

**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, 2022

☐ **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 4, 2022, there were 59,141,528 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

OceanFirst Financial Corp.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL SUMMARY⁽¹⁾

(dollars in thousands, except per share amounts)

SELECTED FINANCIAL CONDITION DATA:

	At or for the Quarters Ended		
	September 30, 2022	June 30, 2022	September 30, 2021
Total assets	\$ 12,683,453	\$ 12,438,653	\$ 11,829,688
Loans receivable, net of allowance for loan credit losses	9,672,488	9,380,688	8,139,961
Deposits	9,959,469	9,831,484	9,774,097
Total stockholders' equity	1,540,216	1,521,432	1,513,249

SELECTED OPERATING DATA:

Net interest income	95,965	90,797	77,132
Credit loss expense (benefit)	1,016	1,254	(3,179)
Other income	15,150	7,541	9,883
Operating expenses	58,997	58,661	58,673
Net income	38,804	29,483	24,167
Net income attributable to OceanFirst Financial Corp.	38,611	28,961	24,167
Net income available to common stockholders	37,607	27,957	23,163
Diluted earnings per share	0.64	0.47	0.39

SELECTED FINANCIAL RATIOS:

Stockholders' equity per common share at end of period	26.04	25.73	25.47
Cash dividend per share	0.20	0.17	0.17
Dividend payout ratio per common share	31.25 %	36.17 %	43.59 %
Stockholders' equity to total assets	12.14	12.23	12.79
Return on average assets ^{(2) (3) (4)}	1.19	0.92	0.78
Return on average stockholders' equity ^{(2) (3) (4)}	9.68	7.31	6.05
Net interest rate spread ⁽⁵⁾	3.19	3.18	2.80
Net interest margin ^{(2) (6)}	3.36	3.29	2.93
Operating expenses to average assets ^{(2) (4)}	1.87	1.92	1.98
Efficiency ratio ^{(4) (7)}	53.10	59.65	67.43
Loans-to-deposits ratio	97.60	95.90	83.71

ASSET QUALITY:

Non-performing loans ⁽⁸⁾	\$ 21,498	\$ 20,753	\$ 30,304
Non-performing assets ⁽⁸⁾	21,498	20,753	30,410
Allowance for loan credit losses as a percent of total loans receivable ^{(9) (10)}	0.55 %	0.55 %	0.61 %
Allowance for loan credit losses as a percent of total non-performing loans ^{(8) (10)}	248.96	250.86	165.50
Non-performing loans as a percent of total loans receivable ^{(8) (9)}	0.22	0.22	0.37
Non-performing assets as a percent of total assets ⁽⁸⁾	0.17	0.17	0.26

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

(2) Ratios are annualized.

(3) Ratios for each period are based on net income available to common stockholders.

(4) Included a net benefit related to merger related expenses, net branch consolidation (benefit) expense, and gain on equity investments of \$3.4 million, or \$2.6 million, net of tax expense, for the three months ended September 30, 2022. Included a net expense related to merger related expenses, net branch consolidation expenses, and net loss on equity investments of \$8.8 million, or \$6.7 million, net of tax benefit, for the three months ended June 30, 2022. Included a net expense related to merger related expenses, net branch consolidation expenses, and net loss on equity investments of \$4.7 million, or \$3.6 million, net of tax benefit, for the three months ended September 30, 2021.

(5) 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.

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

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

- (8) Non-performing assets consist of non-performing loans and real estate acquired through foreclosure. Non-performing loans generally 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) Total loans receivable excludes loans held-for-sale.
- (10) 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 \$13.6 million, \$15.5 million, and \$21.3 million at September 30, 2022, June 30, 2022 and September 30, 2021, 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 the major metropolitan areas of Philadelphia, New York, Baltimore, 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, deposit account services, bank owned life insurance, commercial loan swap income, gain on sale of loans, securities and on equity investments, title-related fees and service charges 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, inflation, government policies and actions of regulatory agencies.

Key developments relating to the Company’s financial results and corporate activities for the three months ended September 30, 2022 were as follows:

- **Strengthening Net Interest Income and Margin:** Net interest income increased by \$5.2 million to \$96.0 million, from \$90.8 million in the prior linked quarter. Net interest margin increased to 3.36%, as compared to 3.29% in the prior linked quarter, largely driven by the impact of the rising rate environment on interest earning assets, and to a lesser extent an increase in loan balances, partly offset by an increased cost of funds and lower prepayment fees.
- **Loan and Deposit Growth:** Loan growth for the quarter was \$293.9 million, reflecting originations of \$543.8 million. The committed loan pipeline increased to \$439.5 million as of September 30, 2022. Deposits grew by \$128.0 million for the quarter and \$226.7 million year-to-date.
- **Interchange Fees:** Effective July 1, 2022, the Bank became subject to the Durbin amendment, as contained in the Dodd-Frank Act, which imposes limitations on debit card interchange fees collected by banks with assets of \$10 billion or more. As a result, bankcard services revenue was adversely impacted by \$1.7 million. The Company is strategically positioned to absorb the decreased fee income and continue to grow earnings.
- **Partners Bancorp:** On November 9, 2022, the Company and Partners Bancorp (“Partners”) entered into a Mutual Termination Agreement (the “Termination Agreement”) pursuant to which, among other things, the Company and Partners mutually agreed to terminate the Agreement and Plan of Merger (the “Merger Agreement”) and transactions contemplated thereby. Each party will bear its own costs and expenses in connection with the terminated transaction, and neither party will pay a termination fee in connection with the termination of the Merger Agreement. The Termination Agreement also mutually releases the parties from any claims of liability to one another relating to the Merger Agreement and the terminated transaction.

Net income available to common stockholders for the three and nine months ended September 30, 2022 was \$37.6 million and \$90.3 million, respectively, or \$0.64 and \$1.53 per diluted share, as compared to \$23.2 million and \$84.4 million, or \$0.39 and \$1.41 per diluted share, for the corresponding prior year periods. The dividends paid to preferred stockholders were \$1.0 million and \$3.0 million for the three and nine months ended September 30, 2022 and 2021, respectively. Net income available to common stockholders for the three and nine months ended September 30, 2022 included merger related expenses of \$298,000 and \$2.5 million, respectively, net branch consolidation benefit of \$346,000 and net branch consolidation expense of \$602,000, and gain on equity investments of \$3.4 million and net loss on equity investments of \$7.5 million. 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, net branch consolidation expenses of \$4.0 million and \$5.1 million, and net loss on equity investments of \$466,000 and net gain on equity investments of \$8.4 million.

The Company remains well-capitalized with a stockholders’ equity to total assets ratio of 12.14% at September 30, 2022.

On October 24, 2022, the Company’s Board of Directors declared a quarterly cash dividend of \$0.20 per share. The dividend, related to the quarter ended September 30, 2022, will be paid on November 18, 2022 to common stockholders of record on November 7, 2022. 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, 2022 to preferred stockholders of record on October 31, 2022.

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. For the three and nine months ended September 30, 2022 interest income included net loan fees of \$832,000 and \$5.0 million, respectively, as compared to \$1.6 million and \$4.2 million for the same prior year periods, respectively.

The following tables set forth certain information relating to the Company for the three and nine months ended September 30, 2022 and 2021. 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,					
	2022			2021		
	Average Balance	Interest	Average Yield/Cost ⁽¹⁾	Average Balance	Interest	Average Yield/Cost ⁽¹⁾
Assets:						
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ 65,648	\$ 336	2.03 %	\$ 1,053,797	\$ 441	0.17 %
Securities ⁽²⁾	1,748,687	10,022	2.27	1,542,630	6,090	1.57
Loans receivable, net ⁽³⁾						
Commercial	6,509,515	74,309	4.53	5,361,472	55,387	4.10
Residential real estate	2,791,067	22,818	3.27	2,260,673	20,076	3.55
Home equity loans and lines and other consumer ("other consumer")	256,638	3,014	4.66	289,011	3,426	4.70
Allowance for loan credit losses, net of deferred loan costs and fees	(44,773)	—	—	(46,436)	—	—
Loans receivable, net	9,512,447	100,141	4.18	7,864,720	78,889	3.98
Total interest-earning assets	11,326,782	110,499	3.88	10,461,147	85,420	3.24
Non-interest-earning assets	1,191,173			1,276,890		
Total assets	\$ 12,517,955			\$ 11,738,037		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing checking	\$ 3,873,968	2,671	0.27 %	\$ 3,841,475	2,854	0.29 %
Money market	793,230	721	0.36	767,854	245	0.13
Savings	1,603,147	187	0.05	1,609,197	146	0.04
Time deposits	1,467,297	5,659	1.53	904,384	2,134	0.94
Total	7,737,642	9,238	0.47	7,122,910	5,379	0.30
Federal Home Loan Bank ("FHLB") advances	352,392	2,208	2.49	—	—	—
Securities sold under agreements to repurchase	96,147	35	0.14	142,494	51	0.14
Other borrowings	194,755	3,053	6.22	228,695	2,858	4.96
Total borrowings	643,294	5,296	3.27	371,189	2,909	3.11
Total interest-bearing liabilities	8,380,936	14,534	0.69	7,494,099	8,288	0.44
Non-interest-bearing deposits	2,328,700			2,576,123		
Non-interest-bearing liabilities	266,564			148,327		
Total liabilities	10,976,200			10,218,549		
Stockholders' equity	1,541,755			1,519,488		
Total liabilities and equity	\$ 12,517,955			\$ 11,738,037		
Net interest income		\$ 95,965			\$ 77,132	
Net interest rate spread ⁽⁴⁾			3.19 %			2.80 %
Net interest margin ⁽⁵⁾			3.36 %			2.93 %
Total cost of deposits (including non-interest-bearing deposits)			0.36 %			0.22 %

(dollars in thousands)	For the Nine Months Ended September 30,					
	2022			2021		
	Average Balance	Interest	Average Yield/Cost ⁽¹⁾	Average Balance	Interest	Average Yield/Cost ⁽¹⁾
Assets:						
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ 73,886	\$ 472	0.85 %	\$ 1,061,419	\$ 958	0.12 %
Securities ⁽²⁾	1,801,978	27,086	2.01	1,452,778	18,832	1.73
Loans receivable, net ⁽³⁾						
Commercial	6,275,836	198,054	4.22	5,270,138	163,315	4.14
Residential real estate	2,685,080	66,899	3.32	2,269,066	59,242	3.48
Other consumer	254,891	8,387	4.40	306,681	11,288	4.92
Allowance for loan credit losses, net of deferred loan costs and fees	(42,987)	—	—	(50,912)	—	—
Loans receivable, net	9,172,820	273,340	3.98	7,794,973	233,845	4.01
Total interest-earning assets	11,048,684	300,898	3.64	10,309,170	253,635	3.29
Non-interest-earning assets	1,191,358			1,264,347		
Total assets	<u>\$ 12,240,042</u>			<u>\$ 11,573,517</u>		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing checking	\$ 4,088,759	6,433	0.21 %	\$ 3,753,457	10,549	0.38 %
Money market	773,666	1,317	0.23	761,975	823	0.14
Savings	1,617,354	473	0.04	1,571,345	490	0.04
Time deposits	1,060,027	9,373	1.18	1,041,371	8,338	1.07
Total	7,539,806	17,596	0.31	7,128,148	20,200	0.38
FHLB Advances	308,043	3,890	1.69	—	—	—
Securities sold under agreements to repurchase	105,821	117	0.15	135,754	203	0.20
Other borrowings	205,796	8,306	5.40	228,472	8,480	4.96
Total borrowings	619,660	12,313	2.66	364,226	8,683	3.19
Total interest-bearing liabilities	8,159,466	29,909	0.49	7,492,374	28,883	0.52
Non-interest-bearing deposits	2,352,606			2,416,866		
Non-interest-bearing liabilities	193,147			157,821		
Total liabilities	10,705,219			10,067,061		
Stockholders' equity	1,534,823			1,506,456		
Total liabilities and equity	<u>\$ 12,240,042</u>			<u>\$ 11,573,517</u>		
Net interest income		<u>\$ 270,989</u>			<u>\$ 224,752</u>	
Net interest rate spread ⁽⁴⁾			<u>3.15 %</u>			<u>2.77 %</u>
Net interest margin ⁽⁵⁾			<u>3.28 %</u>			<u>2.91 %</u>
Total cost of deposits (including non-interest-bearing deposits)			<u>0.24 %</u>			<u>0.28 %</u>

(1) Average yields and costs are annualized.

