	670,377	8.50 ⁽¹⁾	N/A	N/A
Total capital (to risk-weighted assets)	1,230,370	15.60	828,113	10.50 ⁽¹⁾	N/A	N/A

(1) Includes the Capital Conservation Buffer of 2.50%.

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

At September 30, 2021 and December 31, 2020, the Company maintained a stockholders’ equity to total assets ratio of 12.79% and 12.96%, respectively.

Off-Balance-Sheet Arrangements and Contractual Obligations

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

The Company enters into loan sale agreements with investors in the normal course of business. The loan sale agreements generally require the Company to repurchase loans previously sold in the event of a violation of various representations and warranties customary to the mortgage banking industry. The Company is also obligated to repurchase loans previously sold under certain circumstances under a loss sharing arrangement with the FHLB relating to loans sold into the Mortgage Partnership Finance program. As a result of the COVID-19 pandemic, some of these loans were placed on forbearance and the Company may be required to repurchase them in future periods. 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 each of September 30, 2021 and December 31, 2020, the reserve for repurchased loans and loss sharing obligations was \$1.2 million.

The following table shows the contractual obligations of the Company by expected payment period as of September 30, 2021 (in thousands). Refer to Note 9 Leases, to the Consolidated Financial Statements for lease obligations.

Contractual Obligations	Total	One year or less	More than 1 year to 3 years	More than 3 years to 5 years	More than 5 years
Debt obligations	\$ 372,179	\$ 143,496	\$ 444	\$ 35,496	\$ 192,743
Commitments to fund undrawn lines of credit					
Commercial	870,672	870,672	—	—	—
Consumer and residential construction	352,986	352,986	—	—	—
Commitments to originate loans	651,432	651,432	—	—	—

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

Non-Performing Assets

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

	September 30, 2021	December 31, 2020
	(dollars in thousands)	
Non-performing loans:		
Commercial and industrial	\$ 354	\$ 1,551
Commercial real estate – owner occupied	8,997	13,054
Commercial real estate – investor	6,904	10,660
Residential real estate	5,484	8,642
Home equity loans and lines and other consumer	1,605	2,503
Total non-performing loans	23,344	36,410
Other real estate owned	106	106
Total non-performing assets	\$ 23,450	\$ 36,516
PCD loans ⁽¹⁾	\$ 41,372	\$ 48,488
Delinquent loans 30-89 days	\$ 6,647	\$ 34,683
Allowance for loan credit losses as a percent of total loans	0.61 %	0.78 %
Allowance for loan credit losses as a percent of total non-performing loans	214.84	166.81
Non-performing loans as a percent of total loans	0.29	0.47
Non-performing assets as a percent of total assets	0.20	0.32

(1) PCD loans are not included in non-performing loans or delinquent loans totals.

The Company's non-performing loans totaled \$23.3 million at September 30, 2021, as compared to \$36.4 million at December 31, 2020. Included in the non-performing loans total was \$9.6 million and \$5.2 million of TDR loans at September 30, 2021 and December 31, 2020, respectively. Non-performing loans do not include \$41.4 million and \$48.5 million of acquired PCD loans at September 30, 2021 and December 31, 2020, respectively. At September 30, 2021, the allowance for loan credit losses totaled \$50.2 million, or 0.61% of total loans, as compared to \$60.7 million, or 0.78% of total loans, at December 31, 2020. These ratios exclude existing net unamortized credit and PCD marks on acquired loans of \$21.3 million and \$28.0 million at September 30, 2021 and December 31, 2020, respectively.

In response to the COVID-19 pandemic and its economic impact on customers, short-term modification programs that comply with the CARES Act, extended by the CRRSA Act, were implemented to provide temporary payment relief to those borrowers directly impacted by COVID-19. The Commercial Borrower Relief Program allowed for the deferral of principal and interest or principal only. All payments received will first be applied to all accrued and unpaid interest and the balance, if any, on account of unpaid principal, then to fees, expenses and other amounts due to the Bank. Monthly payments will continue until the maturity date when all then unpaid principal, interest, fees, and all other charges are due and payable to the Bank. The Consumer Borrower Relief Program allowed for the deferral of principal and interest. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date. Provided these loans were current as of either year end or the date of the modification, these loans are not considered TDR loans at September 30, 2021 and will not be reported as past due during the deferral period.

The Company classifies loans and other assets in accordance with regulatory guidelines. The table below excludes any loans held-for-sale (in thousands):

	September 30, 2021	December 31, 2020
Special Mention	\$ 98,687	\$ 165,843
Substandard	158,575	194,477

The decrease in special mention and substandard loans was primarily due to the improvement in the Bank's borrowers' ability to service their loans.

Critical Accounting Policies

Note 1 to the Company's Audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Form 10-K"), as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. These judgments and policies involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the results of operations or financial condition. Certain assets are carried in the consolidated statements of financial condition at fair value or the lower of cost or estimated fair value. Policies with respect to the methodology used to determine the allowance for credit losses is the most critical accounting policy because it is important to the presentation of the Company's financial condition and results of operations. These critical accounting policies and their application are reviewed periodically, and at least annually, with the Audit Committee of the Board of Directors.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this quarterly report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which are based on certain assumptions and describe future plans, strategies and expectations of OceanFirst Financial Corp. (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 in the Company's 2020 Form 10-K under Item 1A - Risk Factors, as supplemented by the Company's subsequent filings with the Securities and Exchange Commission (the "SEC") and elsewhere therein and the following: changes in interest rates, general economic conditions, public health crises (such as the governmental, social and economic effects of the novel coronavirus), 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 (particularly with respect to the novel coronavirus), monetary and fiscal policies of the U.S. Government including policies of the U.S. Treasury and Board of Governors of the Federal Reserve System (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, changes in accounting principles and guidelines and the Bank's ability to successfully integrate acquired operations.

Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on the Company's business. The extent of such impact will depend on future developments, which are highly uncertain, including when COVID-19 can be controlled and abated, the timing of inoculation against the virus and whether the gradual reopening of businesses will result in a meaningful increase in economic activity. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, the Company could be subject to any of the following risks, any of which could have a material, adverse effect on its business, financial condition, liquidity, and results of operations: the demand for the Bank's products and services may decline, making it difficult to grow assets and income; if the economy is unable to substantially reopen, and higher levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; the Company's allowance for credit losses may increase if borrowers experience financial difficulties, which will adversely affect the Company's net income; the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to the Bank; if legislation or governmental or regulatory action is enacted limiting the amount of ATM fees or surcharges the Bank may receive or on its ability to charge overdraft or other fees, it could adversely impact the Company's financial results; the Company's cyber security risks would be increased as the result of an increased use of the Bank's online banking platform or an increase in the number of employees working remotely; and Federal Deposit Insurance Corporation ("FDIC") premiums may increase if the agency experiences additional resolution costs.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's interest rate sensitivity is monitored through the use of interest rate risk ("IRR") modeling. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at September 30, 2021, which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown.

At September 30, 2021, the Company's one-year gap was positive 22.35% as compared to positive 18.05% at December 31, 2020.

At September 30, 2021 (dollars in thousands)	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
Interest-earning assets: ⁽¹⁾						
Interest-earning deposits and short-term investments	\$ 793,303	\$ 1,431	\$ 1,975	\$ —	\$ —	\$ 796,709
Debt securities	266,574	239,314	348,929	227,782	360,695	1,443,294
Equity investments	—	—	30,399	28,316	42,599	101,314
Restricted equity investments	—	—	—	—	53,017	53,017
Loans receivable ⁽²⁾	2,343,976	1,561,103	2,291,282	1,151,399	847,500	8,195,260
Total interest-earning assets	3,403,853	1,801,848	2,672,585	1,407,497	1,303,811	10,589,594
Interest-bearing liabilities:						
Interest-bearing checking accounts	1,444,263	195,213	451,077	365,372	1,557,640	4,013,565
Money market deposit accounts	72,132	54,037	125,669	102,774	462,079	816,691
Savings accounts	86,173	138,286	302,615	237,016	856,357	1,620,447
Time deposits	169,818	430,971	211,381	27,962	15,310	855,442
Securities sold under agreements to repurchase and other borrowings	247,421	154	444	123,350	810	372,179
Total interest-bearing liabilities	2,019,807	818,661	1,091,186	856,474	2,892,196	7,678,324
Interest sensitivity gap ⁽³⁾	\$ 1,384,046	\$ 983,187	\$ 1,581,399	\$ 551,023	\$ (1,588,385)	\$ 2,911,270
Cumulative interest sensitivity gap	\$ 1,384,046	\$ 2,367,233	\$ 3,948,632	\$ 4,499,655	\$ 2,911,270	\$ 2,911,270
Cumulative interest sensitivity gap as a percent of total interest-earning assets	13.07 %	22.35 %	37.29 %	42.49 %	27.49 %	27.49 %

- (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 credit losses, unamortized discounts and deferred loan costs and fees.
- (3) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

Additionally, the table below sets forth the Company's exposure to IRR as measured by the change in economic value of equity ("EVE") and net interest income under varying rate shocks as of September 30, 2021 and December 31, 2020. All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. The Company's interest rate sensitivity should be reviewed in conjunction with the financial statements and notes thereto contained in the 2020 Form 10-K.

Change in Interest Rates in Basis Points (Rate Shock) (dollars in thousands)	September 30, 2021						December 31, 2020					
	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	\$ 1,900,559	33.8 %	17.1 %	\$ 389,436	31.9 %		\$ 1,890,335	38.5 %	17.3 %	\$ 340,098	16.2 %	
200	1,770,701	24.6	15.6	354,181	19.9		1,752,255	28.4	15.7	325,436	11.2	
100	1,611,072	13.4	13.9	318,183	7.7		1,578,917	15.7	13.9	309,644	5.8	
Static	1,420,933	—	12.0	295,335	—		1,365,119	—	11.8	292,572	—	
(100)	1,160,332	(18.3)	9.6	268,236	(9.2)		1,074,346	(21.3)	9.2	284,763	(2.7)	

The interest rate sensitivity at September 30, 2021 and December 31, 2020, continue to be impacted by the cash liquidity position that remains elevated.

Item 4. Controls and Procedures

(a) 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 SEC (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

	September 30, 2021 (Unaudited)	December 31, 2020
Assets		
Cash and due from banks	\$ 981,126	\$ 1,272,134
Debt securities available-for-sale, at estimated fair value	314,620	183,302
Debt securities held-to-maturity, net of allowance for securities credit losses of \$1,503 at September 30, 2021 and \$1,715 at December 31, 2020 (estimated fair value of \$1,143,381 at September 30, 2021 and \$968,466 at December 31, 2020)	1,125,382	937,253
Equity investments	101,314	107,079
Restricted equity investments, at cost	53,017	51,705
Loans receivable, net of allowance for loan credit losses of \$50,153 at September 30, 2021 and \$60,735 at December 31, 2020	8,139,961	7,704,857
Loans held-for-sale	13,428	45,524
Interest and dividends receivable	32,512	35,269
Other real estate owned	106	106
Premises and equipment, net	123,669	107,094
Bank owned life insurance	260,072	265,253
Assets held for sale	4,613	5,782
Goodwill	500,319	500,319
Core deposit intangible	19,558	23,668
Other assets	159,991	208,968
Total assets	<u>\$ 11,829,688</u>	<u>\$ 11,448,313</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 9,774,097	\$ 9,427,616
Securities sold under agreements to repurchase with retail customers	143,292	128,454
Other borrowings	228,887	235,471
Advances by borrowers for taxes and insurance	22,214	17,296
Other liabilities	147,949	155,346
Total liabilities	<u>10,316,439</u>	<u>9,964,183</u>
Stockholders' equity:		
Preferred stock, \$0.01 par value, \$1,000 liquidation preference, 5,000,000 shares authorized, and 57,370 shares issued at both September 30, 2021 and December 31, 2020	1	1
Common stock, \$0.01 par value, 150,000,000 shares authorized, 61,526,126 and 61,040,894 shares issued at September 30, 2021 and December 31, 2020, respectively; and 59,417,266 and 60,392,043 shares outstanding at September 30, 2021 and December 31, 2020, respectively	611	609
Additional paid-in capital	1,145,448	1,137,715
Retained earnings	430,721	378,268
Accumulated other comprehensive (loss) income	(734)	621
Less: Unallocated common stock held by Employee Stock Ownership Plan ("ESOP")	(6,519)	(7,433)
Treasury stock, 2,108,860 and 648,851 shares at September 30, 2021 and December 31, 2020, respectively	(56,279)	(25,651)
Total stockholders' equity	<u>1,513,249</u>	<u>1,484,130</u>
Total liabilities and stockholders' equity	<u>\$ 11,829,688</u>	<u>\$ 11,448,313</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	\$ 78,889	\$ 85,933	\$ 233,845	\$ 264,224
Debt securities	5,040	5,596	16,379	18,577
Equity investments and other	1,491	1,433	3,411	4,245
Total interest income	85,420	92,962	253,635	287,046
Interest expense:				
Deposits	5,379	11,370	20,200	37,611
Borrowed funds	2,909	4,804	8,683	14,335
Total interest expense	8,288	16,174	28,883	51,946
Net interest income	77,132	76,788	224,752	235,100
Credit loss (benefit) expense	(3,179)	35,714	(10,259)	55,332
Net interest income after credit loss (benefit) expense	80,311	41,074	235,011	179,768
Other income:				
Bankcard services revenue	3,409	3,097	10,052	8,319
Trust and asset management revenue	584	490	1,774	1,560
Fees and service charges	2,973	3,732	10,519	11,858
Net (loss) gain on sales of loans	(15)	1,001	3,180	1,930
Net (loss) gain on equity investments	(466)	(3,576)	8,397	(3,273)
Net (loss) gain from other real estate operations	(3)	214	(12)	12
Income from bank owned life insurance	1,640	1,530	4,771	4,626
Commercial loan swap income	1,588	1,425	2,772	7,964
Other	173	266	1,068	310
Total other income	9,883	8,179	42,521	33,306
Operating expenses:				
Compensation and employee benefits	30,730	29,012	89,008	86,832
Occupancy	5,005	5,270	15,380	15,814
Equipment	1,124	1,906	4,008	5,831
Marketing	496	963	1,555	2,485
Federal deposit insurance and regulatory assessments	1,459	1,212	4,422	3,012
Data processing	5,363	4,517	13,796	12,843
Check card processing	1,337	1,385	4,012	3,951
Professional fees	3,089	3,354	8,317	8,339
Other operating expense	4,477	3,644	11,315	11,784
Federal Home Loan Bank (“FHLB”) prepayment fees	—	—	—	924
Amortization of core deposit intangible	1,354	1,538	4,110	4,660
Branch consolidation expense	4,014	830	5,051	4,287
Merger related expenses	225	3,156	1,052	14,753
Total operating expenses	58,673	56,787	162,026	175,515
Income (loss) before provision (benefit) for income taxes	31,521	(7,534)	115,506	37,559
Provision (benefit) for income taxes	7,354	(2,608)	28,087	7,314
Net income (loss)	24,167	(4,926)	87,419	30,245
Dividends on preferred shares	1,004	1,093	3,012	1,093
Net income (loss) available to common stockholders	\$ 23,163	\$ (6,019)	\$ 84,407	\$ 29,152
Basic earnings (loss) per share	\$ 0.40	\$ (0.10)	\$ 1.42	\$ 0.49
Diluted earnings (loss) per share	\$ 0.39	\$ (0.10)	\$ 1.41	\$ 0.49
Average basic shares outstanding	59,311	59,935	59,619	59,901
Average diluted shares outstanding	59,515	59,935	59,862	60,076