(2) 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.

(3) 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.

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

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

Comparison of Financial Condition at September 30, 2022 and December 31, 2021

Total assets increased by \$943.8 million to \$12.68 billion at September 30, 2022, from \$11.74 billion at December 31, 2021. Total loans increased by \$1.10 billion to \$9.72 billion at September 30, 2022, from \$8.62 billion at December 31, 2021, due to strong loan originations. Total debt securities decreased by \$209.4 million at September 30, 2022, as compared to December 31, 2021, primarily due to principal repayments and maturities, and to a lesser extent, an increase in unrealized losses driven by the rising rate environment. Other assets increased by \$81.1 million to \$228.1 million at September 30, 2022 from \$147.0 million at December 31, 2021, primarily due to an increase in market values associated with customer interest rate swap programs.

Total liabilities increased by \$920.2 million to \$11.14 billion at September 30, 2022, from \$10.22 billion at December 31, 2021. Deposits increased by \$226.7 million to \$9.96 billion at September 30, 2022, from \$9.73 billion at December 31, 2021. Total deposits, excluding time deposits, decreased by \$402.7 million to \$8.56 billion at September 30, 2022, from \$8.96 billion at December 31, 2021, primarily due to the net runoff of interest-bearing checking balances. Time deposits increased to \$1.40 billion at September 30, 2022, from \$775.0 million at December 31, 2021, primarily due to an increase in brokered time deposits, which increased to \$828.7 million at September 30, 2022 from \$25.0 million at December 31, 2021. The loans-to-deposit ratio at September 30, 2022 was 97.6%, as compared to 88.6% at December 31, 2021.

FHLB advances increased to \$514.2 million at September 30, 2022 from \$0 at December 31, 2021 to fund liquidity needs. Other borrowings decreased by \$34.2 million to \$194.9 million at September 30, 2022, from \$229.1 million at December 31, 2021, primarily due to the extinguishment of \$35.0 million of subordinated debt in March 2022. Other liabilities increased by \$230.9 million to \$352.9 million at September 30, 2022, from \$122.0 million at December 31, 2021, primarily due to an increase in the market values associated with customer interest rate swap programs and related collateral received from counterparties.

Stockholders' equity increased to \$1.54 billion at September 30, 2022, as compared to \$1.52 billion at December 31, 2021. Accumulated other comprehensive loss increased by \$35.7 million to \$38.5 million at September 30, 2022 from \$2.8 million at December 31, 2021, primarily due to unrealized losses on debt securities available-for-sale which were adversely impacted by the rising interest rate environment. For the nine months ended September 30, 2022, the Company repurchased 373,223 shares totaling \$7.4 million under its stock repurchase program at a weighted average cost of \$19.82. There were 2,934,438 shares available for repurchase at September 30, 2022 under the existing repurchase program. Stockholders' equity per common share increased to \$26.04 at September 30, 2022, as compared to \$25.63 at December 31, 2021.

Comparison of Operating Results for the Three and Nine Months Ended September 30, 2022 and September 30, 2021

General

Net income available to common stockholders for the three and nine months ended September 30, 2022 was \$37.6 million and \$90.3 million, respectively, or \$0.64 and \$1.53 per diluted share, as compared to \$23.2 million and \$84.4 million, or \$0.39 and \$1.41 per diluted share, for the corresponding prior year periods. Net income available to common stockholders for the three and nine months ended September 30, 2022 included merger related expenses of \$298,000 and \$2.5 million, respectively, net branch consolidation benefit of \$346,000 and net branch consolidation expense of \$602,000, and gain on equity investments of \$3.4 million and net loss on equity investments of \$7.5 million. These items increased net income by \$2.6 million and decreased net income by \$8.1 million, net of tax, for the three and nine months ended September 30, 2022, respectively. 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, net branch consolidation expenses of \$4.0 million and \$5.1 million, and a net loss on equity investments of \$466,000 and net gain on equity investments of \$8.4 million. 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.

Interest Income

Interest income for the three and nine months ended September 30, 2022 increased to \$110.5 million and \$300.9 million, respectively, as compared to \$85.4 million and \$253.6 million for the corresponding prior year periods. Average interest-earning assets increased by \$865.6 million and \$739.5 million for the three and nine months ended September 30, 2022, respectively, as compared to the same prior year periods, primarily due to loan and securities growth funded by the redeployment of excess cash. Average loans receivable, net of allowance for loan credit losses, increased by \$1.65 billion and \$1.38 billion for the three and nine months ended September 30, 2022, respectively, as compared to the same prior year periods. For the three and nine months ended September 30, 2022, the yield on average interest-earning assets increased to 3.88% and

3.64%, respectively, from 3.24% and 3.29%, for the corresponding prior year periods due to interest earning asset growth funded by the redeployment of excess cash and the rising rate environment.

Interest Expense

Interest expense for the three and nine months ended September 30, 2022 was \$14.5 million and \$29.9 million, respectively, as compared to \$8.3 million and \$28.9 million in the corresponding prior year periods. For the three months ended September 30, 2022, the cost of average interest-bearing liabilities increased to 0.69% from 0.44% for corresponding prior year period, as a result of higher costs associated with FHLB advances and time deposits issued in an elevated rate environment in 2022. For the nine months ended September 30, 2022, the cost of average interest-bearing liabilities decreased to 0.49% from 0.52% for the corresponding prior year period, as a result of downward repricing of deposits that began in the prior year and continued through the current year, partly offset by the recent pace of the rising rate environment in the current quarter and increased funding costs on FHLB advances. The total cost of deposits (including non-interest bearing deposits) was 0.36% and 0.24% for the three and nine months ended September 30, 2022, respectively, as compared to 0.22% and 0.28%, for the same prior year periods.

Net Interest Income and Margin

Net interest income for the three and nine months ended September 30, 2022 increased to \$96.0 million and \$271.0 million, respectively, as compared to \$77.1 million and \$224.8 million for the corresponding prior year periods, reflecting an increase in average interest-earning assets and net interest margin. Net interest margin for the three and nine months ended September 30, 2022 increased to 3.36% and 3.28%, respectively, from 2.93% and 2.91% from the same prior year periods. The net interest margin expansion was positively impacted by the redeployment of excess cash into loans and the impact of the rising rate environment on interest earning assets, partly offset by an increased cost of funds and the growth in interest-bearing liabilities balances.

Credit Loss Expense (Benefit)

Credit loss expense for the three and nine months ended September 30, 2022 was \$1.0 million and \$4.1 million, respectively, as compared to a credit loss benefit of \$3.2 million and \$10.3 million, for the corresponding prior year periods. The credit loss expense for the three and nine months ended September 30, 2022 was influenced by loan growth, slowing prepayment rates, and increasingly uncertain macro-economic forecasts due to rising interest rates, inflation, and global economic headwinds, partly offset by positive trends in the Company's criticized and classified assets. Net loan recoveries were \$252,000 and \$386,000 for the three months ended September 30, 2022 and 2021, respectively. Net loan recoveries were \$335,000 and \$442,000 for the nine months ended September 30, 2022 and 2021, respectively. Non-performing loans totaled \$21.5 million at September 30, 2022, as compared to \$30.3 million at September 30, 2021, primarily due to loans that were paid off and partly due to loans that returned to accrual status.

Non-interest Income

Other income increased to \$15.2 million for the three months ended September 30, 2022, as compared to \$9.9 million for the corresponding prior year period. The increase was driven by a gain on equity investments of \$3.4 million as compared to a net loss on equity investments of \$466,000 in the prior year period, along with the acquisition of a majority interest in Trident Abstract Title Agency, LLC ("Trident"), which added \$3.3 million of title-related fees and service charges. These increases were partially offset by lower income from bankcard services of \$1.9 million, primarily as a result of the impact of the Durbin amendment, which became effective for the Company on July 1, 2022.

Other income decreased to \$31.5 million for the nine months ended September 30, 2022, as compared to \$42.5 million for the corresponding prior year period. The decrease was driven by a net loss on equity investments of \$7.5 million as compared to a net gain on equity investments of \$8.4 million in the prior year period, along with decreases in net gain on sale of loans of \$2.8 million, income from bankcard services of \$2.3 million primarily as a result of the impact of the Durbin amendment, fees and service charges of \$849,000, and Paycheck Protection Program ("PPP") loan origination referral fees of \$800,000. These decreases were partially offset by the impact of Trident, which added \$7.8 million of title-related fees and service charges and an increase in commercial loan swap income of \$3.8 million.

Non-interest Expense

Operating expenses increased to \$59.0 million for the three months ended September 30, 2022, as compared to \$58.7 million in the same prior year period. Operating expenses for the three months ended September 30, 2022 and 2021 included \$48,000 and \$4.2 million, respectively, of merger related expenses and net branch consolidation benefit/expense. The remaining increase of \$4.6 million in operating expenses for the three months ended September 30, 2022, as compared to the corresponding prior year

period, was partly due to the acquisition of a majority interest in Trident, which added \$2.8 million of expenses, compensation and benefits expense of \$1.8 million primarily related to increased employee medical benefit claims, and data processing expense of \$1.2 million, as a result of the migration to a new core banking system. These increases were partly offset by a decrease in professional fees of \$615,000.

Operating expenses increased to \$175.2 million for the nine months ended September 30, 2022, as compared to \$162.0 million in the same prior year period. Operating expenses for the nine months ended September 30, 2022 and 2021 included \$3.1 million and \$6.1 million, respectively, of merger related and net branch consolidation expenses. The remaining increase of \$16.2 million in operating expenses for the nine months ended September 30, 2022, as compared to the corresponding prior year period, was partly due to the impact of Trident, which added \$6.0 million of expenses, and increases in compensation and benefits expense of \$5.3 million partly relating to the commercial banking strategy and commercial banking hires in expansion markets of Boston and Baltimore, data processing expense of \$4.6 million as a result of the migration to a new core banking system, and federal deposit insurance and regulatory assessments of \$1.0 million as a result of a higher assessment base and multiplier. These increases were partly offset by a decrease in amortization of core deposit intangible of \$551,000.