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Unaudited)		(Unaudited)	
Net income (loss)	\$ 24,167	\$ (4,926)	\$ 87,419	\$ 30,245
Other comprehensive (loss) income:				
Unrealized (loss) gain on debt securities (net of tax benefit of \$232 and \$446 in 2021 and net of tax benefit of \$105 and net of tax expense of \$604 in 2020, respectively)	(855)	(461)	(1,658)	1,644
Accretion of unrealized loss on debt securities reclassified to held-to-maturity (net of tax expense of \$66 and \$209 in 2021 and \$75 and \$235 in 2020, respectively)	95	108	303	336
Reclassification adjustment for gains included in net income (net of tax expense of \$45 and \$45 in 2020)	—	168	—	168
Total other comprehensive (loss) income	(760)	(185)	(1,355)	2,148
Total comprehensive income (loss)	23,407	(5,111)	86,064	32,393
Less: Dividends on preferred shares	1,004	1,093	3,012	1,093
Comprehensive income (loss) available to common stockholders	\$ 22,403	\$ (6,204)	\$ 83,052	\$ 31,300

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

For the Three Months Ended September 30, 2021 and 2020

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Employee Stock Ownership Plan	Treasury Stock	Total
Balance at June 30, 2020	\$ 1	\$ 609	\$ 1,135,839	\$ 372,552	\$ 1,125	\$ (8,041)	\$ (25,651)	\$ 1,476,434
Net loss	—	—	—	(4,926)	—	—	—	(4,926)
Other comprehensive income, net of tax	—	—	—	—	(185)	—	—	(185)
Stock compensation	—	—	1,250	—	—	—	—	1,250
Allocation of ESOP stock	—	—	(46)	—	—	304	—	258
Cash dividend \$0.17 per share	—	—	—	(10,136)	—	—	—	(10,136)
Exercise of stock options	—	—	296	—	—	—	—	296
Issuance of preferred equity, net of costs	—	—	(184)	—	—	—	—	(184)
Preferred stock dividend	—	—	—	(1,093)	—	—	—	(1,093)
Balance at September 30, 2020	<u>\$ 1</u>	<u>\$ 609</u>	<u>\$ 1,137,155</u>	<u>\$ 356,397</u>	<u>\$ 940</u>	<u>\$ (7,737)</u>	<u>\$ (25,651)</u>	<u>\$ 1,461,714</u>
Balance at June 30, 2021	\$ 1	\$ 611	\$ 1,143,907	\$ 417,658	\$ 26	\$ (6,824)	\$ (46,590)	\$ 1,508,789
Net income	—	—	—	24,167	—	—	—	24,167
Other comprehensive loss, net of tax	—	—	—	—	(760)	—	—	(760)
Stock compensation	—	—	1,505	—	—	—	—	1,505
Allocation of ESOP stock	—	—	31	—	—	305	—	336
Cash dividend \$0.17 per share	—	—	—	(10,100)	—	—	—	(10,100)
Exercise of stock options	—	—	5	—	—	—	—	5
Repurchase 460,009 shares of common stock	—	—	—	—	—	—	(9,689)	(9,689)
Preferred stock dividend	—	—	—	(1,004)	—	—	—	(1,004)
Balance at September 30, 2021	<u>\$ 1</u>	<u>\$ 611</u>	<u>\$ 1,145,448</u>	<u>\$ 430,721</u>	<u>\$ (734)</u>	<u>\$ (6,519)</u>	<u>\$ (56,279)</u>	<u>\$ 1,513,249</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

For the Nine Months Ended September 30, 2021 and 2020

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Employee Stock Ownership Plan	Treasury Stock	Total
Balance at December 31, 2019	\$ —	\$ 519	\$ 840,691	\$ 358,668	\$ (1,208)	\$ (8,648)	\$ (36,903)	\$ 1,153,119
Net income	—	—	—	30,245	—	—	—	30,245
Other comprehensive income, net of tax	—	—	—	—	2,148	—	—	2,148
Stock compensation	—	2	3,727	—	—	—	—	3,729
Effect of adopting Accounting Standards Update("ASU") No. 2016-13	—	—	—	(4)	—	—	—	(4)
Allocation of ESOP stock	—	—	(45)	—	—	911	—	866
Cash dividend \$0.51 per share	—	—	—	(30,630)	—	—	—	(30,630)
Exercise of stock options	—	2	1,961	(789)	—	—	—	1,174
Repurchase 648,851 shares of common stock	—	—	—	—	—	—	(14,814)	(14,814)
Issuance of preferred equity, net of costs	1	—	55,528	—	—	—	—	55,529
Preferred stock dividend	—	—	—	(1,093)	—	—	—	(1,093)
Acquisition of Two River Bancorp	—	42	122,501	—	—	—	26,066	148,609
Acquisition of Country Bank Holding Company, Inc.	—	44	112,792	—	—	—	—	112,836
Balance at September 30, 2020	<u>\$ 1</u>	<u>\$ 609</u>	<u>\$ 1,137,155</u>	<u>\$ 356,397</u>	<u>\$ 940</u>	<u>\$ (7,737)</u>	<u>\$ (25,651)</u>	<u>\$ 1,461,714</u>
Balance at December 31, 2020	\$ 1	\$ 609	\$ 1,137,715	\$ 378,268	\$ 621	\$ (7,433)	\$ (25,651)	\$ 1,484,130
Net income	—	—	—	87,419	—	—	—	87,419
Other comprehensive loss, net of tax	—	—	—	—	(1,355)	—	—	(1,355)
Stock compensation	—	—	4,231	—	—	—	—	4,231
Allocation of ESOP stock	—	—	142	—	—	914	—	1,056
Cash dividend \$0.51 per share	—	—	—	(30,425)	—	—	—	(30,425)
Exercise of stock options	—	2	3,360	(1,529)	—	—	—	1,833
Repurchase 1,460,009 shares of common stock	—	—	—	—	—	—	(30,628)	(30,628)
Preferred stock dividend	—	—	—	(3,012)	—	—	—	(3,012)
Balance at September 30, 2021	<u>\$ 1</u>	<u>\$ 611</u>	<u>\$ 1,145,448</u>	<u>\$ 430,721</u>	<u>\$ (734)</u>	<u>\$ (6,519)</u>	<u>\$ (56,279)</u>	<u>\$ 1,513,249</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Nine Months Ended September 30,	
	2021	2020
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 87,419	\$ 30,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	6,150	6,291
Allocation of ESOP stock	1,056	866
Stock compensation	4,231	3,729
Net excess tax expense on stock compensation	93	123
Amortization of servicing asset	60	65
Net premium amortization in excess of discount accretion on securities	5,719	2,126
Net amortization of deferred costs on borrowings	688	355
Amortization of core deposit intangible	4,110	4,660
Net accretion of purchase accounting adjustments	(10,720)	(15,802)
Net amortization of deferred costs and discounts on loans	606	1,135
(Benefit) provision for credit losses	(10,259)	55,332
Net gain on sale and write-down of other real estate owned	—	(101)
Net write down of fixed assets held-for-sale to net realizable value	3,114	4,193
Net loss on sale of fixed assets	11	6
Net (gain) loss on equity securities	(8,397)	3,220
Net gain on sales of loans	(3,180)	(1,930)
Proceeds from sales of residential loans held for sale	101,992	113,708
Mortgage loans originated for sale	(53,935)	(134,907)
Increase in value of bank owned life insurance	(4,771)	(4,626)
Net gain on sale of assets held for sale	(318)	—
Decrease (increase) in interest and dividends receivable	2,757	(14,836)
Deferred tax provision	570	99
Decrease in other assets	29,366	2,301
(Decrease) increase in other liabilities	(37,311)	71,285
Total adjustments	31,632	97,292
Net cash provided by operating activities	119,051	127,537
Cash flows from investing activities:		
Net increase in loans receivable	(203,104)	(654,461)
Proceeds from sale of loans	825	71,604
Purchase of residential loan pool	(219,745)	—
Premiums paid on purchased loan pool	(6,318)	—
Purchase of debt securities available-for-sale	(200,034)	(57,487)
Purchase of debt securities held-to-maturity	(381,032)	(79,115)
Purchase of equity investments	(85,077)	(53,726)
Proceeds from sale of equity investments	98,776	891
Proceeds from maturities and calls of debt securities available-for-sale	93,835	41,101
Proceeds from maturities and calls of debt securities held-to-maturity	22,125	41,583
Proceeds from sales of debt securities available-for-sale	—	5,869
Principal repayments on debt securities available-for-sale	114	256
Principal repayments on debt securities held-to-maturity	168,059	128,683
Proceeds from bank owned life insurance	9,952	310
Proceeds from the redemption of restricted equity investments	1,110	62,354
Purchases of restricted equity investments	(2,069)	(59,489)
Proceeds from sales of other real estate owned	—	713
Proceeds from sales of assets held-for-sale	2,601	—
Purchases of premises and equipment	(26,493)	(9,014)
Net cash consideration received for acquisition	—	23,460
Net cash used in investing activities	(726,475)	(536,468)

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

	For the Nine Months Ended September 30,	
	2021	2020
	(Unaudited)	
Cash flows from financing activities:		
Increase in deposits	\$ 347,672	\$ 1,362,996
Increase (decrease) in short-term borrowings	14,838	(211,649)
Proceeds from FHLB advances	—	525,000
Repayments of FHLB advances	—	(496,200)
Proceeds from Federal Reserve Bank advances	—	3,778
Net proceeds from issuance of subordinated notes	—	122,180
Repayments of other borrowings	(7,585)	(80)
Increase in advances by borrowers for taxes and insurance	4,918	5
Exercise of stock options	1,833	1,174
Payment of employee taxes withheld from stock awards	(1,176)	(2,084)
Purchase of treasury stock	(30,628)	(14,814)
Net proceeds from the issuance of preferred stock	—	55,529
Dividends paid	(33,437)	(31,723)
Net cash provided by financing activities	296,435	1,314,112
Net (decrease) increase in cash and due from banks and restricted cash	(310,989)	905,181
Cash and due from banks and restricted cash at beginning of period	1,318,661	133,226
Cash and due from banks and restricted cash at end of period	\$ 1,007,672	\$ 1,038,407
Supplemental Disclosure of Cash Flow Information:		
Cash and due from banks at beginning of period	\$ 1,272,134	\$ 120,544
Restricted cash at beginning of period	46,527	12,682
Cash and due from banks and restricted cash at beginning of period	\$ 1,318,661	\$ 133,226
Cash and due from banks at end of period	\$ 981,126	\$ 980,870
Restricted cash at end of period	26,546	57,537
Cash and due from banks and restricted cash at end of period	\$ 1,007,672	\$ 1,038,407
Cash paid during the period for:		
Interest	\$ 28,009	\$ 51,494
Income taxes	38,707	5,232
Non-cash activities:		
Accretion of unrealized loss on securities reclassified to held-to-maturity	512	570
Net loan (recoveries) charge-offs	(442)	15,917
Transfer of loans receivable to loans held-for-sale	12,781	365,634
Transfer of premises and equipment to assets held-for-sale	1,476	4,043
Transfer of loans receivable to other real estate owned	—	106
Acquisition:		
Non-cash assets acquired:		
Securities	\$ —	\$ 208,880
Restricted equity investments	—	5,334
Loans	—	1,558,480
Premises and equipment	—	9,744
Accrued interest receivable	—	4,161
Bank owned life insurance	—	22,440
Deferred tax assets, net	—	(509)
Other assets	—	10,073
Goodwill and other intangible assets, net	—	140,031
Total non-cash assets acquired	\$ —	\$ 1,958,634
Liabilities assumed:		
Deposits	\$ —	\$ 1,594,403
Borrowings	—	92,618
Other liabilities	—	33,628
Total liabilities assumed	\$ —	\$ 1,720,649

See accompanying Notes to Unaudited Consolidated Financial Statements.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

Note 1. Basis of Presentation

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 direct and indirect wholly-owned subsidiaries, OceanFirst REIT Holdings, Inc., OceanFirst Management Corp., OceanFirst Realty Corp. Casaba Real Estate Holdings Corporation, CBNJ Investments Corp., Country Property Holdings, Inc., and TRCB Investment Corp. Certain other subsidiaries were dissolved in 2020 and are included in the consolidated financial statements for previous periods. 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.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results of operations that may be expected for the full year 2021 or any other period. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the period. Actual results could differ from these estimates.

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

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

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

Note 2. Business Combinations**Two River Bancorp Acquisition**

On January 1, 2020, the Company completed its acquisition of Two River Bancorp (“Two River”), which after purchase accounting adjustments added \$1.11 billion of assets, \$940.1 million of loans, and \$941.8 million of deposits. Total consideration paid for Two River was \$197.1 million, including cash consideration of \$48.4 million. Two River 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 Two River, net of total consideration paid (in thousands):

	At January 1, 2020
	Estimated Fair Value
Total purchase price:	\$ 197,050
Assets acquired:	
Cash and cash equivalents	\$ 51,102
Securities	64,381
Loans	940,072
Accrued interest receivable	2,382
Bank owned life insurance	22,440
Deferred tax assets, net	3,158
Other assets	15,956
Core deposit intangible	12,130
Total assets acquired	1,111,621
Liabilities assumed:	
Deposits	(941,750)
Other liabilities	(59,026)
Total liabilities assumed	(1,000,776)
Net assets acquired	\$ 110,845
Goodwill recorded in the merger	\$ 86,205

The calculation of goodwill is subject to change for up to one year after the date of acquisition as additional information relative to the estimates and uncertainties used to determine fair value as of the closing date become available. As of January 1, 2021, the Company finalized its review of the acquired assets and liabilities and will not be recording any further adjustments to the carrying value.

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

Country Bank Holding Company, Inc. Acquisition

On January 1, 2020, the Company completed its acquisition of Country Bank Holding Company, Inc. ("Country Bank"), which after purchase accounting adjustments added \$793.7 million of assets, \$618.4 million of loans, and \$652.7 million of deposits. Total consideration paid for Country Bank was \$112.8 million. Country 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 Country Bank, net of total consideration paid (in thousands):

	At January 1, 2020
	Estimated Fair Value
Total purchase price:	\$ 112,836
Assets acquired:	
Cash and cash equivalents	\$ 20,799
Securities	144,499
Loans	618,408
Accrued interest receivable	1,779
Deferred tax assets, net	(3,117)
Other assets	9,195
Core deposit intangible	2,117
Total assets acquired	793,680
Liabilities assumed:	
Deposits	(652,653)
Other liabilities	(67,240)
Total liabilities assumed	(719,893)
Net assets acquired	\$ 73,787
Goodwill recorded in the merger	\$ 39,049

The calculation of goodwill is subject to change for up to one year after the date of acquisition as additional information relative to the estimates and uncertainties used to determine fair value as of the closing date become available. As of January 1, 2021, the Company finalized its review of the acquired assets and liabilities and will not be recording any further adjustments to the carrying value.

Fair Value Measurement of Assets Assumed and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and liabilities assumed in the Two River and Country Bank acquisitions were as follows. Refer to Note 7, 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.

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

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 or historical loss experiences of peer groups where deemed appropriate. 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, subsequent to January 1, 2020, the Company identified loans that have experienced more-than-insignificant deterioration in credit quality since origination. Loans meeting this 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, Two River operated 14 properties and Country Bank operated five properties, subject to lease agreements.

Deposits and Core Deposit Premium

Core deposit premium represents the value assigned to non-interest-bearing demand deposits, interest-bearing checking, money market and saving accounts acquired as part of an acquisition. The core deposit premium value represents the future economic benefit, including the present value of future tax benefits, of the potential cost savings 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 \$12.1 million and \$2.1 million, for the acquisitions of Two River and Country 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.

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

Note 3. Earnings (Loss) per Share

The following reconciles shares outstanding for basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Weighted average shares outstanding	59,722	60,363	60,050	60,349
Less: Unallocated ESOP shares	(353)	(418)	(369)	(435)
Unallocated incentive award shares	(58)	(10)	(62)	(13)
Average basic shares outstanding	59,311	59,935	59,619	59,901
Add: Effect of dilutive securities:				
Incentive awards	204	—	243	175
Average diluted shares outstanding	59,515	59,935	59,862	60,076

For the three and nine months ended September 30, 2021, antidilutive stock options of 1,573,000 and 1,566,000, respectively, were excluded from the earnings (loss) per share calculations. For the three and nine months ended September 30, 2020, antidilutive stock options of 2,251,000 and 2,067,000, respectively, were excluded from the earnings (loss) per share calculations. For the three months ended September 30, 2020, 87,000 shares related to incentive awards were excluded from the diluted earnings (loss) per share calculation as they were antidilutive.

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

Note 4. Securities

The amortized cost, estimated fair value, and allowance for securities credit losses of debt securities available-for-sale and held-to-maturity at September 30, 2021 and December 31, 2020 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
At September 30, 2021					
Debt securities available-for-sale:					
U.S. government and agency obligations	\$ 133,088	\$ 1,653	\$ (136)	\$ 134,605	\$ —
Corporate debt securities	5,000	52	(3)	5,049	—
Collateralized loan obligations (“CLOs”)	145,792	8	(380)	145,420	—
Mortgage-backed securities - FNMA	12,648	1	—	12,649	—
Mortgage-backed securities - agency commercial	17,047	—	(150)	16,897	—
Total debt securities available-for-sale	<u>\$ 313,575</u>	<u>\$ 1,714</u>	<u>\$ (669)</u>	<u>\$ 314,620</u>	<u>\$ —</u>
Debt securities held-to-maturity:					
State, municipal and sovereign debt obligations	\$ 292,226	\$ 8,379	\$ (630)	\$ 299,975	\$ (86)
Corporate debt securities	70,343	1,828	(1,273)	70,898	(1,309)
Mortgage-backed securities:					
FHLMC	359,449	3,568	(2,881)	360,136	—
FNMA	326,877	4,887	(1,964)	329,800	—
GNMA	44,010	1,056	(34)	45,032	—
SBA	4,654	12	(43)	4,623	—
Other	32,160	760	(3)	32,917	(108)
Total mortgage-backed securities	<u>767,150</u>	<u>10,283</u>	<u>(4,925)</u>	<u>772,508</u>	<u>(108)</u>
Total debt securities held-to-maturity	<u>\$ 1,129,719</u>	<u>\$ 20,490</u>	<u>\$ (6,828)</u>	<u>\$ 1,143,381</u>	<u>\$ (1,503)</u>
Total debt securities	<u>\$ 1,443,294</u>	<u>\$ 22,204</u>	<u>\$ (7,497)</u>	<u>\$ 1,458,001</u>	<u>\$ (1,503)</u>
At December 31, 2020					
Debt securities available-for-sale:					
U.S. government and agency obligations	\$ 173,790	\$ 3,152	\$ (2)	\$ 176,940	\$ —
CLOs	6,174	—	(4)	6,170	—
Mortgage-backed securities - FNMA	190	2	—	192	—
Total debt securities available-for-sale	<u>\$ 180,154</u>	<u>\$ 3,154</u>	<u>\$ (6)</u>	<u>\$ 183,302</u>	<u>\$ —</u>
Debt securities held-to-maturity:					
State and municipal obligations	\$ 238,405	\$ 11,500	\$ (231)	\$ 249,674	\$ (48)
Corporate debt securities	72,305	1,615	(2,652)	71,268	(1,550)
Mortgage-backed securities:					
FHLMC	232,942	5,383	(124)	238,201	—
FNMA	293,615	7,640	(147)	301,108	—
GNMA	67,334	2,014	(12)	69,336	—
SBA	5,392	—	(60)	5,332	—
Other	32,321	1,226	—	33,547	(117)
Total mortgage-backed securities	<u>631,604</u>	<u>16,263</u>	<u>(343)</u>	<u>647,524</u>	<u>(117)</u>
Total debt securities held-to-maturity	<u>\$ 942,314</u>	<u>\$ 29,378</u>	<u>\$ (3,226)</u>	<u>\$ 968,466</u>	<u>\$ (1,715)</u>
Total debt securities	<u>\$ 1,122,468</u>	<u>\$ 32,532</u>	<u>\$ (3,232)</u>	<u>\$ 1,151,768</u>	<u>\$ (1,715)</u>

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

There was no allowance for securities credit losses on debt securities available-for-sale at September 30, 2021 or December 31, 2020.

The following table presents the activity in the allowance for credit losses for debt securities held-to-maturity for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Allowance for credit losses				
Beginning balance	\$ (1,609)	\$ (2,446)	\$ (1,715)	\$ —
Impact of current expected credit loss (“CECL”) adoption	—	—	—	(1,268)
Provision for credit loss expense	106	53	212	(1,125)
Total ending allowance balance	<u>\$ (1,503)</u>	<u>\$ (2,393)</u>	<u>\$ (1,503)</u>	<u>\$ (2,393)</u>

During 2013, the Bank transferred \$536.0 million of previously designated available-for-sale securities to a held-to-maturity designation at estimated fair value. The securities transferred had an unrealized net loss of \$13.3 million at the time of transfer, which continues to be reflected in accumulated other comprehensive income on the consolidated statement of financial condition, 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 September 30, 2021 and December 31, 2020 is as follows (in thousands):

	September 30, 2021	December 31, 2020
Amortized cost	\$ 1,129,719	\$ 942,314
Net loss on date of transfer from available-for-sale	(13,347)	(13,347)
Allowance for securities credit loss	(1,503)	(1,715)
Accretion of net unrealized loss on securities reclassified as held-to-maturity	10,513	10,001
Carrying value	<u>\$ 1,125,382</u>	<u>\$ 937,253</u>

There were no realized gains or losses on debt securities for the three and nine months ended September 30, 2021, as compared to \$244,000 of realized gains on debt securities for the corresponding prior year periods.

The amortized cost and estimated fair value of debt securities at September 30, 2021 by contractual maturity are shown below (in thousands). Actual maturities may differ from contractual maturities in instances where issuers have the right to call or prepay obligations with or without call or prepayment penalties. At September 30, 2021, corporate debt securities with an amortized cost of \$29.4 million, and estimated fair value of \$31.0 million, and CLOs with an amortized cost of \$145.8 million and estimated fair value of \$145.4 million were callable prior to the maturity date.

	Amortized Cost	Estimated Fair Value
September 30, 2021		
Less than one year	\$ 90,596	\$ 91,346
Due after one year through five years	154,228	157,403
Due after five years through ten years	222,930	222,072
Due after ten years	178,695	185,126
	<u>\$ 646,449</u>	<u>\$ 655,947</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 \$993.0 million and \$435.9 million at September 30, 2021 and December 31, 2020, respectively, which includes \$150.7 million and \$152.7 million at September 30, 2021 and December 31, 2020, respectively, pledged as collateral for securities sold under agreements to repurchase.

At September 30, 2021, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies and government-sponsored enterprises, in an amount greater than 10% of stockholders’ equity.

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

The estimated fair value and unrealized losses for debt securities available-for-sale and held-to-maturity at September 30, 2021 and December 31, 2020, segregated by the duration of the unrealized losses, are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
At September 30, 2021						
Debt securities available-for-sale:						
U.S. government and agency obligations	\$ 25,911	\$ (136)	\$ —	\$ —	\$ 25,911	\$ (136)
Corporate debt securities	997	(3)	—	—	997	(3)
Mortgage-backed securities	11,555	(150)	—	—	11,555	(150)
CLOs	117,477	(380)	—	—	117,477	(380)
Total debt securities available-for-sale	155,940	(669)	—	—	155,940	(669)
Debt securities held-to-maturity:						
State, municipal and sovereign debt obligations	64,303	(608)	911	(22)	65,214	(630)
Corporate debt securities	39,573	(1,273)	—	—	39,573	(1,273)
Mortgage-backed securities:						
FHLMC	242,215	(2,823)	4,102	(58)	246,317	(2,881)
FNMA	171,450	(1,776)	8,647	(188)	180,097	(1,964)
GNMA	458	(3)	4,867	(31)	5,325	(34)
SBA	1,602	(41)	969	(2)	2,571	(43)
Other	4,484	(3)	—	—	4,484	(3)
Total mortgage-backed securities	420,209	(4,646)	18,585	(279)	438,794	(4,925)
Total debt securities held-to-maturity	524,085	(6,527)	19,496	(301)	543,581	(6,828)
Total debt securities	\$ 680,025	\$ (7,196)	\$ 19,496	\$ (301)	\$ 699,521	\$ (7,497)
At December 31, 2020						
Debt securities available-for-sale:						
U.S. government and agency obligations	\$ 17,029	\$ (2)	\$ —	\$ —	\$ 17,029	\$ (2)
CLOs	4,766	(4)	—	—	4,766	(4)
Total debt securities available-for-sale	21,795	(6)	—	—	21,795	(6)
Debt securities held-to-maturity:						
State and municipal obligations	2,823	(23)	7,509	(208)	10,332	(231)
Corporate debt securities	10,192	(255)	35,935	(2,397)	46,127	(2,652)
Mortgage-backed securities:						
FHLMC	24,661	(117)	669	(7)	25,330	(124)
FNMA	39,365	(128)	939	(19)	40,304	(147)
GNMA	5,856	(11)	207	(1)	6,063	(12)
SBA	3,626	(12)	1,706	(48)	5,332	(60)
Total mortgage-backed securities	73,508	(268)	3,521	(75)	77,029	(343)
Total debt securities held-to-maturity	86,523	(546)	46,965	(2,680)	133,488	(3,226)
Total debt securities	\$ 108,318	\$ (552)	\$ 46,965	\$ (2,680)	\$ 155,283	\$ (3,232)

The Company concluded that the corporate debt securities were not impaired at September 30, 2021 based on a consideration of several factors. 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 and 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 FHLMC, FNMA, GNMA or the SBA, corporations which are chartered by the United States Government and whose debt obligations are rated AA+/Aaa by S&P and Moody's,

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

respectively. Additionally, there are private label commercial mortgage-backed securities with credit ratings ranging between Aaa and Aa3. The Company considers the unrealized losses to be the result of changes in interest rates, and not credit quality, 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 not impaired at September 30, 2021.

State, municipal, and sovereign debt obligations are securities issued by state, local and national governments for various purposes. The Company is not aware of any information subsequent to the purchase of any state, municipal, and sovereign debt obligations that indicates an inability on the part of an issuer to meet all of its financial commitments. The credit rating of these securities is between Aaa/AAA and Baa2/BBB. 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 not impaired as of September 30, 2021.

The Company monitors the credit quality of debt securities held-to-maturity on a quarterly basis through the use of internal credit analysis supplemented by external credit ratings. The following table summarized the amortized cost of debt securities held-to-maturity at September 30, 2021, aggregated by credit quality indicator (in thousands):

	AAA	AA	A	BBB	BB	Total
As of September 30, 2021						
State, municipal and sovereign debt obligations	\$ 31,053	\$ 145,704	\$ 85,435	\$ 30,034	\$ —	\$ 292,226
Corporate debt securities	—	7,534	4,748	47,538	10,523	70,343
Mortgage-backed securities - other	11,093	21,067	—	—	—	32,160
Total debt securities held-to-maturity	<u>\$ 42,146</u>	<u>\$ 174,305</u>	<u>\$ 90,183</u>	<u>\$ 77,572</u>	<u>\$ 10,523</u>	<u>\$ 394,729</u>

Equity Investments

At September 30, 2021 and December 31, 2020, the Company held equity investments of \$101.3 million and \$107.1 million, respectively. The equity investments primarily comprised of select financial services institutions' common and preferred stocks paying attractive dividends.

The realized and unrealized gains or losses on equity securities for the three and nine months ended September 30, 2021 and September 30, 2020 are shown in the table below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net (loss) gain on equity investments	\$ (466)	\$ (3,576)	\$ 8,397	\$ (3,273)
Less: Net gains (losses) recognized on equity securities sold	—	—	8,123	(53)
Unrealized (loss) gain recognized on equity securities still held	<u>\$ (466)</u>	<u>\$ (3,576)</u>	<u>\$ 274</u>	<u>\$ (3,220)</u>

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

Note 5. Loans Receivable, Net

Loans receivable, net at September 30, 2021 and December 31, 2020 consisted of the following (in thousands):

	September 30, 2021	December 31, 2020
Commercial:		
Commercial and industrial ⁽¹⁾	\$ 457,674	\$ 470,656
Commercial real estate – owner occupied	1,123,973	1,145,065
Commercial real estate – investor	3,922,983	3,491,464
Total commercial	5,504,630	5,107,185
Consumer:		
Residential real estate	2,401,240	2,309,459
Home equity loans and lines and other consumer	275,962	339,462
Total consumer	2,677,202	2,648,921
Total loans receivable	8,181,832	7,756,106
Deferred origination costs, net	8,282	9,486
Allowance for loan credit losses	(50,153)	(60,735)
Total loans receivable, net	\$ 8,139,961	\$ 7,704,857

(1) The commercial and industrial loans balance at September 30, 2021 and December 31, 2020 includes Paycheck Protection Program (“PPP”) loans of \$52.5 million and \$95.4 million, respectively.

The Company categorizes all 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. Generally, risk ratings for loans on forbearance pursuant to the Coronavirus Aid, Relief and Economic Security (“CARES”) Act, extended by the Coronavirus Response and Relief Supplemental Appropriations (“CRRSA”) Act of 2021, are not re-evaluated until the initial 90-day forbearance period ends. At that time, risk ratings are updated with an emphasis on industries that were heavily impacted by the pandemic, as well as individual borrower liquidity, and other measures of resiliency as described below. The Company evaluates risk ratings on an ongoing basis and as such, adversely rated loans will be re-evaluated as government restrictions end and businesses resume normal operations. 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. This includes borrowers that have been negatively affected by the pandemic but demonstrate some degree of liquidity. This liquidity may or may not be adequate to resume operations. 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. This includes borrowers whose operations were negatively affected by the pandemic and whom, in the assessment, do not have adequate liquidity available to resume operations at levels sufficient to service their current debt levels. 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.