Income Tax Expense

The provision for income taxes was \$12.3 million and \$29.2 million for the three and nine months ended September 30, 2022, respectively, as compared to \$7.4 million and \$28.1 million for the same prior year periods. The effective tax rate was 24.1% and 23.7% for the three and nine months ended September 30, 2022, respectively, as compared to 23.3% and 24.3% for the same prior year periods.

Liquidity and Capital Resources

The primary sources of liquidity specifically available to OceanFirst Financial Corp. are dividends from the Bank, proceeds from sale of investments, and the issuance of preferred and common stock, and debt. For the nine months ended September 30, 2022, the holding company received dividend payments of \$50.0 million from the Bank. At September 30, 2022, OceanFirst Financial Corp. held \$38.2 million in cash.

The Bank's primary sources of funds are deposits, principal and interest payments on loans and investments, FHLB advances, other borrowings, and proceeds from the sale of loans and investments. While scheduled payments on loans and securities are predictable sources of funds, deposit flows, loan prepayments, and loan and investment sales are greatly influenced by interest rates, economic conditions, and competition. The Bank has other sources of liquidity if a need for additional funds arises, including various lines of credit at multiple financial institutions and access to the Federal Reserve Bank discount window.

At September 30, 2022, the Bank had \$500.0 million of short-term advances and \$14.2 million of overnight borrowings from the FHLB, as compared to \$0 at December 31, 2021. The Bank regularly utilizes overnight and short-term borrowings to fund short-term liquidity needs.

The Company's cash needs for the nine months ended September 30, 2022 were primarily satisfied by the net proceeds from FHLB advances, deposits, which included the issuance of brokered time deposits, principal repayments on debt securities and loans, and proceeds from maturities and calls of debt maturities. The cash was principally utilized for loan originations, purchases of residential loan pools, purchases of debt and equity securities, redemption of subordinated debt, and dividend payments. 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.

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, 2022, outstanding commitments to originate loans totaled \$439.5 million and outstanding undrawn lines of credit totaled \$1.72 billion, of which \$1.34 billion were commitments to commercial and commercial construction borrowers and \$382.3 million were commitments to consumer borrowers and residential construction borrowers. 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 existing contracts. 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.

Time deposits scheduled to mature in one year or less totaled \$866.3 million at September 30, 2022.

At September 30, 2022, the Company also had various contractual obligations, which included debt obligations of \$805.4 million, including finance lease obligations of \$1.8 million, and an additional \$20.4 million in operating lease obligations included in other liabilities. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

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 Company and the Bank. Additionally, management performs multiple liquidity stress test scenarios on a quarterly basis. The Company and Bank continue to maintain adequate liquidity under all stress scenarios.

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. For the three months ended September 30, 2022, the Company did not repurchase any shares of its common stock. For the nine months ended September 30, 2022, the Company repurchased 373,223 shares of its common stock, at a total cost of \$7.4 million. For the three and nine months ended September 30, 2021, the Company repurchased 460,009 and 1.5 million shares of its common stock, respectively, at a total cost of \$9.7 million and \$30.6 million, respectively. At September 30, 2022, there were 2,934,438 shares available to be repurchased under the authorized stock repurchase program.

Cash dividends on common stock declared and paid during the first nine months of September 30, 2022 were \$31.8 million, as compared to \$30.4 million for the same prior year period. The increase in dividends was a result of an increase in the dividend rate from \$0.17 to \$0.20 per common share. On October 24, 2022, the Company's Board of Directors declared a quarterly cash

dividend of \$0.20 per common share. The dividend is payable on November 18, 2022 to common stockholders of record at the close of business on November 7, 2022.

Cash dividends on preferred stock declared and paid during the first nine months of September 30, 2022 and 2021 were \$3.0 million for both periods. The Company's Board of Directors also declared a quarterly cash dividend of \$0.4375 per depository share, representing 1/40th interest in the Series A Preferred Stock, payable on November 15, 2022 to preferred stockholders of record on October 31, 2022.

The Company's ability to continue to pay dividends remains 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.

As of September 30, 2022 and December 31, 2021, 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, 2022						
Bank:						
Tier 1 capital (to average assets)	\$ 1,097,654	9.23 %	\$ 475,574	4.00 %	\$ 594,467	5.00 %
Common equity Tier 1 (to risk-weighted assets)	1,097,654	10.98	699,932	7.00 ⁽¹⁾	649,937	6.50
Tier 1 capital (to risk-weighted assets)	1,097,654	10.98	849,918	8.50 ⁽¹⁾	799,923	8.00
Total capital (to risk-weighted assets)	1,154,421	11.55	1,049,899	10.50 ⁽¹⁾	999,903	10.00
Company:						
Tier 1 capital (to average assets)	\$ 1,106,915	9.30 %	\$ 475,873	4.00 %	N/A	N/A
Common equity Tier 1 (to risk-weighted assets)	978,012	9.69	706,355	7.00 ⁽¹⁾	N/A	N/A
Tier 1 capital (to risk-weighted assets)	1,106,915	10.97	857,717	8.50 ⁽¹⁾	N/A	N/A
Total capital (to risk-weighted assets)	1,289,224	12.78	1,059,533	10.50 ⁽¹⁾	N/A	N/A
As of December 31, 2021						
Bank:						
Tier 1 capital (to average assets)	\$ 1,027,660	9.08 %	\$ 452,669	4.00 %	\$ 565,836	5.00 %
Common equity Tier 1 (to risk-weighted assets)	1,027,660	11.62	619,178	7.00 ⁽¹⁾	574,951	6.50
Tier 1 capital (to risk-weighted assets)	1,027,660	11.62	751,860	8.50 ⁽¹⁾	707,633	8.00
Total capital (to risk-weighted assets)	1,079,766	12.21	928,768	10.50 ⁽¹⁾	884,541	10.00
Company:						
Tier 1 capital (to average assets)	\$ 1,044,518	9.22 %	\$ 453,087	4.00 %	N/A	N/A
Common equity Tier 1 (to risk-weighted assets)	917,088	10.26	625,801	7.00 ⁽¹⁾	N/A	N/A
Tier 1 capital (to risk-weighted assets)	1,044,518	11.68	759,902	8.50 ⁽¹⁾	N/A	N/A
Total capital (to risk-weighted assets)	1,257,372	14.06	938,702	10.50 ⁽¹⁾	N/A	N/A

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

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

At September 30, 2022 and December 31, 2021, the Company maintained a stockholders' equity to total assets ratio of 12.14% and 12.92%, respectively.

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, 2022	December 31, 2021
	(dollars in thousands)	
Non-performing loans:		
Commercial real estate – investor	\$ 9,866	\$ 3,614
Commercial real estate – owner occupied	1,976	11,904
Commercial and industrial	321	277
Residential real estate	5,958	6,114
Other consumer	3,377	3,585
Total non-performing loans	21,498	25,494
Other real estate owned	—	106
Total non-performing assets	\$ 21,498	\$ 25,600
PCD loans, net of allowance for loan credit losses	\$ 29,249	\$ 41,817
Delinquent loans 30-89 days	\$ 11,846	\$ 14,546
Allowance for loan credit losses as a percent of total loans	0.55 %	0.57 %
Allowance for loan credit losses as a percent of total non-performing loans	248.96	191.61
Non-performing loans as a percent of total loans receivable	0.22	0.30
Non-performing assets as a percent of total assets	0.17	0.22

The Company's non-performing loans totaled \$21.5 million at September 30, 2022, as compared to \$25.5 million at December 31, 2021, primarily due to loans that were paid off and partly due to loans that returned to accrual status. Included in the non-performing loans total was \$10.0 million and \$11.3 million of troubled debt restructuring ("TDR") loans at September 30, 2022 and December 31, 2021, respectively. Included in the non-performing loans total was \$3.0 million and \$6.5 million of PCD loans at September 30, 2022 and December 31, 2021, respectively. At September 30, 2022, the allowance for loan credit losses totaled \$53.5 million, or 0.55% of total loans, as compared to \$48.9 million, or 0.57% of total loans, at December 31, 2021. These ratios exclude existing net unamortized credit and PCD marks on acquired loans of \$13.6 million and \$18.9 million at September 30, 2022 and December 31, 2021, respectively.

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

	September 30, 2022	December 31, 2021
Special Mention	\$ 54,330	\$ 91,607
Substandard	97,353	148,557

The decreases in special mention and substandard loans were primarily due to improved profitability of borrowers and their ability to service their loans. The decrease in special mention also included one commercial loan of \$14.1 million, which was repaid in full during the nine months ended September 30, 2022.

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, 2021 (the "2021 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 subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at estimated fair value or the lower of cost or estimated fair value. Policies with respect to the methodology used to determine the allowance for credit losses is a critical accounting policy and estimate because of its importance to the presentation of the Company's financial condition and results of operations. The critical accounting policy involves a higher degree of complexity and requires 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. The critical accounting policy and its application is reviewed periodically, and at least annually, with the Audit Committee of the Board of Directors.

Impact of New Accounting Pronouncements

Accounting Pronouncements Adopted in 2022

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes" as part of an initiative to reduce complexity in accounting standards for income taxes. The amendments also improve consistent application of and simplify generally accepted accounting principles for other areas of Topic 740 by clarifying and amending existing guidance. This update was effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2021. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In June 2022, FASB issued ASU 2022-03, "Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions". The amendments in this ASU clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. In addition, this update introduces new disclosure requirements to provide information about the contractual sales restriction including the nature and remaining duration of the restriction. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2023. Early adoption is permitted. The Company does not expect this standard to have a material impact to the consolidated financial statements.

In March 2022, FASB issued ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures". The amendments in this ASU were issued to (1) eliminate accounting guidance for TDRs by creditors, while enhancing disclosure requirements for loan refinancings and restructurings when a borrower is experiencing financial difficulty; (2) require disclosures of current period gross write-offs by year of origination for financing receivables and net investments in leases. For entities that have adopted the amendments in ASU 2016-13, Measurement of Credit Losses on Financial Instruments, this update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2022. Early adoption is permitted. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, where there is an option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company plans to adopt this standard on January 1, 2023 and is currently evaluating the impact of this standard to the consolidated financial statements.

In March 2022, FASB issued ASU 2022-01 "Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method", which made targeted improvements to the optional hedge accounting model with the objective of improving hedge accounting to better portray the economic results of an entity's risk management activities in its financial statements. This update will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2022. Early adoption is permitted for any entity that has adopted the amendments in ASU 2017-12 for the corresponding period. The Company does not expect this standard to have a material impact to the consolidated financial statements.

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 future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to: implications arising from the termination of the proposed merger with Partners Bancorp; the impact of the COVID-19 or any other pandemic on our operations and financial results and those of our customers, changes in interest rates, inflation, general economic conditions, levels of unemployment in the Bank's lending area, real estate market values in the Bank's lending area, future natural disasters and increases to flood insurance premiums, the current or anticipated impact of military conflict, terrorism or other geopolitical events, the level of prepayments on loans and mortgage-backed securities, legislative/regulatory changes, volatility and deterioration in the credit and equity markets, our ability to access low-cost funding, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area, changes in accounting principles, a failure in or breach of the Company's operational or security systems or infrastructure, including cyberattacks; and the Bank's ability to successfully integrate acquired operations.