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

The following tables summarize total loans by year of origination, internally assigned credit grades and risk characteristics (in thousands):

	2021	2020	2019	2018	2017	2016 and prior	Revolving lines of credit	Total
September 30, 2021								
Commercial and industrial								
Pass	\$ 67,130	\$ 25,950	\$ 27,728	\$ 17,799	\$ 10,361	\$ 74,014	\$ 220,570	\$ 443,552
Special Mention	—	72	240	438	96	601	2,797	4,244
Substandard	—	603	2,542	838	52	978	4,865	9,878
Total commercial and industrial	67,130	26,625	30,510	19,075	10,509	75,593	228,232	457,674
Commercial real estate - owner occupied								
Pass	84,621	74,192	126,131	124,268	112,848	496,831	13,056	1,031,947
Special Mention	—	—	2,958	4,010	696	15,761	203	23,628
Substandard	—	3,446	12,600	8,416	5,707	37,174	1,055	68,398
Total commercial real estate - owner occupied	84,621	77,638	141,689	136,694	119,251	549,766	14,314	1,123,973
Commercial real estate - investor								
Pass	878,697	624,794	535,828	274,668	382,965	844,970	237,610	3,779,532
Special Mention	—	—	23,822	9,409	5,223	29,565	—	68,019
Substandard	—	4,289	29,124	685	8,656	29,510	3,168	75,432
Total commercial real estate - investor	878,697	629,083	588,774	284,762	396,844	904,045	240,778	3,922,983
Residential real estate ⁽¹⁾								
Pass	648,364	509,408	317,460	145,652	119,991	655,803	—	2,396,678
Special Mention	—	801	145	—	—	1,481	—	2,427
Substandard	—	—	—	—	221	1,914	—	2,135
Total residential real estate	648,364	510,209	317,605	145,652	120,212	659,198	—	2,401,240
Consumer ⁽¹⁾								
Pass	20,208	21,016	18,985	58,392	18,930	135,436	—	272,967
Special Mention	—	—	—	—	—	369	—	369
Substandard	—	—	—	18	—	2,608	—	2,626
Total consumer	20,208	21,016	18,985	58,410	18,930	138,413	—	275,962
Total loans	\$ 1,699,020	\$ 1,264,571	\$ 1,097,563	\$ 644,593	\$ 665,746	\$ 2,327,015	\$ 483,324	\$ 8,181,832

(1) For residential real estate and consumer loans, the Company evaluates credit quality based on the aging status of the loan and by payment activity.

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

	2020	2019	2018	2017	2016	2015 and prior	Revolving lines of credit	Total
December 31, 2020								
Commercial and industrial								
Pass	\$ 137,262	\$ 40,737	\$ 27,967	\$ 18,845	\$ 33,568	\$ 59,339	\$ 134,140	\$ 451,858
Special Mention	150	583	826	1,422	907	118	1,429	5,435
Substandard	581	1,284	1,243	809	439	1,706	7,301	13,363
Total commercial and industrial	137,993	42,604	30,036	21,076	34,914	61,163	142,870	470,656
Commercial real estate - owner occupied								
Pass	96,888	114,506	122,962	124,050	104,264	428,423	18,932	1,010,025
Special Mention	—	3,512	8,240	1,023	17,115	17,811	439	48,140
Substandard	—	34,670	9,001	3,404	3,677	35,509	639	86,900
Total commercial real estate - owner occupied	96,888	152,688	140,203	128,477	125,056	481,743	20,010	1,145,065
Commercial real estate - investor								
Pass	635,930	628,435	317,104	426,268	281,876	812,062	194,913	3,296,588
Special Mention	—	15,979	17,113	15,225	4,234	55,872	149	108,572
Substandard	4,311	9,217	1,931	17,222	11,474	36,326	5,823	86,304
Total commercial real estate - investor	640,241	653,631	336,148	458,715	297,584	904,260	200,885	3,491,464
Residential real estate ⁽¹⁾								
Pass	595,982	437,593	226,435	166,773	146,237	729,037	—	2,302,057
Special Mention	—	532	—	—	446	2,186	—	3,164
Substandard	570	—	1,489	221	—	1,958	—	4,238
Total residential real estate	596,552	438,125	227,924	166,994	146,683	733,181	—	2,309,459
Consumer ⁽¹⁾								
Pass	24,954	26,659	83,296	25,469	16,565	156,276	2,145	335,364
Special Mention	—	—	—	—	150	382	—	532
Substandard	—	—	—	—	—	3,566	—	3,566
Total consumer	24,954	26,659	83,296	25,469	16,715	160,224	2,145	339,462
Total loans	\$ 1,496,628	\$ 1,313,707	\$ 817,607	\$ 800,731	\$ 620,952	\$ 2,340,571	\$ 365,910	\$ 7,756,106

(1) For residential real estate and consumer loans, the Company evaluates credit quality based on the aging status of the loan and by payment activity.

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

An analysis of the allowance for credit losses on loans for the three and nine months ended September 30, 2021 and 2020 is as follows (in thousands):

	Commercial and Industrial	Commercial Real Estate – Owner Occupied	Commercial Real Estate – Investor	Residential Real Estate	Consumer	Unallocated	Total
For the three months ended September 30, 2021							
Allowance for credit losses on loans							
Balance at beginning of period	\$ 4,404	\$ 6,350	\$ 33,037	\$ 8,818	\$ 1,267	\$ —	\$ 53,876
Credit loss expense (benefit)	1,962	515	(9,902)	3,081	235	—	(4,109)
Charge-offs	(50)	(64)	—	(12)	(37)	—	(163)
Recoveries	50	26	5	292	176	—	549
Balance at end of period	<u>\$ 6,366</u>	<u>\$ 6,827</u>	<u>\$ 23,140</u>	<u>\$ 12,179</u>	<u>\$ 1,641</u>	<u>\$ —</u>	<u>\$ 50,153</u>
For the three months ended September 30, 2020							
Allowance for credit losses on loans							
Balance at beginning of period	\$ 4,979	\$ 2,765	\$ 8,860	\$ 17,685	\$ 4,220	\$ —	\$ 38,509
Credit loss (benefit) expense	(106)	5,166	30,131	(1,891)	(464)	—	32,836
Charge-offs	(575)	(2,252)	(12,037)	(6)	(541)	—	(15,411)
Recoveries	29	2	32	320	33	—	416
Balance at end of period	<u>\$ 4,327</u>	<u>\$ 5,681</u>	<u>\$ 26,986</u>	<u>\$ 16,108</u>	<u>\$ 3,248</u>	<u>\$ —</u>	<u>\$ 56,350</u>
For the nine months ended September 30, 2021							
Allowance for credit losses on loans							
Balance at beginning of period	\$ 5,390	\$ 15,054	\$ 26,703	\$ 11,818	\$ 1,770	\$ —	\$ 60,735
Credit loss expense (benefit)	958	(8,225)	(3,336)	284	(705)	—	(11,024)
Charge-offs	(83)	(64)	(345)	(254)	(193)	—	(939)
Recoveries	101	62	118	331	769	—	1,381
Balance at end of period	<u>\$ 6,366</u>	<u>\$ 6,827</u>	<u>\$ 23,140</u>	<u>\$ 12,179</u>	<u>\$ 1,641</u>	<u>\$ —</u>	<u>\$ 50,153</u>
For the nine months ended September 30, 2020							
Allowance for credit losses on loans							
Balance at beginning of period	\$ 1,458	\$ 2,893	\$ 9,883	\$ 2,002	\$ 591	\$ 25	\$ 16,852
Impact of CECL adoption	2,416	(1,109)	(5,395)	3,833	2,981	(25)	2,701
Credit loss (benefit) expense	(275)	6,120	34,208	10,749	(727)	—	50,075
Initial allowance for credit losses on purchased with credit deterioration (“PCD”) loans	1,221	26	260	109	1,023	—	2,639
Charge-offs	(575)	(2,253)	(12,062)	(1,351)	(723)	—	(16,964)
Recoveries	82	4	92	766	103	—	1,047
Balance at end of period	<u>\$ 4,327</u>	<u>\$ 5,681</u>	<u>\$ 26,986</u>	<u>\$ 16,108</u>	<u>\$ 3,248</u>	<u>\$ —</u>	<u>\$ 56,350</u>

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. At September 30, 2021 and December 31, 2020, the Company had collateral dependent loans with an amortized cost balance as follows: commercial and industrial of \$416,000 and \$1.9 million, respectively, commercial real estate - owner occupied of \$12.5 million and \$13.8 million, respectively, and commercial real estate - investor of \$8.5 million and \$18.3 million, respectively. In addition, the Company had residential and consumer loans collateralized by residential real estate, which are in the process of foreclosure, with an amortized cost balance of \$669,000 and \$1.4 million at September 30, 2021 and December 31, 2020, respectively. At both September 30, 2021 and December 31, 2020, the amount of foreclosed residential real estate property held by the Company was \$106,000.

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

The following table presents the recorded investment in non-accrual loans by loan portfolio segment as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Commercial and industrial	\$ 418	\$ 1,908
Commercial real estate – owner occupied	12,524	13,751
Commercial real estate – investor	8,506	18,287
Residential real estate	5,505	8,671
Consumer	3,351	4,246
	<u>\$ 30,304</u>	<u>\$ 46,863</u>

At September 30, 2021, the non-accrual loans were included in the allowance for credit loss calculation and the Company did not recognize or accrue interest income on these loans. At September 30, 2021 and December 31, 2020, there were no loans that were 90 days or greater past due and still accruing interest.

The following table presents the aging of the recorded investment in past due loans as of September 30, 2021 and December 31, 2020 by loan portfolio segment (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
September 30, 2021						
Commercial and industrial	\$ 1,797	\$ —	\$ 354	\$ 2,151	\$ 455,523	\$ 457,674
Commercial real estate – owner occupied	515	—	6,992	7,507	1,116,466	1,123,973
Commercial real estate – investor	1,074	95	1,663	2,832	3,920,151	3,922,983
Residential real estate	308	2,427	2,136	4,871	2,396,369	2,401,240
Consumer	1,255	369	2,626	4,250	271,712	275,962
	<u>\$ 4,949</u>	<u>\$ 2,891</u>	<u>\$ 13,771</u>	<u>\$ 21,611</u>	<u>\$ 8,160,221</u>	<u>\$ 8,181,832</u>
December 31, 2020						
Commercial and industrial	\$ 3,050	\$ 628	\$ 327	\$ 4,005	\$ 466,651	\$ 470,656
Commercial real estate – owner occupied	1,015	—	7,871	8,886	1,136,179	1,145,065
Commercial real estate – investor	8,897	3,233	11,122	23,252	3,468,212	3,491,464
Residential real estate	15,156	3,164	4,238	22,558	2,286,901	2,309,459
Consumer	978	533	3,568	5,079	334,383	339,462
	<u>\$ 29,096</u>	<u>\$ 7,558</u>	<u>\$ 27,126</u>	<u>\$ 63,780</u>	<u>\$ 7,692,326</u>	<u>\$ 7,756,106</u>

The Company classifies certain loans as troubled debt restructured (“TDR”) loans 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. Residential real estate and consumer loans where the borrower’s debt is discharged in a bankruptcy filing are also considered TDR loans. For these loans, the Bank retains its security interest in the real estate collateral. At September 30, 2021 and December 31, 2020, TDR loans totaled \$19.6 million and \$17.5 million, respectively. Included in the non-accrual loan total at September 30, 2021 and December 31, 2020 were \$10.0 million and \$5.5 million, respectively, of TDR loans. At September 30, 2021 and December 31, 2020, the Company had no specific reserves allocated to loans that are classified as TDR loans. Non-accrual loans which become TDR loans are generally returned to accrual status after six months of performance. In addition to the TDR loans included in non-accrual loans, the Company also has loans classified as accruing loans which totaled \$9.6 million and \$12.0 million at September 30, 2021 and December 31, 2020, respectively.

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

The following table presents information about TDR loans which occurred during the three and nine months ended September 30, 2021 and 2020 (dollars in thousands):

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
Three months ended September 30, 2021			
Troubled debt restructurings:			
Commercial real estate - owner occupied	1	\$ 93	\$ 110
Three months ended September 30, 2020			
Troubled debt restructurings:			
Commercial real estate – investor	1	\$ 928	\$ 993
Residential real estate	1	418	418
Consumer	1	16	16
Nine months ended September 30, 2021			
Troubled debt restructurings:			
Commercial real estate - owner occupied	1	\$ 93	\$ 110
Commercial real estate – investor	1	4,903	4,903
Residential real estate	3	244	336
Consumer	2	26	33
Nine months ended September 30, 2020			
Troubled debt restructurings:			
Commercial real estate - owner occupied	1	\$ 1,112	\$ 1,143
Commercial real estate – investor	1	928	993
Residential real estate	5	849	865
Consumer	5	175	193

There were no TDR loans that defaulted during the three months ended September 30, 2021 which were modified within the preceding year. There was one TDR commercial real estate - investor loan for \$923,000 that defaulted during the nine months ended September 30, 2021 which was modified within the preceding year and the loan is now current. There were no TDR loans that defaulted during the three and nine months ended September 30, 2020 which were modified within the preceding year.

In response to the COVID-19 pandemic and its economic impact on customers, short-term modification programs that comply with the CARES Act, extended by the CRRSA Act, were implemented to provide temporary payment relief to those borrowers directly impacted by COVID-19. The Commercial Borrower Relief Program allowed for the deferral of principal and interest or principal only. All payments received will first be applied to all accrued and unpaid interest and the balance, if any, on account of unpaid principal, then to fees, expenses and other amounts due to the Bank. Monthly payments will continue until the maturity date when all then unpaid principal, interest, fees, and all other charges are due and payable to the Bank. The Consumer Borrower Relief Program allowed for the deferral of principal and interest. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date. Provided these loans were current as of either December 31, 2019 or the date of the modification, these loans are not considered TDR loans at September 30, 2021 and will not be reported as past due during the deferral period.

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

Note 6. Deposits

The major types of deposits at September 30, 2021 and December 31, 2020 were as follows (in thousands):

Type of Account	September 30, 2021	December 31, 2020
Non-interest-bearing	\$ 2,467,952	\$ 2,133,195
Interest-bearing checking	4,013,565	3,646,866
Money market deposit	816,691	783,521
Savings	1,620,447	1,491,251
Time deposits	855,442	1,372,783
Total deposits	<u>\$ 9,774,097</u>	<u>\$ 9,427,616</u>

Included in time deposits at September 30, 2021 and December 31, 2020 was \$137.7 million and \$409.5 million, respectively, in deposits of \$250,000 or more.

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

Note 7. 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 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. 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 with readily determinable fair value are reported at fair value. Fair value for these investments is primarily determined using a quoted price in an active market or exchange (Level 1) or using inputs other than quoted prices that are based on market observable information (Level 2). Fair value for certain securities, including convertible preferred stock, was determined using broker or dealer quotes with limited levels of activity and price transparency (Level 3). Equity securities without readily determinable fair values are carried at cost less impairment, if any, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer.

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

Interest Rate Derivatives

The Company's interest rate swaps and cap contracts are reported at fair value utilizing discounted cash flow models provided by an independent, third-party and observable market data (Level 2). When entering into an interest rate swap or cap contract, the Company is exposed to fair value changes due to interest rate movements, and also the potential nonperformance of the contract counterparty.

Other Real Estate Owned and Loans Individually Measured for Impairment

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 (Level 3).

The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2021 and December 31, 2020, 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
September 30, 2021				
Items measured on a recurring basis:				
Debt securities available-for-sale	\$ 314,620	\$ —	\$ 314,620	\$ —
Equity investments	91,191	13,658	75,177	2,356
Interest rate derivative asset	27,503	—	27,503	—
Interest rate derivative liability	(27,589)	—	(27,589)	—
Items measured on a non-recurring basis:				
Equity investments	10,123	—	—	10,123
Other real estate owned	106	—	—	106
Loans measured for impairment based on the fair value of the underlying collateral	22,114	—	—	22,114
December 31, 2020				
Items measured on a recurring basis:				
Debt securities available-for-sale	\$ 183,302	\$ —	\$ 183,302	\$ —
Equity investments	107,079	104,539	—	2,540
Interest rate derivative asset	45,289	—	45,289	—
Interest rate derivative liability	(45,429)	—	(45,429)	—
Items measured on a non-recurring basis:				
Other real estate owned	106	—	—	106
Loans measured for impairment based on the fair value of the underlying collateral	35,366	—	—	35,366

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

The following table reconciles, for the three and nine months ended September 30, 2021 and 2020, the beginning and ending balances for equity investments and debt securities available-for-sale that are recognized at fair value on a recurring basis, in the consolidated statements of financial condition, using significant unobservable inputs (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	Equity Investments	Debt Securities	Equity Investments	Debt Securities
Beginning balance	\$ 2,978	\$ 2,402	\$ 2,540	\$ 25
Total losses included in earnings	(622)	—	(184)	—
Purchases	—	—	—	2,377
Ending balance	\$ 2,356	\$ 2,402	\$ 2,356	\$ 2,402

There were no debt securities in Level 3 for the three and nine months ended September 30, 2021. There were no equity securities in Level 3 for the three and nine months ended September 30, 2020. The Company recognizes transfers between levels of the valuation hierarchy at the end of the applicable reporting periods. There were no transfers into or out of Level 3 assets or liabilities in the fair value hierarchy for the three and nine months ended September 30, 2021 and 2020.

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"), as well as certain debt securities where management utilized Level 3 inputs, such as broker or dealer quotes with limited levels of activity and price transparency.

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 Receivable and Loans Held-for-Sale

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. The fair value of loans was measured using the exit price notion.

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

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 Company's significant financial instruments not recorded at fair value as of September 30, 2021 and December 31, 2020 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
September 30, 2021				
Financial Assets:				
Cash and due from banks	\$ 981,126	\$ 981,126	\$ —	\$ —
Debt securities held-to-maturity	1,125,382	—	1,125,486	17,895
Restricted equity investments	53,017	—	—	53,017
Loans receivable, net and loans held-for-sale	8,153,389	—	—	8,140,267
Financial Liabilities:				
Deposits other than time deposits	8,918,655	—	8,918,655	—
Time deposits	855,442	—	857,767	—
Other borrowings	228,887	—	256,577	—
Securities sold under agreements to repurchase with retail customers	143,292	143,292	—	—
December 31, 2020				
Financial Assets:				
Cash and due from banks	\$ 1,272,134	\$ 1,272,134	\$ —	\$ —
Debt securities held-to-maturity	937,253	—	952,365	16,101
Restricted equity investments	51,705	—	—	51,705
Loans receivable, net and loans held-for-sale	7,750,381	—	—	7,806,743
Financial Liabilities:				
Deposits other than time deposits	8,054,833	—	8,054,833	—
Time deposits	1,372,783	—	1,383,173	—
FHLB advances and other borrowings	235,471	—	251,798	—
Securities sold under agreements to repurchase with retail customers	128,454	128,454	—	—

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,

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

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.

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

Note 8. 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 and Cap Contracts

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 Company also enters into interest rate cap contracts that enable commercial loan customers to lock in a cap on a variable-rate commercial loan agreement. This feature prevents the loan from repricing to a level that exceeds the cap contract's specified interest rate, which serves to hedge the risk from rising interest rates. The Company then enters into an offsetting interest rate cap contract with a third party in order to economically hedge its exposure through the customer agreement.

The interest rate swaps and cap contracts 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 and cap contracts 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. The Company recognized gains of \$14,000 and \$55,000 in other income resulting from fair value adjustments for the three and nine months ended September 30, 2021, respectively, as compared to gains of \$15,000 and \$364,000 in other income resulting from fair value adjustments for the three and nine months ended September 30, 2020, respectively. The notional amount of derivatives not designated as hedging instruments was \$925.4 million and \$725.9 million at September 30, 2021 and December 31, 2020, 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	
	September 30, 2021	December 31, 2020
Other assets	\$ 27,503	\$ 45,289
Other liabilities	27,589	45,429

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 \$26.5 million and \$46.5 million at September 30, 2021 and December 31, 2020, 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 \$27.6 million and \$45.4 million at September 30, 2021 and December 31, 2020, respectively.

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

Note 9. 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. The Company's leases are comprised of real estate property for branches, automated teller machine locations and office space with terms extending through 2050. The Company has one existing finance lease, which has a lease term through 2029.

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

		September 30, 2021	December 31, 2020
Lease ROU Assets	Classification		
Operating lease ROU assets	Other assets	\$ 21,117	\$ 22,555
Finance lease ROU asset	Premises and equipment, net	1,545	1,694
Total lease ROU assets		<u>\$ 22,662</u>	<u>\$ 24,249</u>
Lease Liabilities			
Operating lease liabilities ⁽¹⁾	Other liabilities	\$ 21,713	\$ 22,990
Finance lease liability	Other borrowings	1,954	2,100
Total lease liabilities		<u>\$ 23,667</u>	<u>\$ 25,090</u>

(1) Operating lease liabilities excludes liabilities for future rent and lease termination payments related to closed branches of \$5.3 million and \$7.4 million as of September 30, 2021 and December 31, 2020, respectively.

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.

	September 30, 2021	December 31, 2020
Weighted-Average Remaining Lease Term		
Operating leases	7.98 years	7.77 years
Finance lease	7.85 years	8.59 years
Weighted-Average Discount Rate		
Operating leases	2.94 %	3.01 %
Finance lease	5.63	5.63

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Lease Expense				
Operating lease expense	\$ 1,498	\$ 1,585	\$ 4,459	\$ 4,898
Finance lease expense:				
Amortization of ROU assets	50	43	149	124
Interest on lease liabilities ⁽¹⁾	28	27	85	80
Total	\$ 1,576	\$ 1,655	\$ 4,693	\$ 5,102

Other Information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 1,322	\$ 1,756	\$ 4,119	\$ 4,808
Operating cash flows from finance leases	28	27	85	80
Financing cash flows from finance leases	50	47	146	141

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

The Company previously announced plans to sell two branches, including owned premises and equipment, all deposits associated with the branches and selected performing loans to First Bank which is expected to take place in early December 2021. The Company also announced plans to consolidate 20 deposit gathering locations in late 2021 and early 2022. These plans have resulted in a shortened estimated useful life for premises and equipment and accelerated recognition of lease expenses associated with these branches. The effect on income for the three and nine months ended September 30, 2021 is included in branch consolidation expenses and totaled \$3.8 million, which are excluded above.

Future minimum payments for the finance lease and operating leases with initial or remaining terms of one year or more as of September 30, 2021 were as follows (in thousands):

	Finance Lease	Operating Leases
For the Twelve Months Ending September 30,		
2022	\$ 307	\$ 5,382
2023	307	3,782
2024	307	3,231
2025	307	2,927
2026	307	2,162
Thereafter	875	7,423
Total	2,410	24,907
Less: Imputed interest	(456)	(3,194)
Total lease liabilities	\$ 1,954	\$ 21,713

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

Note 10. Subsequent Event

On November 4, 2021, the Company announced the execution of a definitive agreement and plan of merger (the merger agreement) with Partners Bancorp. (“Partners”), a multi-bank holding company operating under the brands of Virginia Partners Bank, Maryland Partners Bank, The Bank of Delmarva, and Liberty Bell Bank. The transaction is subject to receipt of the approval of Partners’ stockholders and required regulatory approval. Subject to receipt of those approvals and fulfillment of other customary closing conditions, the Company expects to close the transaction in the first half of 2022.

PART II. OTHER INFORMATION

Item 1. 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 routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

Item 1A. Risk Factors

For a summary of risk factors relevant to the Company, see Part I, Item 1A, "Risk Factors," in the 2020 Form 10-K. There have been no material changes to risk factors relevant to the Company's operations since December 31, 2020. Additional risks not presently known to the Company, or that the Company currently deemed immaterial, may also adversely affect the business, financial condition or results of operations.

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

On December 18, 2019, the Company announced the authorization by the Board of Directors to repurchase up to 5% of the Company's outstanding common stock, or 2.5 million shares. The repurchase plan has no expiration date. On June 25, 2021, 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 3.0 million shares. The Company repurchased 460,009 shares of its common stock during the three month period ended September 30, 2021. At September 30, 2021, there were 3,559,136 shares available for repurchase under the Company's stock repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2021 through July 31, 2021	—	—	—	4,019,145
August 1, 2021 through August 31, 2021	206,288	\$ 21.17	206,288	3,812,857
September 1, 2021 through September 30, 2021	253,721	20.98	253,721	3,559,136

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

(a) On November 2, 2021, the Company and Grace Vallacchi, its Chief Risk Officer, amended and restated the terms of the Executive Employment Agreement and the Executive Change in Control Agreement between them, each dated October 23, 2017. The amendments to the Employment Agreement extended its term by one year, to July 31, 2024, with annual automatic renewals thereafter. The Amendments to the Executive Change in Control Agreement amended the amount payable to her in the event of a change in control to:

an amount equal to the sum of (i) Executive's Salary and (ii) the greater of the cash incentive payment paid to the Executive for the prior fiscal year or the Target Cash Compensation for the current fiscal year ("Change in Control Payment"). In the event that the Company's Board in good faith determines that the Change in Control occurred during such time as the Company is at least "adequately capitalized" (within the meaning of 12 U.S.C. § 1831o(b)) then the Change in Control Payment shall be multiplied by a factor of three (3), provided, however, that the total value of the Change in Control Payment (including any insurance benefits provided) shall not exceed three times the sum of the Executive's Salary and the greater of the cash incentive payment paid to the Executive for the prior fiscal year or the Target Cash Compensation for the current fiscal year.

Other than the above amendments (and certain nonsubstantive updates and technical corrections), the Employment Agreements and Change in Control Agreement remain unchanged. The revised agreements are attached as Exhibits 10.1 and 10.2 to this Quarterly Report, respectively, and are incorporated by reference herein.

(b) Not Applicable.

Item 6. Exhibits

<u>Exhibit No:</u>	<u>Exhibit Description</u>	<u>Reference</u>
10.1	Employment Agreement between OceanFirst Financial Corp. and Grace M. Vallacchi	Filed here within this document
10.2	Change in Control Agreement between OceanFirst Financial Corp. and Grace M. Vallacchi	Filed here within this document
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed here within this document
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed here within this document
32.0	Certification pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002	Filed here within this document
101.0	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, 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	
104.0	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101)	

SIGNATURES

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

		OceanFirst Financial Corp. Registrant
DATE:	November 4, 2021	<u>/s/ Christopher D. Maher</u> Christopher D. Maher Chairman and Chief Executive Officer
DATE:	November 4, 2021	<u>/s/ Michael J. Fitzpatrick</u> Michael J. Fitzpatrick Executive Vice President and Chief Financial Officer

**AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT**

between

OCEANFIRST FINANCIAL CORP.,

and

GRACE VALLACCHI

[HOLDING COMPANY OFFICER FORM]

AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT

This Amended and Restated Executive Employment Agreement (“Agreement”), effective November 2, 2021 (the “Effective Date”), is between OceanFirst Financial Corp. (“Holding Company”), the holding company of OceanFirst Bank, N.A. (the “Bank,” and together with the Holding Company, the “Company”), and its successors and assigns and Grace Vallacchi (“Executive”) (collectively, the “Parties”), and replaces the Executive Employment Agreement executed by the Parties on October 23, 2017 (the “Original Employment Agreement”). In consideration of the foregoing promises and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the Holding Company and Executive hereby agree to enter into an employment relationship in accordance with the terms and conditions set forth below. Capitalized terms have the meanings given to them in this Agreement or in the respective document referred to herein. In the event of a conflict between provisions of various documents, the terms of this Agreement control. The Holding Company’s obligations to the Executive will be deemed to be satisfied to the extent the Bank satisfies those obligations in exchange for services provided by the Executive to the Bank.

I. EMPLOYMENT

A. Position and Duties

The Company will employ Executive, and Executive will accept employment as Executive Vice President and Chief Risk Officer of the Company and the Bank and report to the Chief Executive Officer, President, or Executive Vice President and General Counsel of the Company and the Bank, who in turn reports to the Boards of Directors of the Company and the Bank. Executive will perform the duties of her position or such other position assigned to her from time to time and will devote her full time and attention to achieving the purposes and discharging the responsibilities afforded the positions, and such other duties as may be assigned by the Board of Directors of the Company, which relate to the business of the Company and are reasonably consistent with Executive’s position. During Executive’s employment, Executive will not engage in any business activity that conflicts with the duties of Executive under this Agreement, whether or not such activity is pursued for gain, profit or other advantage; provided, however, that, with the approval of the Board of Directors, the Executive may serve, or continue to serve, on the boards of directors of, and hold any other offices or positions in, companies or organizations, which will not present any conflict of interest with the Company, or materially affect the performance of Executive’s duties pursuant to this Agreement. Executive will comply with Company policies and procedures, and all applicable laws and regulations.

B. Term of Agreement

The term of Executive’s employment under this Agreement shall commence as of the Effective Date and shall continue through July 31, 2024 (“Initial Term”). Effective as of August 1, 2022, and continuing each August 1 thereafter, the term of this Agreement shall be automatically extended by one year such that the remaining term on such date of extension is three (3) years, unless the disinterested members of the Holding Company’s Board of Directors (the “Board”) elect not to extend the term of this Agreement by giving written notice to Executive prior to such automatic extension. The Board shall review the Agreement and Executive’s performance annually for purposes of determining whether to give Executive such notice and the rationale and results thereof shall be included in the minutes of the Board’s meeting. The Board shall give notice to Executive as soon as possible after such review.

II. COMPENSATION AND BENEFITS

The Company agrees to pay to Executive and Executive agrees to accept in exchange for the services rendered hereunder the following compensation and benefits:

A. Annual Salary

Executive’s compensation shall consist of an annual base salary (the “Salary”) of no less than \$325,000 annually (equivalent to \$12,500 bi-weekly). The Salary will be paid in such installments and at such times as other regularly salaried employees of the Company are paid, and will be subject to all necessary withholding taxes, FICA contributions and similar deductions, as well as set-off against any amounts Executive owes the Company. The Holding Company’s Compensation Committee or Board may increase Executive’s Salary and any increased Salary shall become “Salary” for purposes of this Agreement.