These risks and uncertainties are further discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, under Item 1A - Risk Factors and elsewhere, and subsequent securities filings and should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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, 2022, which were estimated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. At September 30, 2022, the Company's one-year gap was positive 7.90% as compared to positive 14.15% at December 31, 2021.

The table is intended to provide an approximation of the projected repricing of assets and liabilities at September 30, 2022 on the basis of contractual maturities, anticipated prepayments, scheduled rate adjustments, and the rate sensitivity of non-maturity deposits within a three month period and subsequent selected time intervals.

At September 30, 2022 (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:						
Interest-earning deposits and short-term investments	\$ 24,618	\$ 2,877	\$ 1,637	\$ —	\$ —	\$ 29,132
Debt securities	428,968	116,384	257,157	246,065	502,106	1,550,680
Equity investments	—	1,976	—	—	79,746	81,722
Restricted equity investments	—	—	—	—	77,556	77,556
Loans receivable ⁽¹⁾	2,867,647	906,276	2,012,915	1,708,759	2,226,712	9,722,309
Total interest-earning assets	3,321,233	1,027,513	2,271,709	1,954,824	2,886,120	11,461,399
Interest-bearing liabilities:						
Interest-bearing checking accounts	1,363,083	193,502	447,123	362,170	1,543,986	3,909,864
Money market deposit accounts	49,750	51,889	120,292	331,950	195,348	749,229
Savings accounts	110,277	127,553	288,159	225,694	818,789	1,570,472
Time deposits	319,431	547,092	497,972	29,314	10,548	1,404,357
FHLB advances	514,200	—	—	—	—	514,200
Securities sold under agreements to repurchase and other borrowings	166,100	145	123,875	525	558	291,203
Total interest-bearing liabilities	2,522,841	920,181	1,477,421	949,653	2,569,229	8,439,325
Interest sensitivity gap ⁽²⁾	\$ 798,392	\$ 107,332	\$ 794,288	\$ 1,005,171	\$ 316,891	\$ 3,022,074
Cumulative interest sensitivity gap	\$ 798,392	\$ 905,724	\$ 1,700,012	\$ 2,705,183	\$ 3,022,074	\$ 3,022,074
Cumulative interest sensitivity gap as a percent of total interest-earning assets	6.97 %	7.90 %	14.83 %	23.60 %	26.37 %	26.37 %

(1) 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.

(2) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

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

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, 2022 and December 31, 2021. 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 2021 Form 10-K.

Change in Interest Rates in Basis Points (Rate Shock) (dollars in thousands)	September 30, 2022						December 31, 2021					
	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	\$ 1,543,173	(12.7)%	14.3 %	\$ 449,321	5.4 %		\$ 1,817,134	24.5 %	16.7 %	\$ 346,723	10.3 %	
200	1,611,932	(8.8)	14.5	441,660	3.6		1,738,602	19.1	15.6	336,816	7.1	
100	1,650,035	(6.7)	14.4	432,993	1.6		1,621,984	11.1	14.2	325,960	3.7	
Static	1,768,413	—	14.9	426,313	—		1,459,706	—	12.5	314,395	—	
(100)	1,682,967	(4.8)	13.9	405,872	(4.8)		1,230,947	(15.7)	10.3	299,994	(4.6)	

The change in interest rate sensitivity was impacted by the deployment of cash into loans, a shift out of overnight borrowings into short-term borrowings, a slowdown in loan and securities prepayment speeds, and a significant increase in market interest rates.

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

Item 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, 2022 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, 2022 (Unaudited)	December 31, 2021
Assets		
Cash and due from banks	\$ 170,668	\$ 204,949
Debt securities available-for-sale, at estimated fair value	470,300	568,255
Debt securities held-to-maturity, net of allowance for securities credit losses of \$1,234 at September 30, 2022 and \$1,467 at December 31, 2021 (estimated fair value of \$905,426 at September 30, 2022 and \$1,152,744 at December 31, 2021)	1,027,712	1,139,193
Equity investments	81,722	101,155
Restricted equity investments, at cost	77,556	53,195
Loans receivable, net of allowance for loan credit losses of \$53,521 at September 30, 2022 and \$48,850 at December 31, 2021	9,672,488	8,583,352
Loans held-for-sale	3,549	—
Interest and dividends receivable	38,388	32,606
Other real estate owned	—	106
Premises and equipment, net	127,868	125,828
Bank owned life insurance	261,118	259,207
Assets held for sale	3,216	6,229
Goodwill	506,146	500,319
Core deposit intangible	14,656	18,215
Other assets	228,066	147,007
Total assets	\$ 12,683,453	\$ 11,739,616
Liabilities and Stockholders' Equity		
Deposits	\$ 9,959,469	\$ 9,732,816
Federal Home Loan Bank ("FHLB") advances	514,200	—
Securities sold under agreements to repurchase with customers	96,289	118,769
Other borrowings	194,914	229,141
Advances by borrowers for taxes and insurance	25,457	20,305
Other liabilities	352,908	122,032
Total liabilities	11,143,237	10,223,063
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, 2022 and December 31, 2021	1	1
Common stock, \$0.01 par value, 150,000,000 shares authorized, 61,872,065 and 61,535,381 shares issued at September 30, 2022 and December 31, 2021, respectively; and 59,138,507 and 59,175,046 shares outstanding at September 30, 2022 and December 31, 2021, respectively	612	611
Additional paid-in capital	1,153,072	1,146,781
Retained earnings	499,967	442,306
Accumulated other comprehensive loss	(38,496)	(2,821)
Less: Unallocated common stock held by Employee Stock Ownership Plan ("ESOP")	(6,797)	(8,615)
Treasury stock, 2,733,558 and 2,360,335 shares at September 30, 2022 and December 31, 2021, respectively	(69,106)	(61,710)
OceanFirst Financial Corp. stockholders' equity	1,539,253	1,516,553
Non-controlling interest	963	—
Total stockholders' equity	1,540,216	1,516,553
Total liabilities and stockholders' equity	\$ 12,683,453	\$ 11,739,616

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	\$ 100,141	\$ 78,889	\$ 273,340	\$ 233,845
Debt securities	8,479	5,040	23,456	16,379
Equity investments and other	1,879	1,491	4,102	3,411
Total interest income	110,499	85,420	300,898	253,635
Interest expense:				
Deposits	9,238	5,379	17,596	20,200
Borrowed funds	5,296	2,909	12,313	8,683
Total interest expense	14,534	8,288	29,909	28,883
Net interest income	95,965	77,132	270,989	224,752
Credit loss expense (benefit)	1,016	(3,179)	4,121	(10,259)
Net interest income after credit loss expense (benefit)	94,949	80,311	266,868	235,011
Other income:				
Bankcard services revenue	1,509	3,409	7,782	10,052
Trust and asset management revenue	568	584	1,835	1,774
Fees and service charges	6,320	2,973	17,026	10,519
Net gain (loss) on sales of loans	168	(15)	348	3,180
Net gain (loss) on equity investments	3,362	(466)	(7,502)	8,397
Net gain (loss) from other real estate operations	—	(3)	48	(12)
Income from bank owned life insurance	1,356	1,640	4,881	4,771
Commercial loan swap income	1,471	1,588	6,546	2,772
Other	396	173	579	1,068
Total other income	15,150	9,883	31,543	42,521
Operating expenses:				
Compensation and employee benefits	34,124	30,730	97,972	89,008
Occupancy	5,288	5,005	15,790	15,380
Equipment	1,150	1,124	3,856	4,008
Marketing	655	496	2,242	1,555
Federal deposit insurance and regulatory assessments	1,757	1,459	5,435	4,422
Data processing	6,560	5,363	18,466	13,796
Check card processing	1,231	1,337	3,728	4,012
Professional fees	2,502	3,089	8,296	8,317
Amortization of core deposit intangible	1,171	1,354	3,559	4,110
Branch consolidation (benefit) expense, net	(346)	4,014	602	5,051
Merger related expenses	298	225	2,459	1,052
Other operating expense	4,607	4,477	12,748	11,315
Total operating expenses	58,997	58,673	175,153	162,026
Income before provision for income taxes	51,102	31,521	123,258	115,506
Provision for income taxes	12,298	7,354	29,212	28,087
Net income	38,804	24,167	94,046	87,419
Net income attributable to non-controlling interest	193	—	715	—
Net income attributable to OceanFirst Financial Corp.	38,611	24,167	93,331	87,419
Dividends on preferred shares	1,004	1,004	3,012	3,012
Net income available to common stockholders	\$ 37,607	\$ 23,163	\$ 90,319	\$ 84,407
Basic earnings per share	\$ 0.64	\$ 0.40	\$ 1.54	\$ 1.42
Diluted earnings per share	\$ 0.64	\$ 0.39	\$ 1.53	\$ 1.41
Average basic shares outstanding	58,681	59,311	58,777	59,619
Average diluted shares outstanding	58,801	59,515	58,918	59,862

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
Net income	\$ 38,804	\$ 24,167	\$ 94,046	\$ 87,419
Other comprehensive loss:				
Net unrealized loss on debt securities (net of tax benefit of \$3,023 and \$11,411 in 2022 and tax benefit of \$232 and \$446 in 2021)	(9,490)	(855)	(35,858)	(1,658)
Accretion of unrealized loss on debt securities reclassified to held-to-maturity (net of tax expense of \$60 and \$186 in 2022 and tax expense of \$66 and \$209 in 2021)	87	95	265	303
Reclassification adjustment for gains included in net income (net of tax benefit of \$26 in 2022)	—	—	(82)	—
Total other comprehensive loss, net of tax	(9,403)	(760)	(35,675)	(1,355)
Total comprehensive income	29,401	23,407	58,371	86,064
Less: comprehensive income attributable to non-controlling interest	193	—	715	—
Comprehensive income attributable to OceanFirst Financial Corp.	29,208	23,407	57,656	86,064
Less: Dividends on preferred shares	1,004	1,004	3,012	3,012
Comprehensive income available to common stockholders	\$ 28,204	\$ 22,403	\$ 54,644	\$ 83,052

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, 2022 and 2021

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Employee Stock Ownership Plan	Treasury Stock	Non- Controlling Interest	Total
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>\$ —</u>	<u>\$ 1,513,249</u>
Balance at June 30, 2022	\$ 1	\$ 612	\$ 1,151,363	\$ 474,114	\$ (29,093)	\$ (7,403)	\$ (69,106)	\$ 944	\$ 1,521,432
Net income	—	—	—	38,611	—	—	—	193	38,804
Other comprehensive loss, net of tax	—	—	—	—	(9,403)	—	—	—	(9,403)
Stock compensation	—	—	1,619	—	—	—	—	—	1,619
Allocation of ESOP stock	—	—	(5)	—	—	606	—	—	601
Cash dividend \$0.20 per share	—	—	—	(11,752)	—	—	—	—	(11,752)
Exercise of stock options	—	—	95	—	—	—	—	—	95
Preferred stock dividend	—	—	—	(1,004)	—	—	—	—	(1,004)
Distributions to non-controlling interest	—	—	—	(2)	—	—	—	(174)	(176)
Balance at September 30, 2022	<u>\$ 1</u>	<u>\$ 612</u>	<u>\$ 1,153,072</u>	<u>\$ 499,967</u>	<u>\$ (38,496)</u>	<u>\$ (6,797)</u>	<u>\$ (69,106)</u>	<u>\$ 963</u>	<u>\$ 1,540,216</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, 2022 and 2021

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Employee Stock Ownership Plan	Treasury Stock	Non- Controlling Interest	Total
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>\$ —</u>	<u>\$ 1,513,249</u>
Balance at December 31, 2021	\$ 1	\$ 611	\$ 1,146,781	\$ 442,306	\$ (2,821)	\$ (8,615)	\$ (61,710)	\$ —	\$ 1,516,553
Net income	—	—	—	93,331	—	—	—	715	94,046
Other comprehensive loss, net of tax	—	—	—	—	(35,675)	—	—	—	(35,675)
Stock compensation	—	—	5,019	—	—	—	—	—	5,019
Allocation of ESOP stock	—	—	30	—	—	1,818	—	—	1,848
Cash dividend \$0.54 per share	—	—	—	(31,767)	—	—	—	—	(31,767)
Exercise of stock options	—	1	1,242	(897)	—	—	—	—	346
Repurchase 373,223 shares of common stock	—	—	—	—	—	—	(7,396)	—	(7,396)
Preferred stock dividend	—	—	—	(3,012)	—	—	—	—	(3,012)
Acquisition of Trident Abstract Title Agency, LLC ("Trident")	—	—	—	—	—	—	—	836	836
Distributions to non-controlling interest	—	—	—	6	—	—	—	(588)	(582)
Balance at September 30, 2022	<u>\$ 1</u>	<u>\$ 612</u>	<u>\$ 1,153,072</u>	<u>\$ 499,967</u>	<u>\$ (38,496)</u>	<u>\$ (6,797)</u>	<u>\$ (69,106)</u>	<u>\$ 963</u>	<u>\$ 1,540,216</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,	
	2022	2021
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 94,046	\$ 87,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	8,526	6,150
Allocation of ESOP stock	1,848	1,056
Stock compensation	5,019	4,231
Net excess tax expense on stock compensation	215	93
Amortization of servicing asset	77	60
Net premium amortization in excess of discount accretion on securities	5,522	5,719
Net amortization of deferred costs on borrowings	416	688
Amortization of core deposit intangible	3,559	4,110
Net accretion of purchase accounting adjustments	(7,433)	(10,720)
Net amortization of deferred costs and discounts on loans	349	606
Provision (benefit) for credit losses	4,121	(10,259)
Net gain on sale of other real estate owned	(54)	—
Net write down of fixed assets held-for-sale to net realizable value	1,427	3,114
Net (gain) loss on sale of fixed assets	(52)	11
Net loss (gain) on equity securities	7,502	(8,397)
Net gain on sales of loans	(348)	(3,180)
Proceeds from sales of residential loans held for sale	10,266	101,992
Mortgage loans originated for sale	(13,677)	(53,935)
Increase in value of bank owned life insurance	(4,881)	(4,771)
Net gain on sale of assets held for sale	(1,947)	(318)
(Increase) decrease in interest and dividends receivable	(5,782)	2,757
Deferred tax (benefit) expense	(66)	570
(Increase) decrease in other assets	(84,582)	29,366
Increase (decrease) in other liabilities	185,927	(37,311)
Total adjustments	115,952	31,632
Net cash provided by operating activities	209,998	119,051
Cash flows from investing activities:		
Net increase in loans receivable	(938,915)	(203,104)
Proceeds from sale of loans	13,388	825
Purchase of residential loan pool	(161,701)	(219,745)
Premiums paid on purchased loan pool	(495)	(6,318)
Purchase of debt securities available-for-sale	(64,862)	(200,034)
Purchase of debt securities held-to-maturity	(26,666)	(381,032)
Purchase of equity investments	(5,935)	(85,077)
Proceeds from maturities and calls of debt securities available-for-sale	84,200	93,835
Proceeds from maturities and calls of debt securities held-to-maturity	25,126	22,125
Proceeds from sales of debt securities available-for-sale	30,257	—
Proceeds from sale of equity investments	19,235	98,776
Principal repayments on debt securities available-for-sale	—	114
Principal repayments on debt securities held-to-maturity	111,283	168,059
Proceeds from bank owned life insurance	2,970	9,952
Proceeds from the redemption of restricted equity investments	164,939	1,110
Purchases of restricted equity investments	(189,300)	(2,069)
Proceeds from sale of other real estate owned	160	—
Proceeds from sales of assets held-for-sale	7,676	2,601
Purchases of premises and equipment	(14,358)	(26,493)
Purchases of operating lease equipment	(4,789)	—
Net cash consideration received for acquisition	38,609	—
Net cash used in investing activities	(909,178)	(726,475)

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

	For the Nine Months Ended September 30,	
	2022	2021
	(Unaudited)	
Cash flows from financing activities:		
Increase in deposits	\$ 227,192	\$ 347,672
(Decrease) increase in short-term borrowings	(22,480)	14,838
Net proceeds from FHLB advances	514,200	—
Repayments of other borrowings	(35,076)	(7,585)
Increase in advances by borrowers for taxes and insurance	5,152	4,918
Exercise of stock options	346	1,833
Payment of employee taxes withheld from stock awards	(1,473)	(1,176)
Purchase of treasury stock	(7,396)	(30,628)
Dividends paid	(34,779)	(33,437)
Distributions to non-controlling interest	(582)	—
Net cash provided by financing activities	645,104	296,435
Net decrease in cash and due from banks and restricted cash	(54,076)	(310,989)
Cash and due from banks and restricted cash at beginning of period	224,784	1,318,661
Cash and due from banks and restricted cash at end of period	\$ 170,708	\$ 1,007,672
Supplemental Disclosure of Cash Flow Information:		
Cash and due from banks at beginning of period	\$ 204,949	\$ 1,272,134
Restricted cash at beginning of period	19,835	46,527
Cash and due from banks and restricted cash at beginning of period	\$ 224,784	\$ 1,318,661
Cash and due from banks at end of period	\$ 170,668	\$ 981,126
Restricted cash at end of period	40	26,546
Cash and due from banks and restricted cash at end of period	\$ 170,708	\$ 1,007,672
Cash paid during the period for:		
Interest	\$ 27,953	\$ 28,009
Income taxes	12,633	38,707
Non-cash activities:		
Accretion of unrealized loss on securities reclassified to held-to-maturity	451	512
Net loan recoveries	(335)	(442)
Transfer of loans receivable to loans held-for-sale	13,178	12,781
Transfer of premises and equipment to assets held-for-sale	2,776	1,476
Acquisition:		
Non-cash assets acquired:		
Other current assets	\$ 238	\$ —
Premises and equipment	18	—
Right of use (“ROU”) asset	779	—
Other assets	81	—
Total non-cash assets acquired	\$ 1,116	\$ —
Liabilities assumed:		
Lease liability	\$ 779	\$ —
Other liabilities	43,937	—
Total liabilities assumed	\$ 44,716	\$ —

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”), its wholly-owned subsidiaries, OceanFirst Bank N.A. (the “Bank”) and OceanFirst Risk Management, Inc.; the Bank’s direct and indirect wholly-owned subsidiaries, OceanFirst REIT Holdings, Inc., OceanFirst Management Corp., OceanFirst Realty Corp., Casaba Real Estate Holdings Corporation, and Country Property Holdings, Inc; and a majority controlling interest in Trident Abstract Title Agency, LLC. Certain other subsidiaries were dissolved in 2022 and are included in the consolidated financial statements for previous periods. All significant intercompany accounts and transactions have been eliminated in consolidation.

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, 2022 are not necessarily indicative of the results of operations that may be expected for the full year 2022 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 periods presented. 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, 2021.

OceanFirst Financial Corp.
Notes to Unaudited Consolidated Financial Statements

Note 2. Business Combinations
Trident Acquisition

On April 1, 2022, the Company completed its acquisition of a majority controlling interest of 60% in Trident. Trident provides commercial and residential title services throughout New Jersey, and through strategic alliances can also service clients' title insurance needs outside of New Jersey. The acquisition is complimentary to the Company's existing consumer and commercial lending business. Total consideration paid was \$7.1 million and goodwill from the transaction amounted to \$5.8 million.

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. The excess of consideration paid over the estimated fair value of the net assets acquired, excluding the net assets attributable to the non-controlling interest, has been recorded as goodwill.

The Company consolidated Trident's assets, liabilities and components of comprehensive income within its consolidated results. Thus, the consolidated results include amounts attributable to the Company and the non-controlling interest. Amounts attributable to the non-controlling interest are presented separately as a single line on the Consolidated Statements of Income (net income attributable to non-controlling interest) and the Consolidated Statements of Financial Condition (non-controlling interest in stockholders' equity). Amounts attributed to the non-controlling interest are based upon the ownership interest in Trident that the Company does not own. For further discussion on the accounting for this arrangement refer to Note 11 Variable Interest Entity, of this Form 10-Q.

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

	At April 1, 2022
	Estimated Fair Value
Total purchase price:	\$ 7,084
Assets acquired:	
Cash and cash equivalents	\$ 45,693
Other current assets	238
Premises and equipment	18
ROU asset	779
Other assets	81
Total assets acquired	46,809
Liabilities assumed:	
Lease liability	779
Other liabilities	43,937
Total liabilities assumed	44,716
Net assets acquired	\$ 2,093
Net assets attributable to non-controlling interest	\$ 836
Goodwill recorded	\$ 5,827

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

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

Note 3. Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Weighted average shares outstanding	59,134	59,722	59,245	60,050
Less: Unallocated ESOP shares	(363)	(353)	(393)	(369)
Unallocated incentive award shares	(90)	(58)	(75)	(62)
Average basic shares outstanding	58,681	59,311	58,777	59,619
Add: Effect of dilutive securities:				
Incentive awards	120	204	141	243
Average diluted shares outstanding	58,801	59,515	58,918	59,862

For both the three and nine months ended September 30, 2022, antidilutive stock options of 1,552,000 were excluded from the earnings per share calculation. 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 per share calculation.