B. Annual Incentive Compensation

Pursuant to the Holding Company’s Cash Incentive Compensation Plan, as amended (“Cash Plan”), the Executive may receive, with respect to each fiscal year during the term of this Agreement and based on completion of objectives, certain cash

bonus awards (“Target Cash Compensation”), less required withholding and authorized deductions. For 2021, the Executive’s Target Cash Compensation shall be \$250,000, the actual payment of which shall be pro rated based upon the Executive’s date of hire relative to a full calendar year.

C. Equity Compensation

Pursuant to the Holding Company’s 2020 Stock Incentive Plan, as amended, or such other plan as the Holding Company may adopt from time to time (“Equity Plan”), subject to approval of a committee of the Holding Company’s Board, equity grants may be awarded to the Executive consistent with terms of the Equity Plan.

D. Benefits

Executive shall be eligible to participate, subject to and in accordance with applicable eligibility requirements, in such benefit programs as are provided to the Company’s employees, which may include, at a minimum, retirement plans, profit-sharing-plans, health-and-accident plans, medical coverage or any other employee benefit plan or arrangement made available by the Company in the future to its senior executives and key management employees, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements and any other incentive compensation and bonuses under any other Company plan in which the Executive is entitled to participate. Executive will receive vacation benefits as provided for in the Company’s policies. During the term of this Agreement, the Bank will provide Executive with a car allowance of \$1,000 per month for Executive’s business and ancillary personal use subject to the Bank’s vehicle policy. Executive acknowledges that she may recognize taxable income in connection with this use of such vehicle and that these amounts will be reflected on Executive’s W-2 as required by law.

E. Business Expenses

Executive shall be reimbursed for all reasonable out-of-pocket expenses actually incurred by Executive in the conduct of the business of the Company, provided that Executive that such expenses are consistent with Company business expense policies and Executive submits appropriate supporting documentation for all such expenses to the Company on a timely basis in accordance with the policies of the Company, effective as such on the date such expenses are incurred.

F. Clawback

Executive understands and agrees that to the extent required by the Company to comply with regulatory guidance concerning incentive compensation arrangements, or any other compensation plans or policies adopted by the Company in order to comply with any applicable law, regulation, order, stock exchange listing requirement, including, without limitation, the Bank’s recoupment policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations thereunder (or any policy of the Company adopted pursuant to any such law, government regulation, order or stock exchange listing requirement), the benefits awarded under this Agreement are subject to reduction, recovery or “clawback” by the Company as necessary for the Company to appropriately balance the risk the Executive’s activities may pose to the Company under safety and soundness concerns, including, but not limited to, the following situations:

- (1) the Executive engages in misconduct resulting in material reputational or material financial harm to the Company;
- (2) subordinates under the Executive’s direct supervision engage in material misconduct that the Company determines the Executive should have prevented;
- (3) the Executive, with gross negligence, fails to identify, monitor or manage the Company’s material risks;
- (4) compensation under this Agreement, the Cash Plan, or the Equity Plan was previously awarded based on inaccurate metrics; or
- (5) there is a material downturn in the Company’s financial performance.

Except where offset of, or recoupment from, incentive compensation covered by Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance thereunder (“Code Section 409A”) is prohibited by Code Section 409A, to the extent allowed by law and as determined by the Board of the Company, the Executive agrees that such repayment may, in the discretion of the Board of the Company, be accomplished by withholding of future compensation to be paid to the Executive by the Company. Any recovery of incentive compensation covered by Code Section 409A shall be implemented in a manner which complies with Code Section 409A. The amount of the Clawback shall be adjusted to reflect the Executive’s estimated tax adjusted net earnings and shall be calculated as follows: (i) the Board of the Company shall determine a Clawback amount that appropriately reflects the culpability of the Executive and (ii) the Board of the Company shall then deduct 28 percent of the Clawback from the Clawback (the resulting difference, the “Tax Net Clawback”) and require the Executive to

repay the Tax Net Clawback amount. For example, if the Clawback amount is \$100,000, then the Tax Net Clawback would be \$72,000 (\$100,000 – (.28 * \$100,000)).

III. TERMINATION

A. Employment Termination

Prior to the end of the term identified in Section I.B, this Agreement and Executive's employment may be terminated by the Company for Cause (as defined below), or without Cause or by Executive for Good Reason (as defined below) or without Good Reason or upon the Executive's death or Total Disability. Except where a specific notice procedure is described herein, the Company or Executive shall provide the other party at least sixty (60) days' notice of any termination. Upon any termination of employment, Executive shall be entitled to receive payments or benefits as described in this Agreement.

B. Automatic Termination on Death or Disability

This Agreement and Executive's employment hereunder shall terminate automatically upon the death or Disability of Executive. "Disability" shall have the same meaning as defined in the Company's long-term disability plan or policy. Termination hereunder shall be deemed to be effective (a) upon Executive's death or (b) immediately upon the sooner to occur of a determination by the Company's long-term disability insurance carrier or Executive's primary care physician that Executive is disabled and eligible for long-term disability benefits. Executive shall receive the following benefits on termination of employment for Death or Disability:

(1) Executive's earned but unpaid Salary through the effective date of the termination.

(2) Subject to the provisions of the Company's incentive bonus compensation plan in effect from time to time, any earned but unpaid incentive compensation, including incentive compensation earned in the previous year but not yet paid.

(3) Accrued but unused vacation pay consistent with the Company's vacation policy.

(4) Reimbursable business expenses for activities prior to the effective date of termination.

The benefits described in Section III(B)(1) – (4) constitute the "Standard Termination Payments". In addition to the Standard Termination Payments, the Company will provide the Executive with certain benefits as provided for in the Equity Plan and Cash Plan. In the event of Disability, in order to receive the benefits described herein that Executive is not otherwise entitled to receive, no later than sixty (60) days after termination of employment, the Company and Executive must execute a general release agreement acceptable to the Company ("Release") in order to receive the benefits. Executive must also remain in substantial and continued compliance with the terms of Section IV of this Agreement. In the event of death, all payments shall be made to the person or persons identified as the Executive's beneficiary for any Company-sponsored life insurance.

C. Termination with Cause or Resignation without Good Reason

If the Company terminates Executive's employment with Cause or Executive resigns without Good Reason, the Company shall provide Executive with the Standard Termination Payments within five business days of termination, as well as any benefits provided for in the Equity Plan and Cash Plan.

D. Termination without Cause or Resignation with Good Reason

Other than in the case of a Change in Control as defined in the Executive Change In Control Agreement referred to in Section VII(K) below, if the Company terminates Executive's employment without Cause or Executive terminates her employment for Good Reason, then Executive shall be entitled to receive the following termination payments:

(1) The Standard Termination Payments, as well as any benefits provided for in the Equity Plan and Cash Plan; and

(2) As severance pay, and subject to Executive's execution and non-revocation of a release and waiver agreement provided to Executive by the Company, and so long as Executive is in compliance with Section IV of this Agreement, an amount equal to the greater of (a) the amount of remaining Salary that Executive would have earned if she had continued employment with the Company through the expiration of the then-remaining term of this Agreement, or (b) one times Executive's Salary plus one times the greater of the cash incentive payment paid to the Executive for the prior fiscal year or the Target Cash Compensation for the current fiscal year. The payments hereunder will be paid within five business days, provided, however the payment may be delayed as required to avoid additional tax for a "specified employee" under Section 409A as stated in Section VII(G).

The Company will cause to be continued life, medical, dental and disability coverage substantially identical to the coverage maintained by the Company for Executive prior to her termination at no premium cost to Executive, except to the extent such coverage may be changed in its application to all Company employees. Such coverage shall cease upon the earlier of (i) the expiration of the remaining term of this Agreement or (ii) eighteen (18) months after the Executive's date of termination. If the provision of any of the benefits covered by this Section would trigger the 20% excise tax and interest penalties under Section 409A of the Code, then the benefit(s) that would trigger such tax and interest penalties shall not be provided (collectively the "Excluded Benefits"), and in lieu of the Excluded Benefits the Company will pay to Executive, in a lump sum within thirty business days following termination of employment or thirty business days after such determination, should it occur after termination of employment, a cash amount equal to the cost to the Bank of providing the Excluded Benefits.

E. Definitions of "Cause", "Good Reason"

1. Cause

Wherever reference is made in this Agreement to termination being with or without Cause, "Cause" shall mean the occurrence of one or more of the following events:

- (a) the willful and continued failure of the Executive to perform her duties;
- (b) material breach of this Agreement;
- (c) the willful engaging by the Executive in illegal conduct, fraud, or gross misconduct which in the reasonable judgment of the Company is materially injurious to the Company;
- (d) the Executive's conviction or plea of guilty *or nolo contendere* to the charge of commission of a criminal offense (other than a minor traffic charge);
- (e) the Executive's breach of a regulatory rule that in the reasonable judgment of the Company materially and adversely affects the Executive's ability to perform the Executive's principal employment duties for the Company and its affiliates; or

Prior to a termination for Cause under subsection (a) above, the Board of the Company shall provide Executive 30-day prior written notice of the claimed basis for the possible "Cause" termination and an opportunity for Executive to cure any defect or deficiency on her performance.

2. Good Reason

For the purposes of this Agreement, "Good Reason" shall mean that Executive, without her consent, has experienced one of the following events or circumstances:

- (a) a change in the Executive's authority, duties or responsibilities which represents a material adverse change from those in effect immediately prior to such change;
- (b) a material decrease in the Executive's annual Salary, Target Cash Compensation (unless Target Cash Compensation was materially decreased for all Named Executive Officers as listed in the Holding Company's most recent Securities and Exchange Commission, Form DEF 14A), or elimination or reduction of any material benefit that the Company otherwise provides to its executives of similar rank (except those changes to any benefit or benefit program implemented for all Company employees who participate in such benefits or programs or that may be required by law) without her prior written agreement;
- (c) relocation of Executive's principal place of employment to a location that increases the Executive's commute from her primary residence by more than 30 miles one way; or
- (d) any other action or inaction that constitutes a material breach of the terms of the Agreement by the Company.

The Executive's termination of employment will not be for Good Reason unless (i) Executive notifies the Company in writing of the existence of the condition which Executive believes constitutes Good Reason within thirty (30) days of the initial existence of such condition (which notice specifically identifies such condition), and (ii) the Company fails to remedy such condition within thirty (30) days after the date on which it receives such notice (the "Remedial Period") whereupon Executive's employment shall be deemed to be terminated for Good Reason upon failure of the Company to remedy. If Company attempts

to cure, or disputes the existence of Good Reason, it shall provide documentary evidence thereof to Executive within the Remedial Period. Executive may elect to remain employed by Company and dispute any response by Company during the Remedial Period, without prejudice to the claim of Good Reason, by invoking the provisions of Section VII.I). If Executive terminates employment before the expiration of the Remedial Period or after the Company remedies the condition (even if within the end of the Remedial Period), then Executive's termination will not be considered to be for Good Reason. Even where the parties dispute the existence of Good Reason and Executive invokes a dispute resolution process, Executive's "separation from service" must occur no later than six (6) months following the initial existence of the circumstances giving rise to Good Reason.

IV. CONFIDENTIALITY AND EXECUTIVE RESTRICTION

Executive recognizes that the Company's business and continued success depend upon the use and protection of confidential information and proprietary information, and therefore Executive is subject to, and this Agreement is conditioned on agreement to, the terms of the Confidentiality and Executive Restriction Agreement (the "Confidentiality Agreement") substantially in the form attached hereto as Exhibit A entered into by Executive and the terms of the Confidentiality Agreement shall survive the termination of Executive's employment with the Company or a Successor Employer for the period identified in the Confidentiality Agreement unless otherwise required by law.

V. ASSIGNMENT

This Agreement is personal to Executive and shall not be assignable by Executive. The Company may assign its rights hereunder to (a) any other corporation resulting from any merger, consolidation or other reorganization to which the Company is a party; (b) any other corporation, partnership, association or other person to which the Company may transfer all or substantially all of the assets and business of the Company existing at such time; or (c) any subsidiary, parent or other affiliate of the Company ("Successor Employer"). All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

VI. INDEMNIFICATION

The Company shall provide Executive (including her heirs, executors and administrators) with coverage under a standard directors' and officers' liability insurance policy at its expense, and shall indemnify, defend with counsel, advance and hold harmless Executive (and her heirs, executors and administrators) to the fullest extent permitted under applicable state and federal law against all expenses and liabilities reasonably incurred by her in connection with or arising out of any action, suit or proceeding in which she may be involved by reason of her having been a director or officer of the Company (whether or not she continues to be a director or officer at the time of incurring such expenses or liabilities), such expenses and liabilities to include, but not be limited to, judgments, court costs and attorneys' fees and the cost of reasonable settlements. Any payments made to Executive pursuant to this Section are subject to and conditioned upon compliance with 12 C.F.R. § 359.5, and any rules or regulations promulgated thereunder.

VII. MISCELLANEOUS

A. Amendments

No amendment, modification, waiver, termination or discharge of any provision of this Agreement, or consent to any departure therefrom by either party hereto, shall in any event be effective unless the same shall be in writing, specifically identifying this Agreement and the provision intended to be amended, modified, waived, terminated or discharged and signed by the Company and Executive, and each such amendment, modification, waiver, termination or discharge shall be effective only in the specific instance and for the specific purpose for which given. No provision of this Agreement shall be varied, contradicted or explained by any oral agreement, course of dealing or performance or any other matter not set forth in an agreement in writing and signed by the Company and Executive.

B. Applicable Law

This Agreement shall in all respects, including all matters of construction, validity and performance, be governed by, and construed and enforced in accordance with, the laws of the State of New Jersey, without regard to any rules governing conflicts of laws.

C. Entire Agreement

Except as specified below, this Agreement, including Exhibit A and Exhibit B, on and as of the date hereof, constitutes the entire agreement between the Company and Executive with respect to the subject matter hereof. To the extent any agreement, plan or policy of the Company is inconsistent with this Agreement, the provisions of this Agreement shall prevail and control and such other agreement, plan or policy will be construed by Company to be consistent with this Agreement and, if

that is not possible, the other agreement, plan or policy shall be modified as to Executive to be in conformance with this Agreement. This Agreement supersedes and replaces any prior employment agreement or change of control agreement previously executed by Executive and the Company or the Bank, including the Original Executive Employment Agreement.

D. Severability

If any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any regulatory action, applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability, regardless of the reason therefor shall not affect any other provision of this Agreement or any action in any other jurisdiction, or the obligation of any other entity to this Agreement. If either entity to this Agreement is determined by any regulatory authority or court not to be able to perform its obligation(s) to Executive or not to have the authority to enter into this Agreement, then the other entity shall be liable therefor.