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, 2022 and December 31, 2021 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
At September 30, 2022					
Debt securities available-for-sale:					
U.S. government and agency obligations	\$ 107,198		\$ (8,099)	\$ 99,099	\$ —
Corporate debt securities	5,000	—	(628)	4,372	—
Asset-backed securities	296,228	—	(21,355)	274,873	—
Agency commercial mortgage-backed securities (“MBS”)	110,871	—	(18,915)	91,956	—
Total debt securities available-for-sale	<u>\$ 519,297</u>	<u>\$ —</u>	<u>\$ (48,997)</u>	<u>\$ 470,300</u>	<u>\$ —</u>
Debt securities held-to-maturity:					
State, municipal and sovereign debt obligations	\$ 263,614	\$ —	\$ (31,052)	\$ 232,562	\$ (63)
Corporate debt securities	59,000	403	(3,135)	56,268	(1,135)
Mortgage-backed securities:					
Agency residential	674,356	103	(89,696)	584,763	—
Agency commercial	7,440	6	(279)	7,167	—
Non-agency commercial	26,973	—	(2,307)	24,666	(36)
Total mortgage-backed securities	<u>708,769</u>	<u>109</u>	<u>(92,282)</u>	<u>616,596</u>	<u>(36)</u>
Total debt securities held-to-maturity	<u>\$ 1,031,383</u>	<u>\$ 512</u>	<u>\$ (126,469)</u>	<u>\$ 905,426</u>	<u>\$ (1,234)</u>
Total debt securities	<u>\$ 1,550,680</u>	<u>\$ 512</u>	<u>\$ (175,466)</u>	<u>\$ 1,375,726</u>	<u>\$ (1,234)</u>
At December 31, 2021					
Debt securities available-for-sale:					
U.S. government and agency obligations	\$ 164,756	\$ 1,135	\$ (471)	\$ 165,420	\$ —
Corporate debt securities	5,000	42	(11)	5,031	—
Asset-backed securities	298,976	41	(1,489)	297,528	—
Agency commercial MBS	101,142	57	(923)	100,276	—
Total debt securities available-for-sale	<u>\$ 569,874</u>	<u>\$ 1,275</u>	<u>\$ (2,894)</u>	<u>\$ 568,255</u>	<u>\$ —</u>
Debt securities held-to-maturity:					
State, municipal, and sovereign debt obligations	\$ 281,389	\$ 10,185	\$ (1,164)	\$ 290,410	\$ (85)
Corporate debt securities	68,823	1,628	(1,279)	69,172	(1,343)
Mortgage-backed securities:					
Agency residential	756,844	6,785	(7,180)	756,449	—
Agency commercial	4,385	7	(44)	4,348	—
Non-agency commercial	32,107	362	(104)	32,365	(39)
Total mortgage-backed securities	<u>793,336</u>	<u>7,154</u>	<u>(7,328)</u>	<u>793,162</u>	<u>(39)</u>
Total debt securities held-to-maturity	<u>\$ 1,143,548</u>	<u>\$ 18,967</u>	<u>\$ (9,771)</u>	<u>\$ 1,152,744</u>	<u>\$ (1,467)</u>
Total debt securities	<u>\$ 1,713,422</u>	<u>\$ 20,242</u>	<u>\$ (12,665)</u>	<u>\$ 1,720,999</u>	<u>\$ (1,467)</u>

There was no allowance for securities credit losses on debt securities available-for-sale at September 30, 2022 or December 31, 2021. The unrealized losses across security classes were due to interest rate movements. In addition, the asset-backed securities, which are largely comprised of collateralized-loan obligations, and the corporate debt securities were also impacted by credit spread widening across the fixed income markets. All of these securities are rated investment grade.

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

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, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Allowance for securities credit losses				
Beginning balance	\$ (1,293)	\$ (1,609)	\$ (1,467)	\$ (1,715)
Credit loss benefit	59	106	233	212
Total ending allowance balance	<u>\$ (1,234)</u>	<u>\$ (1,503)</u>	<u>\$ (1,234)</u>	<u>\$ (1,503)</u>

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. Credit ratings of BBB- or Baa3 or higher are considered investment grade. Where multiple ratings are available, the Company considers the lowest rating when determining the allowance for securities credit losses. Under this approach, the amortized cost of debt securities held-to-maturity at September 30, 2022, aggregated by credit quality indicator, are as follows (in thousands):

	Investment Grade	Non-Investment Grade/Non-rated	Total
As of September 30, 2022			
State, municipal and sovereign debt obligations	\$ 263,614	\$ —	\$ 263,614
Corporate debt securities	43,635	15,365	59,000
Non-agency commercial MBS	26,973	—	26,973
Total debt securities held-to-maturity	<u>\$ 334,222</u>	<u>\$ 15,365</u>	<u>\$ 349,587</u>

During 2021 and 2013, the Bank transferred \$12.7 million and \$536.0 million, respectively, 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 \$209,000 and \$13.3 million at the time of transfer in 2021 and 2013, respectively, which continues to be reflected in accumulated other comprehensive loss 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, 2022 and December 31, 2021 is as follows (in thousands):

	September 30, 2022	December 31, 2021
Amortized cost	\$ 1,031,383	\$ 1,143,548
Net loss on date of transfer from available-for-sale	(13,556)	(13,556)
Allowance for securities credit losses	(1,234)	(1,467)
Accretion of net unrealized loss on securities reclassified as held-to-maturity	11,119	10,668
Carrying value	<u>\$ 1,027,712</u>	<u>\$ 1,139,193</u>

There were \$131,000 and \$23,000 of realized gains on debt securities for the three and nine months ended September 30, 2022. There were no realized gains or losses on debt securities for the three and nine months ended September 30, 2021.

The amortized cost and estimated fair value of debt securities at September 30, 2022 by contractual maturity are shown below (in thousands).

	Amortized Cost	Estimated Fair Value
September 30, 2022		
Less than one year	\$ 55,326	\$ 54,972
Due after one year through five years	166,980	154,459
Due after five years through ten years	225,771	205,348
Due after ten years	282,963	252,395
	<u>\$ 731,040</u>	<u>\$ 667,174</u>

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

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, 2022, corporate debt securities, state and municipal obligations, and asset-backed securities with an amortized cost of \$56.0 million, \$75.0 million, and \$296.2 million, respectively, and an estimated fair value of \$52.7 million, \$68.7 million, and \$274.9 million, respectively, were callable prior to the maturity date. 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 for the ability to draw on FHLB advances, access to the Federal Reserve discount window, and other borrowings and for other purposes required by law amounted to \$866.5 million and \$1.14 billion at September 30, 2022 and December 31, 2021, respectively, which included \$105.5 million and \$142.9 million at September 30, 2022 and December 31, 2021, respectively, pledged as collateral for securities sold under agreements to repurchase.

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, 2022 and December 31, 2021, 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, 2022						
Debt securities available-for-sale:						
U.S. government and agency obligations	\$ 75,464	\$ (5,924)	\$ 23,635	\$ (2,175)	\$ 99,099	\$ (8,099)
Corporate debt securities	3,496	(504)	877	(124)	4,373	(628)
Asset-backed securities	216,926	(16,650)	57,947	(4,705)	274,873	(21,355)
Agency commercial MBS	77,878	(16,233)	14,078	(2,682)	91,956	(18,915)
Total debt securities available-for-sale	373,764	(39,311)	96,537	(9,686)	470,301	(48,997)
Debt securities held-to-maturity:						
State, municipal and sovereign debt obligations	172,090	(22,460)	58,649	(8,592)	230,739	(31,052)
Corporate debt securities	14,142	(319)	36,516	(2,816)	50,658	(3,135)
MBS:						
Agency residential	252,724	(26,933)	318,925	(62,763)	571,649	(89,696)
Agency commercial	3,609	(242)	2,092	(37)	5,701	(279)
Non-agency commercial	20,512	(1,981)	4,154	(326)	24,666	(2,307)
Total MBS	276,845	(29,156)	325,171	(63,126)	602,016	(92,282)
Total debt securities held-to-maturity	463,077	(51,935)	420,336	(74,534)	883,413	(126,469)
Total debt securities	\$ 836,841	\$ (91,246)	\$ 516,873	\$ (84,220)	\$ 1,353,714	\$ (175,466)
At December 31, 2021						
Debt securities available-for-sale:						
U.S. government and agency obligations	\$ 82,395	\$ (471)	\$ —	\$ —	\$ 82,395	\$ (471)
Corporate debt securities	1,989	(11)	—	—	1,989	(11)
Asset-backed securities	279,486	(1,489)	—	—	279,486	(1,489)
Agency commercial MBS	80,726	(923)	—	—	80,726	(923)
Total debt securities available-for-sale	444,596	(2,894)	—	—	444,596	(2,894)
Debt securities held-to-maturity:						
State, municipal, and sovereign debt obligations	75,329	(1,063)	4,383	(101)	79,712	(1,164)
Corporate debt securities	38,304	(1,279)	—	—	38,304	(1,279)
MBS:						
Agency residential	445,399	(5,822)	50,133	(1,358)	495,532	(7,180)
Agency commercial	2,255	(41)	886	(3)	3,141	(44)
Non-agency commercial	10,722	(104)	—	—	10,722	(104)
Total MBS	458,376	(5,967)	51,019	(1,361)	509,395	(7,328)
Total debt securities held-to-maturity	572,009	(8,309)	55,402	(1,462)	627,411	(9,771)
Total debt securities	\$ 1,016,605	\$ (11,203)	\$ 55,402	\$ (1,462)	\$ 1,072,007	\$ (12,665)

The Company concluded that debt securities were not impaired at September 30, 2022 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 change in net unrealized losses were primarily due to changes in the general credit and interest rate environment and not credit quality. Historically, the Company has not utilized securities sales as a source of liquidity and the Company's liquidity plans include adequate sources of liquidity outside the securities portfolio.

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

Equity Investments

At September 30, 2022 and December 31, 2021, the Company held equity investments of \$81.7 million and \$101.2 million, respectively. The equity investments primarily comprised of select financial services institutions' preferred and common stocks and, to a lesser extent, other equity investments in funds and other financial institutions.

The realized and unrealized gains or losses on equity securities for the three and nine months ended September 30, 2022 and 2021 are shown in the table below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net gain (loss) on equity investments	\$ 3,362	\$ (466)	\$ (7,502)	\$ 8,397
Less: Net gains recognized on equity securities sold	—	—	1,351	8,123
Unrealized gain (loss) recognized on equity securities still held	<u>\$ 3,362</u>	<u>\$ (466)</u>	<u>\$ (8,853)</u>	<u>\$ 274</u>

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

Note 5. Loans Receivable, Net

Loans receivable, net at September 30, 2022 and December 31, 2021 consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Commercial:		
Commercial real estate – investor	\$ 5,007,637	\$ 4,378,061
Commercial real estate – owner occupied	983,784	1,055,065
Commercial and industrial ⁽¹⁾	652,620	449,224
Total commercial	6,644,041	5,882,350
Consumer:		
Residential real estate	2,813,209	2,479,701
Home equity loans and lines and other consumer (“other consumer”)	261,510	260,819
Total consumer	3,074,719	2,740,520
Total loans receivable	9,718,760	8,622,870
Deferred origination costs, net of fees	7,249	9,332
Allowance for loan credit losses	(53,521)	(48,850)
Total loans receivable, net	\$ 9,672,488	\$ 8,583,352

(1) The commercial and industrial loans balance at September 30, 2022 and December 31, 2021 includes Paycheck Protection Program (“PPP”) loans of \$3.0 million and \$22.9 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. The Company evaluates risk ratings on an ongoing basis. The Company uses the following definitions for risk ratings:

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

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

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

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

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):

	2022	2021	2020	2019	2018	2017 and prior	Revolving lines of credit	Total
September 30, 2022								
Commercial real estate - investor								
Pass	\$ 936,746	\$ 1,354,997	\$ 574,752	\$ 507,749	\$ 214,473	\$ 948,538	\$ 374,043	\$ 4,911,298
Special Mention	—	—	193	19,021	9,303	8,628	2,188	39,333
Substandard	—	—	—	20,759	—	35,703	544	57,006
Total commercial real estate - investor	936,746	1,354,997	574,945	547,529	223,776	992,869	376,775	5,007,637
Commercial real estate - owner occupied								
Pass	67,572	118,428	61,004	115,273	90,050	479,174	9,837	941,338
Special Mention	—	—	—	—	757	10,018	—	10,775
Substandard	—	—	3,750	5,730	4,860	16,231	1,100	31,671
Total commercial real estate - owner occupied	67,572	118,428	64,754	121,003	95,667	505,423	10,937	983,784
Commercial and industrial								
Pass	45,285	25,101	15,232	17,468	11,921	49,371	481,519	645,897
Special Mention	—	—	—	—	—	262	1,722	1,984
Substandard	—	—	106	1,586	316	2,606	125	4,739
Total commercial and industrial	45,285	25,101	15,338	19,054	12,237	52,239	483,366	652,620
Residential real estate ⁽¹⁾								
Pass	829,041	595,233	431,072	253,353	103,330	597,224	—	2,809,253
Special Mention	—	—	—	131	—	1,690	—	1,821
Substandard	—	—	—	—	287	1,848	—	2,135
Total residential real estate	829,041	595,233	431,072	253,484	103,617	600,762	—	2,813,209
Other consumer ⁽¹⁾								
Pass	19,582	25,869	16,332	15,940	42,026	117,718	21,824	259,291
Special Mention	—	—	—	164	22	231	—	417
Substandard	—	—	—	—	18	1,784	—	1,802
Total other consumer	19,582	25,869	16,332	16,104	42,066	119,733	21,824	261,510
Total loans	\$ 1,898,226	\$ 2,119,628	\$ 1,102,441	\$ 957,174	\$ 477,363	\$ 2,271,026	\$ 892,902	\$ 9,718,760

(1) For residential real estate and other 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)

	2021	2020	2019	2018	2017	2016 and prior	Revolving lines of credit	Total
December 31, 2021								
Commercial real estate - investor								
Pass	\$ 1,387,753	\$ 609,916	\$ 535,551	\$ 274,662	\$ 375,646	\$ 800,089	\$ 255,613	\$ 4,239,230
Special Mention	—	—	23,794	9,400	2,731	28,663	582	65,170
Substandard	—	4,267	28,802	468	8,495	28,228	3,401	73,661
Total commercial real estate - investor	1,387,753	614,183	588,147	284,530	386,872	856,980	259,596	4,378,061
Commercial real estate - owner occupied								
Pass	116,355	71,196	125,212	91,531	109,232	449,966	10,913	974,405
Special Mention	—	—	1,365	3,829	479	14,371	2	20,046
Substandard	—	—	14,166	8,549	5,606	31,576	717	60,614
Total commercial real estate - owner occupied	116,355	71,196	140,743	103,909	115,317	495,913	11,632	1,055,065
Commercial and industrial								
Pass	42,955	22,573	22,878	16,404	8,671	50,887	271,818	436,186
Special Mention	—	—	231	350	85	172	3,645	4,483
Substandard	—	457	2,281	813	198	2,029	2,777	8,555
Total commercial and industrial	42,955	23,030	25,390	17,567	8,954	53,088	278,240	449,224
Residential real estate ⁽¹⁾								
Pass	876,135	475,134	288,699	127,756	105,385	602,331	—	2,475,440
Special Mention	—	212	—	61	—	1,313	—	1,586
Substandard	—	—	—	—	351	2,324	—	2,675
Total residential real estate	876,135	475,346	288,699	127,817	105,736	605,968	—	2,479,701
Other consumer ⁽¹⁾								
Pass	26,512	19,168	18,179	51,954	17,955	123,783	—	257,551
Special Mention	—	—	—	—	—	322	—	322
Substandard	—	—	—	18	—	2,928	—	2,946
Total other consumer	26,512	19,168	18,179	51,972	17,955	127,033	—	260,819
Total loans	\$ 2,449,710	\$ 1,202,923	\$ 1,061,158	\$ 585,795	\$ 634,834	\$ 2,138,982	\$ 549,468	\$ 8,622,870

(1) For residential real estate and other 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, 2022 and 2021 is as follows (in thousands):

	Commercial Real Estate – Investor	Commercial Real Estate – Owner Occupied	Commercial and Industrial	Residential Real Estate	Other Consumer	Total
For the three months ended September 30, 2022						
Allowance for credit losses on loans						
Balance at beginning of period	\$ 22,608	\$ 5,021	\$ 5,240	\$ 18,196	\$ 996	\$ 52,061
Credit loss expense (benefit)	82	(1,047)	554	1,618	1	1,208
Charge-offs	(3)	—	—	—	(2)	(5)
Recoveries	3	48	69	44	93	257
Balance at end of period	<u>\$ 22,690</u>	<u>\$ 4,022</u>	<u>\$ 5,863</u>	<u>\$ 19,858</u>	<u>\$ 1,088</u>	<u>\$ 53,521</u>
For the three months ended September 30, 2021						
Allowance for credit losses on loans						
Balance at beginning of period	\$ 33,037	\$ 6,350	\$ 4,404	\$ 8,818	\$ 1,267	\$ 53,876
Credit loss (benefit) expense	(9,902)	515	1,962	3,081	235	(4,109)
Charge-offs	—	(64)	(50)	(12)	(37)	(163)
Recoveries	5	26	50	292	176	549
Balance at end of period	<u>\$ 23,140</u>	<u>\$ 6,827</u>	<u>\$ 6,366</u>	<u>\$ 12,179</u>	<u>\$ 1,641</u>	<u>\$ 50,153</u>
For the nine months ended September 30, 2022						
Allowance for credit losses on loans						
Balance at beginning of period	\$ 25,504	\$ 5,884	\$ 5,039	\$ 11,155	\$ 1,268	\$ 48,850
Credit loss (benefit) expense	(2,865)	(2,003)	720	8,612	(128)	4,336
Charge-offs	(3)	(18)	—	(56)	(358)	(435)
Recoveries	54	159	104	147	306	770
Balance at end of period	<u>\$ 22,690</u>	<u>\$ 4,022</u>	<u>\$ 5,863</u>	<u>\$ 19,858</u>	<u>\$ 1,088</u>	<u>\$ 53,521</u>
For the nine months ended September 30, 2021						
Allowance for credit losses on loans						
Balance at beginning of period	\$ 26,703	\$ 15,054	\$ 5,390	\$ 11,818	\$ 1,770	\$ 60,735
Credit loss (benefit) expense	(3,336)	(8,225)	958	284	(705)	(11,024)
Charge-offs	(345)	(64)	(83)	(254)	(193)	(939)
Recoveries	118	62	101	331	769	1,381
Balance at end of period	<u>\$ 23,140</u>	<u>\$ 6,827</u>	<u>\$ 6,366</u>	<u>\$ 12,179</u>	<u>\$ 1,641</u>	<u>\$ 50,153</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 and, therefore, is classified as non-accruing. At September 30, 2022 and December 31, 2021, the Company had collateral dependent loans with an amortized cost balance as follows: commercial real estate - investor of \$3.9 million and \$3.6 million, respectively, commercial real estate - owner occupied of \$2.0 million and \$11.9 million, respectively, and commercial and industrial of \$321,000 and \$277,000, 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 \$1.1 million and \$438,000 at September 30, 2022 and December 31, 2021, respectively. At September 30, 2022 and December 31, 2021, the amount of foreclosed residential real estate property held by the Company was \$0 and \$106,000, respectively.

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, 2022 and December 31, 2021 (in thousands):

	September 30, 2022	December 31, 2021
Commercial real estate – investor	\$ 9,866	\$ 3,614
Commercial real estate – owner occupied	1,976	11,904
Commercial and industrial	321	277
Residential real estate	5,958	6,114
Other consumer	3,377	3,585
	<u>\$ 21,498</u>	<u>\$ 25,494</u>

At September 30, 2022 and December 31, 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, 2022, there was one PPP loan for \$21,000 that was past due greater than 90 days and still accruing interest. Per Small Business Association (“SBA”) guidelines, the SBA will pay accrued interest through the deferral period up to a maximum of 120 days past due. Given these servicing guidelines, PPP loans that are 90 to 120 days past due will be reported as accruing loans. At December 31, 2021, there was one loan for \$46,000 that was 90 days or greater past due and still accruing interest that was fully paid on January 14, 2022.

The following table presents the aging of the recorded investment in past due loans as of September 30, 2022 and December 31, 2021 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, 2022						
Commercial real estate – investor	\$ —	\$ 968	\$ 2,025	\$ 2,993	\$ 5,004,644	\$ 5,007,637
Commercial real estate – owner occupied	428	5,613	85	6,126	977,658	983,784
Commercial and industrial	1,472	450	—	1,922	650,698	652,620
Residential real estate	6	1,821	2,136	3,963	2,809,246	2,813,209
Other consumer	671	417	1,801	2,889	258,621	261,510
	<u>\$ 2,577</u>	<u>\$ 9,269</u>	<u>\$ 6,047</u>	<u>\$ 17,893</u>	<u>\$ 9,700,867</u>	<u>\$ 9,718,760</u>
December 31, 2021						
Commercial real estate – investor	\$ 1,717	\$ 102	\$ 1,709	\$ 3,528	\$ 4,374,533	\$ 4,378,061
Commercial real estate – owner occupied	599	—	575	1,174	1,053,891	1,055,065
Commercial and industrial	25	151	277	453	448,771	449,224
Residential real estate	9,705	1,586	2,675	13,966	2,465,735	2,479,701
Other consumer	339	322	2,946	3,607	257,212	260,819
	<u>\$ 12,385</u>	<u>\$ 2,161</u>	<u>\$ 8,182</u>	<u>\$ 22,728</u>	<u>\$ 8,600,142</u>	<u>\$ 8,622,870</u>

The Company classifies certain loans as troubled debt restructuring (“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, 2022 and December 31, 2021, TDR loans totaled \$16.1 million and \$23.6 million, respectively. At September 30, 2022 and December 31, 2021, there were \$10.0 million and \$11.3 million, respectively, of TDR loans included in the non-accrual loan totals. At September 30, 2022 the Company had a \$667,000 specific reserve allocated to a loan that was classified as a TDR loan. At December 31, 2021, the Company had no specific reserves allocated to loans that were 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 TDR loans classified as accruing loans, which totaled \$6.1 million and \$12.3 million at September 30, 2022 and December 31, 2021, 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, 2022 and 2021 (dollars in thousands):

	Number of Loans	Pre-modification Recorded Investment	Post-modification Recorded Investment
Three months ended September 30, 2022			
Troubled debt restructurings:			
Other consumer	3	\$ 114	\$ 124
Three months ended September 30, 2021			
Troubled debt restructurings:			
Commercial real estate - owner occupied	1	\$ 93	\$ 110
Nine months ended September 30, 2022			
Troubled debt restructurings:			
Commercial and industrial	1	\$ 65	\$ 65
Other consumer	6	1,105	1,233
Nine months ended September 30, 2021			
Troubled debt restructurings:			
Commercial real estate – investor	1	\$ 4,903	\$ 4,903
Commercial real estate - owner occupied	1	93	110
Residential real estate	3	244	336
Other consumer	2	26	33

There were no TDR loans that defaulted during the three and nine months ended September 30, 2022, which were modified within the preceding year. There was one TDR commercial real estate - investor loan for \$923,000 that defaulted during the three and nine months ended September 30, 2021, which was modified within the preceding year and the loan was subsequently paid in full as of June 30, 2022.