E. Return of Company Property

If and when Executive ceases, for any reason, to be employed by the Company, Executive must return to the Company all keys, pass cards, identification cards, Company-owned credit or debit cards, and any other property of the Company. At the same time, Executive also must return to the Company all originals and copies (whether in hard copy, electronic or other form) of any documents, drawings, notes, memoranda, designs, devices, diskettes, tapes, manuals, and specifications which constitute proprietary information or material of the Company. The obligations in this Section VII(E) include the return of documents and other materials which may be in Executive's desk at work, in Executive's car or place of residence or any in other location under Executive's control

F. Code Section 280G

In the event that any payments or benefits provided or to be provided by the Company or the Bank to the Executive under this Agreement or the Executive Change in Control Agreement ("Covered Payments") (a) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and (b) but for this Section VII.F) would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, then the Covered Payments shall be payable either: (i) in full, or (ii) an amount reduced to the minimum extent necessary to ensure that no portion of such Covered Payments is subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Any such reduction shall be made by the Company in its sole discretion consistent with the requirements of Section 409A of the Internal Revenue Code.

G. Code Section 409A

With respect to any payments or benefits hereunder that are subject to Code Section 409A and any official guidance and regulations issued thereunder (together "Code Section 409A") and that are payable on account of Executive's termination of employment, such payments shall only be made if and when such termination of employment constitutes a "separation from service" within the meaning of Code Section 409A. The Company may adjust any payment hereunder that the Company determines is necessary to avoid liability or obligation under Code Section 409A but such adjustments shall ensure that the payments are made in a manner that is as close to the terms of this Agreement as possible. Notwithstanding anything to the contrary contained in this Agreement, all reimbursements for costs and expenses under this Agreement will be paid in no event later than the end of the calendar year following the calendar year in which Executive incurs such expense. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursements or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year. In the event that the period for Executive to execute any required release and the Company's obligation to pay any amount referenced in the section straddles two (2) calendar years, the payment will be made in the later calendar year.

The Company makes no representations or warranties to Executive with respect to any tax, economic or legal consequences of this Agreement or any payments or other benefits provided hereunder, including without limitation under Code Section 409A, and no provision of the Agreement shall be interpreted or construed to transfer any liability for failure to comply with Code Section 409A from Executive or any other individual to the Company or any of its affiliates. Executive, by executing this Agreement, shall be deemed to have waived any claim against the Company with respect to any such tax, economic or legal consequences of this Agreement or any payments or other benefits provided hereunder. However, the parties intend that this Agreement and the payments and other benefits provided hereunder be exempt from the requirements of Code Section 409A to the maximum extent possible, whether pursuant to the short-term deferral exception described in Treasury Regulation Section 1.409A-1(b)(4), the involuntary separation pay plan exception described in Treasury Regulation Section 1.409A-1(b)(9)(iii), or otherwise. To the extent Code Section 409A is applicable to this Agreement (and such payments and

benefits); the parties intend that this Agreement (and such payments and benefits) comply with the deferral, payout and other limitations and restrictions imposed under Code Section 409A. Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall be interpreted, operated and administered in a manner consistent with such intentions. In addition, if Executive is a "specified employee," within the meaning of Code Section 409A, then to the extent necessary to avoid subjecting Executive to the imposition of any additional tax under Code Section 409A, amounts that would otherwise be payable under this Agreement during the six (6) month period immediately following Executive's "separation from service" for reasons other than Executive's death (except those payments that may be exempt from 409A by virtue of the short-term deferral exception to 409A) shall not be paid to Executive during such period, but shall instead be accumulated and paid to Executive in a lump sum on the first business day after the date that is six (6) months following Executive's separation from service.

H. No Mitigation/Offset

In order to receive severance benefits provided in this Agreement, Executive shall not be required to engage in mitigation activities or seek alternative employment, nor would any other compensation received by Executive serve as an offset agreement to the severance or other benefits provided in this Agreement.

I. Disputes

(1) In the event of a dispute or claim between Executive and the Company or the Bank related to Employee's employment or termination of employment, all such disputes or claims will be resolved exclusively by confidential arbitration in accordance with the Employment Arbitration Rules of the American Arbitration Association (the "AAA"). This means that the parties agree to waive their rights to have such disputes or claims decided in court by a jury. Instead, such disputes or claims will be resolved by an impartial AAA arbitrator (or other mutually agreeable person) whose decision will be final.

(2) The only disputes or claims that are not subject to arbitration are any claims by Executive for workers' compensation or unemployment benefits, and any claim by Executive for benefits under an employee benefit plan that provides its own arbitration procedure. Also, the Company may seek injunctive relief in court in appropriate circumstances pursuant to the Confidentiality Agreement, and such claims will not be deemed to require arbitration under this Section.

(3) The arbitration procedure will afford Executive and the Company the full range of statutory remedies, based on the statutes of limitations that would apply to the specific claims asserted as if they were asserted in court. The Company will pay all costs that are unique to arbitration, except that the party who initiates arbitration will pay the filing fee charged by AAA. Executive and the Company shall be entitled to discovery sufficient to adequately arbitrate their claims, including access to essential documents and witnesses, as determined by the arbitrator and subject to limited judicial review. In order for any judicial review of the arbitrator's decision to be successfully accomplished, the arbitrator will issue a written decision that will decide all issues submitted and will reveal the essential findings and conclusions on which the award is based. The substantially prevailing party will be entitled to reimbursement of attorneys' fees and costs of the arbitration proceeding.

J. Attorneys' Fees

In the event of any legal proceeding with respect to any controversy, claim or dispute relating to the interpretation or application of this Agreement, including Exhibit A and Exhibit B, or any benefits payable hereunder, the prevailing party in such proceedings will be entitled to recover from the losing party reasonable attorney fees and costs incurred in connection with such proceedings or in the enforcement or collection of any judgment or award rendered in such proceedings. For purposes of this provision, the prevailing party means the party determined by the court to have most nearly prevailed in the proceedings, even if that party does not prevail in all matters, and does not necessarily mean the party in whose favor the judgment is actually rendered.

K. Change in Control Agreement

In conjunction with and as part of this Agreement, the parties will execute and enter into the Amended and Restated Executive Change In Control Agreement substantially in the form of agreement attached hereto as Exhibit B.

L. Notices

All notices, requests, demands, and other communications provided for by this Agreement shall be in writing and shall be sufficiently given if and when mailed in the continental United States by registered or certified mail, or personally delivered to the party entitled thereto, at the address stated below or to such changed address as the addressee may have given by a similar notice:

To the Company: OceanFirst Financial Corp.
110 West Front St

Red Bank, NJ 07701

To the Executive: At the address last appearing on the personnel records of the Executive.

IN WITNESS WHEREOF, the Parties have executed and entered into this Agreement effective on the date first set forth above.

/s/ Grace Vallacchi

Grace Vallacchi

OCEANFIRST FINANCIAL CORP.

By: /s/ Steven J. Tsimbinos

Name: Steven J. Tsimbinos

Title: Executive Vice President and General
Counsel

EXHIBIT A

CONFIDENTIALITY AND EXECUTIVE RESTRICTION AGREEMENT

This Confidentiality and Executive Restriction Agreement ("Confidentiality Agreement") is between OceanFirst Financial Corp. and its successors and assigns, and Grace Vallacchi ("Executive"). Capitalized terms not defined herein have the meanings set forth in the Amended and Restated Executive Employment Agreement between the Parties dated of even date herewith.

RECITALS

Executive is employed as Executive Vice President, Chief Risk Officer of the Company and the Bank. By virtue of her position with the Company, Executive has access to Confidential Information (defined below), which must remain confidential during and after her employment. Executive also has access to important customer and employee relationships that must be protected from unfair competition or misuse that might advantage others to the detriment of the Company.

With this agreement, the Company is providing Executive a Change in Control benefit to which she is not otherwise entitled. The Change in Control benefits, Executive's continuing employment with the Company, and access to Confidential Information and relationships with Company customers and employees all serve as consideration for the obligations stated in this Confidentiality Agreement.

AGREEMENT

1. "Confidential Information" means information concerning the business, operations, strategies, financial status, products, services, customer names, customer lists and customer information of the Company, which is confidential or proprietary to the Company. Confidential Information does not include information that: (a) is or becomes generally available to the public through no fault or act of Executive in violation of this Confidentiality Agreement; (b) is or becomes available to Executive on a non-confidential basis from a source other than the Company not known to Executive to be prohibited from disclosing such information by a contractual, legal or fiduciary obligation of confidentiality; (c) is independently developed by the Executive without use of or reliance on, either directly or indirectly, Confidential Information; or (d) was known to or in the possession of Executive on a non-confidential basis prior to disclosure by the Company.

2. All Confidential Information is and shall remain the property of the Company. No license or conveyance of any right is granted or implied by the distribution of any Confidential Information to Executive. Executive agrees not to use, duplicate, or reproduce in any way any Confidential Information for Executive's own benefit or financial gain, or for any third party's benefit or financial gain, except in connection with rendering services to the Company. All documents (originals and copies, including electronic versions) containing Confidential Information shall be returned to the Company upon termination.

3. During, and after the termination of, her employment, Executive agrees not to disclose any of the Company's Confidential Information to any person or entity or use such Confidential Information to her own benefit or the benefit of any person or entity other than the Company. This provision shall not prohibit disclosure of Confidential Information during Executive's employment to an officer, employee, fiduciary or affiliate of the Company, or a Company vendor, provided a third party outside the Company (such as a vendor) has signed a similar confidentiality agreement, or such disclosure of Confidential Information is required by lawful judicial or governmental order. Executive agrees to give the Company reasonable notice in writing in advance of releasing Confidential Information pursuant to any judicial or governmental order. Executive additionally agrees to implement and maintain at all times reasonably appropriate procedures and controls to ensure at all times the security and confidentiality of all of the Company's Confidential Information, to protect against any anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to the Company or any customer of the Company. Executive agrees to notify the Company of any known security breach, any known unauthorized release of Confidential Information, or any known unauthorized attempt to access Confidential Information of which she becomes aware within a reasonable time of the occurrence of such event. Such notice will include, at a minimum, the date and time of any such event, the nature and extent of Confidential Information involved in any such event, and the corrective measures taken by Employee in response to any such event.

3A. Protected Rights. Executive understands that nothing contained in this Confidentiality Agreement limits Executive's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Office of the Comptroller of the Currency, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). Executive further understands that this Confidentiality Agreement does not limit Executive's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted

by any Government Agency, including providing documents or other Company confidential information, without notice to the Company. This Confidentiality Agreement does not limit Executive's right to receive an award for information provided to any Government Agencies

4. As a material inducement for the Company's willingness to enter into the Confidentiality Agreement and offer the substantial benefits memorialized herein to Executive, and in order to protect the Company's Confidential Information, which Executive acknowledges is a substantial asset of the Company, the Executive agrees that during Executive's employment with the Company and/or a Successor Employer and for a period of twelve (12) months after the Executive's termination of employment (the "Restricted Period"), Executive will not, directly or indirectly, on her own or on behalf of any other entity: (a) induce, or attempt to induce, any employee, executive, or independent contractor of the Company to cease such employment or relationship with the Company; (b) engage, employ, contract with, or participate in ownership with any person who was an employee, executive, or independent contractor for the Company within the six (6) months immediately prior to such engagement, employment, contract or other business relationship on behalf of any Competing Business (defined below); or (c) solicit, divert, appropriate to or accept on behalf of any Competing Business, any business or account from any customer of the Company with whom Executive has interacted as part of her duties with the Company or about whom Executive has acquired confidential information in the course of her employment, or encourage or entice any such customer to cease its business or banking relationship with the Company. "Competing Business" means any bank or thrift with an office or branch in any county where the Company has an office or branch.

5. As a material inducement for the Company's willingness to enter into the Confidentiality Agreement and offer the substantial benefits memorialized herein to Executive, and in order to protect the Company's Confidential Information, which Executive acknowledges is a substantial asset of the Company, Executive agrees that during Executive's employment with the Company and/or a Successor Employer and for the Restricted Period, Executive will not, except as an employee of the Company, in any capacity for Executive or for others, directly or indirectly, in any county in New Jersey in which the Company has an office or branch as of the date of the termination of Executive's employment (the "Market Area"): (a) compete or engage in any business, with an office or branch in the Market Area, that is the same or similar, or offers competing products and services with those offered by the Company; or (b) take any action to invest in, own, manage, operate, control, participate in, be employed or engaged by, or be connected in any manner with any partnership, corporation or other business or entity with a branch or office in the Market Area engaging in a business the same or similar, or which offers competing products and services as those offered by the Company; notwithstanding the foregoing, Executive is permitted hereunder to own, directly or indirectly, up to three percent (3%) of the issued and outstanding securities of any publicly traded financial institution with an office or branch within the Market Area

6. Executive acknowledges and agrees that the restrictive covenants in this Confidentiality Agreement are reasonable and necessary to protect the Company's goodwill, confidential and proprietary information, trade secrets, business strategies, customer relationships and other legitimate business interests, that irreparable injury will result to the Company if Executive breaches or threatens to breach any terms of the Confidentiality Agreement, and that in the event Executive breaches or threatens to breach any terms of the Confidentiality Agreement, the Company will have no adequate remedy at law. Executive accordingly agrees that in the event of any actual or threatened breach by her of any of the terms of the Confidentiality Agreement, the Company shall be entitled to immediate temporary injunctive and other equitable relief, and without the necessity of showing actual monetary damages, subject to hearing as soon thereafter as possible. Nothing contained herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages which it is able to prove.

7. Executive agrees that a successor in interest to the Company may enforce the rights set forth in this Confidentiality Agreement following a change of control, without further express consent by Executive and that the Company may, at its option, assign its rights to any successor or assign. Any amendment to or modification of this Confidentiality Agreement, or waiver of any obligation hereunder, shall be in writing signed by the party to be bound thereby. Any waiver by the Company of a breach of any provision of this Confidentiality Agreement shall not operate or be construed as a waiver of any subsequent breach of the provision or as a waiver of a breach of any other provision of this Confidentiality Agreement.

8. This Confidentiality Agreement shall be governed by the law of the State of New Jersey. This Confidentiality Agreement sets forth the entire agreement, and supersedes any prior agreements, with regard to the subject matter hereof. Executive acknowledges that she has carefully read all of the provisions of this Confidentiality Agreement and agree that (a) the same are necessary for the reasonable and proper protection of the Company's business, (b) every provision of this Confidentiality Agreement is reasonable with respect to its scope and duration and (c) she has received a copy of this Confidentiality Agreement and had the opportunity to review it with legal counsel, at her option. If either Party to this Confidentiality Agreement commences legal action to enforce any rights arising out of or relating to this Confidentiality Agreement, the prevailing Party in any such action shall be entitled to recover reasonable attorneys' fees and costs, including fees and costs on appeal. The venue for any legal action shall be Toms River, New Jersey. If a court of law holds any provision of this Confidentiality Agreement to be illegal, invalid or unenforceable, (a) that provision shall be deemed amended to achieve an economic effect that is as near as possible to that provided by the original provision and (b) the legality, validity and enforceability of the remaining provisions of this Confidentiality Agreement shall not be affected.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed and entered into this Confidentiality Agreement effective on November ____, 2021.

Grace Vallacchi

OCEANFIRST FINANCIAL CORP.

By:

Name: Steven J. Tsimbinos

Title: Executive Vice President and General Counsel

EXHIBIT B

AMENDED AND RESTATED

EXECUTIVE CHANGE IN CONTROL AGREEMENT

OceanFirst Financial Corp. ("Company"), and its successors and assigns, and Grace Vallacchi ("Executive") enter into this agreement (the "CIC Agreement") to provide certain benefits to Executive in the event that Executive's employment is terminated as a result of a Change in Control, as defined below. This CIC Agreement is executed in conjunction with an Executive Employment Agreement ("Agreement") and a Confidentiality and Executive Restriction Agreement ("Confidentiality Agreement") and provides consideration for the obligations thereunder, and amends and restates the Executive Change in Control Agreement between the Company and Executive dated October 23, 2017 (the "Original CIC Agreement").

I. CHANGE IN CONTROL BENEFIT

If there is a Change in Control, and if the Executive is terminated without Cause or resigns for Good Reason during the CIC Agreement Term or within twelve (12) months following the Change in Control, the Company shall provide the insurance benefits provided for in Section III(D) of the Agreement, and shall pay Executive as severance pay, in lieu of any severance payments the Company would otherwise be obligated to pay under the Agreement, an amount equal to the sum of (i) Executive's Salary and (ii) the greater of the cash incentive payment paid to the Executive for the prior fiscal year or the Target Cash Compensation for the current fiscal year ("Change in Control Payment"). In the event that the Company's Board in good faith determines that the Change in Control occurred during such time as the Company is at least "adequately capitalized" (within the meaning of 12 U.S.C. § 1831o(b)) then the Change in Control Payment shall be multiplied by a factor of three (3), provided, however, that the total value of the Change in Control Payment (including any insurance benefits provided) shall not exceed three times the sum of the Executive's Salary and the greater of the cash incentive payment paid to the Executive for the prior fiscal year or the Target Cash Compensation for the current fiscal year. The Change in Control Payment is conditioned upon Executive executing a release agreement in favor of the Company at the time of termination of her employment. Payment shall be made in a lump sum within five business days of the Executive's date of termination, provided that Executive has executed and submitted a general release of claims and the statutory period during which the Employee is entitled to revoke the release of claims has expired before the payment date. The Change in Control Payment will be subject to the Company's collection of applicable federal income and employment withholding taxes.

II. DEFINITIONS

For purposes of this CIC Agreement, the following definitions will be in effect:

"Cause" has the meaning described in Section III(E)(1) of the Agreement.

"Change in Control" means, except for the sale of the Company's stock in a broad-based public offering:

(1) an event of a nature that would be required to be reported in response to Item 5.01 of the current report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended;

(2) results in a Change in Control of OceanFirst Bank, N.A. the subsidiary national bank of the Company, or the Company within the meaning of the National Bank Act, as amended, the Federal Deposit Insurance Act or the rules and regulations promulgated by the Office of the Comptroller of the Currency, as in effect on the date hereof;

(3) individuals who constitute the Board of the Company on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's stockholders was approved by the same Nominating Committee serving under an Incumbent Board, shall be, for purposes of this clause (3), considered as though she were a member of the Incumbent Board; or

(4) A change "in the ownership or effective control" or "in the ownership of a substantial portion of the assets" of Company, within the meaning of Section 280G or the Internal Revenue Code.

"Good Reason" has the meaning described in Section III(E)(2) of the Agreement.

III. TERM OF AGREEMENT

This CIC Agreement shall be in effect for a term that is coextensive with the Agreement and shall automatically renew if and when the Agreement is renewed, provided Executive remains employed by the Company, Employee has executed the Confidentiality Agreement, and neither Party provides the other written notice of an intent not to renew this CIC Agreement more than thirty (30) days prior to its renewal ("CIC Agreement Term"). Provided the Change in Control occurs during the term of this CIC Agreement, then the Change in Control Payment shall still be payable, even if the resignation or termination that triggers the payment occurs after the CIC Agreement has expired. In addition, if the Company is, at the time the Change in Control Payment is payable, prohibited or restricted by applicable statutory, regulatory, contractual or other legal requirement from making the Change in Control Payment, then the Company shall be obligated for a period of three (3) years from such time to make the Change in Control Payment (or any unpaid portion) in the event that such prohibition or restriction is no longer applicable and the Company is otherwise then legally permitted to make such payment. In the event that any Change in Control Payment (or any portion thereof) made to Executive hereunder or under any prior similar agreement or understanding is required under any applicable statutory, regulatory, order, contractual or other legal requirement to be paid back to the Company (or its successor), then Executive shall upon written demand from the Company (or its successor) promptly pay such amount back to the Company (or its successor).

IV. MISCELLANEOUS PROVISIONS

A. Death

Should Executive die after becoming entitled to, but before receipt of, the Change in Control Payment under Section I of this CIC Agreement, then such payment will be made to the executors or administrators of her estate.

B. General Creditor Status

The payment to which Executive may become entitled hereunder will be paid, when due, from the general assets of the Company, and no trust fund, escrow arrangement or other segregated account will be established as a funding vehicle for such payment. Accordingly, Executive's right (or the right of the personal representatives or beneficiaries of Executive's estate) to receive any payment hereunder will at all times be that of a general creditor of the Company and will have no priority over the claims of other general creditors.

C. Miscellaneous

This CIC Agreement will be binding upon the Company, its successors and assigns (including, without limitation, the surviving entity in any Change in Control) and is to be construed and interpreted under the laws of the State of New Jersey. This CIC Agreement shall be interpreted and administered in order to be an exempt "short term deferral" under Section 409A of the Internal Revenue Code and the regulations thereunder. This CIC Agreement may be amended only by written instrument signed by Executive and an authorized officer of the Company other than Executive. It supersedes all other Change in Control agreements executed by Executive and the Company, including the Original CIC Agreement. If any provision of this CIC Agreement as applied to Executive or the Company or to any circumstance should be adjudged by a court of competent jurisdiction to be void or unenforceable for any reason, the invalidity of that provision will in no way affect (to the maximum extent permissible by law) the application of such provision under circumstances different from those adjudicated by the court, the application of any other provision of this CIC Agreement, or the enforceability or invalidity of this CIC Agreement as a whole. Should any provision of this CIC Agreement become or be deemed invalid, illegal or unenforceable in any jurisdiction by reason of the scope, extent or duration of its coverage, then such provision will be deemed amended to the extent necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision will be stricken and the remainder of this CIC Agreement will continue in full force and effect.

D. Internal Revenue Code Section 280G

Notwithstanding anything in this CIC Agreement to the contrary, if it is determined by legal counsel (or other tax advisor to Executive) that the total of the Change in Control Payment, together with any other payments or benefits paid by the Company to Executive, would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended, and the net after-tax amount that Executive would realize from such compensation, considering Executive's federal and state income tax brackets and the excise tax, would be greater if the compensation payable hereunder were limited, then the compensation payable hereunder shall be limited in the manner determined by such counsel or advisor, to maximize Executive's net after-tax income.

IN WITNESS WHEREOF, the Parties have executed and entered into this CIC Agreement effective on November ___, 2021.

Grace Vallacchi

OCEANFIRST FINANCIAL CORP.

By:

Name: Steven J. Tsimbinos

Title: Executive Vice President and General Counsel

AMENDED AND RESTATED
EXECUTIVE CHANGE IN CONTROL AGREEMENT

OceanFirst Financial Corp. ("Company"), and its successors and assigns, and Grace Vallacchi ("Executive") enter into this agreement (the "CIC Agreement") to provide certain benefits to Executive in the event that Executive's employment is terminated as a result of a Change in Control, as defined below. This CIC Agreement is executed in conjunction with an Executive Employment Agreement ("Agreement") and a Confidentiality and Executive Restriction Agreement ("Confidentiality Agreement") and provides consideration for the obligations thereunder, and amends and restates the Executive Change in Control Agreement between the Company and Executive dated October 23, 2017 (the "Original CIC Agreement").

I. CHANGE IN CONTROL BENEFIT

If there is a Change in Control, and if the Executive is terminated without Cause or resigns for Good Reason during the CIC Agreement Term or within twelve (12) months following the Change in Control, the Company shall provide the insurance benefits provided for in Section III(D) of the Agreement, and shall pay Executive as severance pay, in lieu of any severance payments the Company would otherwise be obligated to pay under the Agreement, an amount equal to the sum of (i) Executive's Salary and (ii) the greater of the cash incentive payment paid to the Executive for the prior fiscal year or the Target Cash Compensation for the current fiscal year ("Change in Control Payment"). In the event that the Company's Board in good faith determines that the Change in Control occurred during such time as the Company is at least "adequately capitalized" (within the meaning of 12 U.S.C. § 1831o(b)) then the Change in Control Payment shall be multiplied by a factor of three (3), provided, however, that the total value of the Change in Control Payment (including any insurance benefits provided) shall not exceed three times the sum of the Executive's Salary and the greater of the cash incentive payment paid to the Executive for the prior fiscal year or the Target Cash Compensation for the current fiscal year. The Change in Control Payment is conditioned upon Executive executing a release agreement in favor of the Company at the time of termination of her employment. Payment shall be made in a lump sum within five business days of the Executive's date of termination, provided that Executive has executed and submitted a general release of claims and the statutory period during which the Employee is entitled to revoke the release of claims has expired before the payment date. The Change in Control Payment will be subject to the Company's collection of applicable federal income and employment withholding taxes.

II. DEFINITIONS

For purposes of this CIC Agreement, the following definitions will be in effect:

"Cause" has the meaning described in Section III(E)(1) of the Agreement.

"Change in Control" means, except for the sale of the Company's stock in a broad-based public offering:

(1) an event of a nature that would be required to be reported in response to Item 5.01 of the current report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended;

(2) results in a Change in Control of OceanFirst Bank, N.A. the subsidiary national bank of the Company, or the Company within the meaning of the National Bank Act, as amended, the Federal Deposit Insurance Act or the rules and regulations promulgated by the Office of the Comptroller of the Currency, as in effect on the date hereof;

(3) individuals who constitute the Board of the Company on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's stockholders was approved by the same Nominating Committee serving under an Incumbent Board, shall be, for purposes of this clause (3), considered as though she were a member of the Incumbent Board; or

(4) A change "in the ownership or effective control" or "in the ownership of a substantial portion of the assets" of Company, within the meaning of Section 280G or the Internal Revenue Code.

"Good Reason" has the meaning described in Section III(E)(2) of the Agreement.

III. TERM OF AGREEMENT

This CIC Agreement shall be in effect for a term that is coextensive with the Agreement and shall automatically renew if and when the Agreement is renewed, provided Executive remains employed by the Company, Employee has executed the Confidentiality Agreement, and neither Party provides the other written notice of an intent not to renew this CIC Agreement

more than thirty (30) days prior to its renewal (“CIC Agreement Term”). Provided the Change in Control occurs during the term of this CIC Agreement, then the Change in Control Payment shall still be payable, even if the resignation or termination that triggers the payment occurs after the CIC Agreement has expired. In addition, if the Company is, at the time the Change in Control Payment is payable, prohibited or restricted by applicable statutory, regulatory, contractual or other legal requirement from making the Change in Control Payment, then the Company shall be obligated for a period of three (3) years from such time to make the Change in Control Payment (or any unpaid portion) in the event that such prohibition or restriction is no longer applicable and the Company is otherwise then legally permitted to make such payment. In the event that any Change in Control Payment (or any portion thereof) made to Executive hereunder or under any prior similar agreement or understanding is required under any applicable statutory, regulatory, order, contractual or other legal requirement to be paid back to the Company (or its successor), then Executive shall upon written demand from the Company (or its successor) promptly pay such amount back to the Company (or its successor).

IV. MISCELLANEOUS PROVISIONS

A. Death

Should Executive die after becoming entitled to, but before receipt of, the Change in Control Payment under Section I of this CIC Agreement, then such payment will be made to the executors or administrators of her estate.

B. General Creditor Status

The payment to which Executive may become entitled hereunder will be paid, when due, from the general assets of the Company, and no trust fund, escrow arrangement or other segregated account will be established as a funding vehicle for such payment. Accordingly, Executive’s right (or the right of the personal representatives or beneficiaries of Executive’s estate) to receive any payment hereunder will at all times be that of a general creditor of the Company and will have no priority over the claims of other general creditors.

C. Miscellaneous

This CIC Agreement will be binding upon the Company, its successors and assigns (including, without limitation, the surviving entity in any Change in Control) and is to be construed and interpreted under the laws of the State of New Jersey. This CIC Agreement shall be interpreted and administered in order to be an exempt “short term deferral” under Section 409A of the Internal Revenue Code and the regulations thereunder. This CIC Agreement may be amended only by written instrument signed by Executive and an authorized officer of the Company other than Executive. It supersedes all other Change in Control agreements executed by Executive and the Company, including the Original CIC Agreement. If any provision of this CIC Agreement as applied to Executive or the Company or to any circumstance should be adjudged by a court of competent jurisdiction to be void or unenforceable for any reason, the invalidity of that provision will in no way affect (to the maximum extent permissible by law) the application of such provision under circumstances different from those adjudicated by the court, the application of any other provision of this CIC Agreement, or the enforceability or invalidity of this CIC Agreement as a whole. Should any provision of this CIC Agreement become or be deemed invalid, illegal or unenforceable in any jurisdiction by reason of the scope, extent or duration of its coverage, then such provision will be deemed amended to the extent necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision will be stricken and the remainder of this CIC Agreement will continue in full force and effect.

D. Internal Revenue Code Section 280G

Notwithstanding anything in this CIC Agreement to the contrary, if it is determined by legal counsel (or other tax advisor to Executive) that the total of the Change in Control Payment, together with any other payments or benefits paid by the Company to Executive, would constitute an “excess parachute payment” within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended, and the net after-tax amount that Executive would realize from such compensation, considering Executive’s federal and state income tax brackets and the excise tax, would be greater if the compensation payable hereunder were limited, then the compensation payable hereunder shall be limited in the manner determined by such counsel or advisor, to maximize Executive’s net after-tax income.

IN WITNESS WHEREOF, the Parties have executed and entered into this CIC Agreement effective on November 2, 2021.

/s/ Grace Vallacchi

Grace Vallacchi

OCEANFIRST FINANCIAL CORP.

By: /s/ Steven J. Tsimbinos

Name: Steven J. Tsimbinos

Title: Executive Vice President and General
Counsel

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

I, Christopher D. Maher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OceanFirst Financial Corp.;
2. Based on my knowledge, this 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 and procedures 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;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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; and
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: November 4, 2021

/s/ Christopher D. Maher

Christopher D. Maher
Chairman and Chief Executive Officer
(principal executive officer)

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

I, Michael J. Fitzpatrick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OceanFirst Financial Corp.;
2. Based on my knowledge, this 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 and procedures 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;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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; and
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: November 4, 2021

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick

Executive Vice President and Chief Financial Officer

(principal financial officer)

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

In connection with the Quarterly Report of OceanFirst Financial Corp. (the “Company”) on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Christopher D. Maher

Christopher D. Maher
Chairman and Chief Executive Officer
November 4, 2021

/s/ Michael J. Fitzpatrick

Michael J. Fitzpatrick
Executive Vice President and Chief Financial Officer
November 4, 2021