Note 6. Deposits

The major types of deposits at September 30, 2022 and December 31, 2021 were as follows (in thousands):

Type of Account	September 30, 2022	December 31, 2021
Non-interest-bearing	\$ 2,325,547	\$ 2,412,056
Interest-bearing checking	3,909,864	4,201,736
Money market deposit	749,229	736,090
Savings	1,570,472	1,607,933
Time deposits	1,404,357	775,001
Total deposits	<u>\$ 9,959,469</u>	<u>\$ 9,732,816</u>

Included in time deposits at September 30, 2022 and December 31, 2021 was \$94.1 million and \$145.4 million, respectively, in deposits of \$250,000 or more. Time deposits also include brokered deposits of \$828.7 million and \$25.0 million at September 30, 2022 and December 31, 2021, respectively.

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

Note 7. Borrowed Funds

Borrowed funds at September 30, 2022 and December 31, 2021 were as follows (in thousands):

	September 30, 2022	December 31, 2021
FHLB advances	\$ 514,200	\$ —
Securities sold under agreements to repurchase with customers	96,289	118,769
Other borrowings	194,914	229,141
Total borrowed funds	<u>\$ 805,403</u>	<u>\$ 347,910</u>

At September 30, 2022, there were \$500.0 million of short-term advances and \$14.2 million of overnight borrowings from the FHLB, as compared to \$0 at December 31, 2021.

In March 2022, the Company redeemed \$35.0 million of subordinated debt due September 30, 2026. The debt carried an interest rate of 4.14% based on a floating rate of three months LIBOR plus 392 basis points.

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

Note 8. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or 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 investments without readily determinable fair values are carried at cost less impairment, if any, plus or minus adjustments resulting from

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

observable price changes in orderly transactions for the identical or similar investment of the same issuer (measurement alternative).

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, 2022 and December 31, 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

		Fair Value Measurements at Reporting Date Using:			
	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
September 30, 2022					
Items measured on a recurring basis:					
Debt securities available-for-sale	\$ 470,300	\$ —	\$ 470,300	\$ —	
Equity investments	62,343	566	61,777	—	
Interest rate derivative asset	122,605	—	122,605	—	
Interest rate derivative liability	(122,618)	—	(122,618)	—	
Items measured on a non-recurring basis:					
Equity investments ⁽¹⁾	19,379	—	—	19,379	
Loans measured for impairment based on the fair value of the underlying collateral ⁽²⁾	7,268	—	—	7,268	
December 31, 2021					
Items measured on a recurring basis:					
Debt securities available-for-sale	\$ 568,255	\$ —	\$ 568,255	\$ —	
Equity investments	90,726	14,608	73,400	2,718	
Interest rate derivative asset	22,787	—	22,787	—	
Interest rate derivative liability	(22,855)	—	(22,855)	—	
Items measured on a non-recurring basis:					
Equity investments	10,429	—	—	10,429	
Other real estate owned	106	—	—	106	
Loans measured for impairment based on the fair value of the underlying collateral ⁽²⁾	16,233	—	—	16,233	

(1) Primarily consists of \$16.8 million of equity investments measured under the measurement alternative, which included a \$2.5 million unrealized gain for the three months ended September 30, 2022.

(2) Primarily consists of commercial loans, which are collateral dependent. The amounts are based on independent appraisals, which may be adjusted by management for qualitative factors, such as economic factors and estimated liquidation expenses. The range may vary but is generally 0% to 8% on the discount for costs to sell and 0% to 10% on appraisal adjustments.

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

The following table reconciles, for the three and nine months ended September 30, 2022 and 2021, the beginning and ending balances for equity investments 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,	
	2022	2021	2022	2021
Beginning balance	\$ —	\$ 2,978	\$ 2,718	\$ 2,540
Total losses included in earnings	—	(622)	—	(184)
Transfers out of Level 3	—	—	(2,718)	—
Ending balance	\$ —	\$ 2,356	\$ —	\$ 2,356

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 for the three months ended September 30, 2022. During the nine months ended September 30, 2022, the Company executed its right to convert \$2.7 million of preferred stock into common stock, which resulted in a transfer from Level 3 into Level 1. There were no transfers into or out of Level 3 assets and liabilities in the fair value hierarchy for the three and nine months ended September 30, 2021.

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 debt 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, 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, Federal Reserve Bank stock, and Atlantic Community Bankers Bank 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 entities.

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 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, 2022 and December 31, 2021 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, 2022				
Financial Assets:				
Cash and due from banks	\$ 170,668	\$ 170,668	\$ —	\$ —
Debt securities held-to-maturity	1,027,712	—	893,044	12,382
Restricted equity investments	77,556	—	—	77,556
Loans receivable, net and loans held-for-sale	9,676,037	—	—	8,992,317
Financial Liabilities:				
Deposits other than time deposits	8,555,112	—	8,555,112	—
Time deposits	1,404,357	—	1,365,574	—
FHLB advances and other borrowings	709,114	—	722,430	—
Securities sold under agreements to repurchase with customers	96,289	96,289	—	—
December 31, 2021				
Financial Assets:				
Cash and due from banks	\$ 204,949	\$ 204,949	\$ —	\$ —
Debt securities held-to-maturity	1,139,193	—	1,138,529	14,215
Restricted equity investments	53,195	—	—	53,195
Loans receivable, net and loans held-for-sale	8,583,352	—	—	8,533,506
Financial Liabilities:				
Deposits other than time deposits	8,957,815	—	8,957,815	—
Time deposits	775,001	—	773,766	—
Other borrowings	229,141	—	251,491	—
Securities sold under agreements to repurchase with customers	118,769	118,769	—	—

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 9. 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 its 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 a gain of \$19,000 and \$56,000 in commercial loan swap income resulting from the fair value adjustment for the three and nine months ended September 30, 2022, respectively, as compared to gains of \$14,000 and \$55,000 for the three and nine months ended September 30, 2021, respectively. The notional amount of derivatives not designated as hedging instruments was \$1.30 billion and \$938.7 million at September 30, 2022 and December 31, 2021, 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, 2022	December 31, 2021
Other assets	\$ 122,605	\$ 22,787
Other liabilities	122,618	22,855

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 \$40,000 and \$19.8 million at September 30, 2022 and December 31, 2021, respectively. The amount of collateral received from third parties was \$112.1 million and \$0 at September 30, 2022 and December 31, 2021, respectively. The amount of collateral posted with third parties and received from 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 \$122.6 million and \$22.9 million at September 30, 2022 and December 31, 2021, respectively.

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

Note 10. 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 2038. 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 assets and lease liabilities on the consolidated statements of financial condition (in thousands):

		September 30, 2022	December 31, 2021
Lease ROU Assets	Classification		
Operating lease ROU assets	Other assets	\$ 19,474	\$ 17,442
Finance lease ROU asset	Premises and equipment, net	1,347	1,495
Total lease ROU assets		<u>\$ 20,821</u>	<u>\$ 18,937</u>
Lease Liabilities			
Operating lease liabilities ⁽¹⁾	Other liabilities	\$ 20,430	\$ 17,982
Finance lease liability	Other borrowings	1,750	1,904
Total lease liabilities		<u>\$ 22,180</u>	<u>\$ 19,886</u>

(1) Operating lease liabilities excludes liabilities for future rent and estimated lease termination payments related to closed branches of \$8.2 million at both September 30, 2022 and December 31, 2021.

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, 2022	December 31, 2021
Weighted-Average Remaining Lease Term		
Operating leases	7.04 years	8.22 years
Finance lease	6.85 years	7.59 years
Weighted-Average Discount Rate		
Operating leases	2.84 %	2.97 %
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,	
	2022	2021	2022	2021
Lease Expense				
Operating lease expense	\$ 1,159	\$ 1,498	\$ 3,857	\$ 4,459
Finance lease expense:				
Amortization of ROU assets	49	50	149	149
Interest on lease liabilities ⁽¹⁾	24	28	76	85
Total	\$ 1,232	\$ 1,576	\$ 4,082	\$ 4,693

Other Information

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

Operating cash flows from operating leases	\$ 955	\$ 1,322	\$ 3,366	\$ 4,119
Operating cash flows from finance leases	24	28	76	85
Financing cash flows from finance leases	52	50	154	146

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

Future minimum payments for the finance lease and operating leases with initial or remaining terms of one year or more as of September 30, 2022 were as follows (in thousands):

	Finance Lease	Operating Leases
For the Twelve Months Ending September 30,		
2023	\$ 307	\$ 4,268
2024	307	3,790
2025	307	3,841
2026	307	3,075
2027	307	2,198
Thereafter	568	5,721
Total	2,103	22,893
Less: Imputed interest	(353)	(2,463)
Total lease liabilities	\$ 1,750	\$ 20,430

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

Note 11. Variable Interest Entity

On April 1, 2022, the Company acquired a 60% ownership in Trident, and held a variable interest in the entity. Trident meets the definition of a variable interest entity (“VIE”) under ASC 810, Consolidation, for which the Company is considered the primary beneficiary (i.e. the party that has a controlling financial interest). In accordance with ASC 810, Consolidation, the Company has consolidated Trident’s assets and liabilities. For further discussion on the acquisition of Trident refer to Note 2 Business Combinations, to this Form 10-Q.

The summarized financial information for the Company’s consolidated VIE consisted of the following (in thousands):

	As of September 30, 2022
Cash and cash equivalents	\$ 33,234
Other assets	1,079
Total assets	34,313
Other liabilities	31,906
Net assets	\$ 2,407

Note 12. Subsequent Events

As previously disclosed, on November 4, 2021, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Partners Bancorp (“Partners”) and Coastal Merger Sub Corp. (“Merger Sub”). Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, (i) Merger Sub would merge with and into Partners, with Partners as the surviving entity, and (ii) immediately thereafter, Partners would merge with and into the Company, with the Company as the surviving entity.

On November 9, 2022, the Company and Partners entered into a Mutual Termination Agreement (the “Termination Agreement”) pursuant to which, among other things, the Company and Partners mutually agreed to terminate the Merger Agreement and transactions contemplated thereby, which was filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on November 9, 2022. Each party will bear its own costs and expenses in connection with the terminated transaction, and neither party will pay a termination fee in connection with the termination of the Merger Agreement. The Termination Agreement also mutually releases the parties from any claims of liability to one another relating to the Merger Agreement and the terminated transaction.

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 2021 Form 10-K. There have been no material changes to risk factors relevant to the Company's operations since December 31, 2021. Additional risks not presently known to the Company, or that the Company currently deems 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 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 did not repurchase any shares of its common stock during the three month period ended September 30, 2022. At September 30, 2022, there were 2,934,438 shares available for repurchase under the Company's stock repurchase program.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

<u>Exhibit No:</u>	<u>Exhibit Description</u>	<u>Reference</u>
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, 2022, 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 9, 2022

/s/ Christopher D. Maher

Christopher D. Maher
Chairman and Chief Executive Officer

DATE: November 9, 2022

/s/ Patrick S. Barrett

Patrick S. Barrett
Executive Vice President and Chief Financial Officer

**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 9, 2022

/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, Patrick S. Barrett, 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 9, 2022

/s/ Patrick S. Barrett

Patrick S. Barrett
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, 2022 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 9, 2022

/s/ Patrick S. Barrett

Patrick S. Barrett
Executive Vice President and Chief Financial Officer
November 9, 2022