

PROVIDENT FINANCIAL SERVICES INC
Form 10-K
February 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2015

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File No. 1-31566

PROVIDENT FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware 42-1547151
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification Number)

239 Washington Street, Jersey City, New Jersey 07302
(Address of Principal Executive Offices) (Zip Code)
(732) 590-9200
(Registrant's Telephone Number)

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock, par value \$0.01 per share New York Stock Exchange
(Title of Class) (Name of Exchange on Which Registered)

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

As of February 1, 2016, there were 83,209,293 issued and 65,794,731 shares of the Registrant's Common Stock outstanding, including 363,221 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under accounting principles generally accepted in the United States of America. The aggregate value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the Common Stock as of June 30, 2015, as quoted by the NYSE, was approximately \$1.13 billion.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2016 Annual Meeting of Stockholders of the Registrant (Part III).

PROVIDENT FINANCIAL SERVICES, INC.
INDEX TO FORM 10-K

Item Number		Page Number
PART I		
1.	<u>Business</u>	<u>1</u>
1A.	<u>Risk Factors</u>	<u>31</u>
1B.	<u>Unresolved Staff Comments</u>	<u>36</u>
2.	<u>Properties</u>	<u>36</u>
3.	<u>Legal Proceedings</u>	<u>36</u>
4.	<u>Mine Safety Disclosures</u>	<u>36</u>
PART II		
5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>37</u>
6.	<u>Selected Financial Data</u>	<u>39</u>
7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
8.	<u>Financial Statements and Supplementary Data</u>	<u>55</u>
9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>114</u>
9A.	<u>Controls and Procedures</u>	<u>114</u>
9B.	<u>Other Information</u>	<u>115</u>
PART III		
10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>116</u>
11.	<u>Executive Compensation</u>	<u>116</u>
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>116</u>
13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>116</u>
14.	<u>Principal Accountant Fees and Services</u>	<u>116</u>
PART IV		
15.	<u>Exhibits and Financial Statement Schedules</u>	<u>117</u>
	<u>Signatures</u>	<u>119</u>

Forward Looking Statements

Certain statements contained herein are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as “may,” “will,” “believe,” “expect,” “estimate,” “anticipate,” “continue,” or similar terms or variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which Provident Financial Services, Inc. (the “Company”) operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

The Company cautions readers not to place undue reliance on any such forward-looking statements which speak only as of the date made. The Company also advises readers that the factors listed above could affect the Company’s financial performance and could cause the Company’s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines 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.

PART I

Item 1. Business

Provident Financial Services, Inc.

The Company is a Delaware corporation which became the holding company for The Provident Bank (the “Bank”) on January 15, 2003, following the completion of the conversion of the Bank to a New Jersey-chartered capital stock savings bank. On January 15, 2003, the Company issued an aggregate of 59,618,300 shares of its common stock, par value \$0.01 per share in a subscription offering, and contributed \$4.8 million in cash and 1,920,000 shares of its common stock to The Provident Bank Foundation, a charitable foundation established by the Bank. As a result of the conversion and related stock offering, the Company raised \$567.2 million in net proceeds, of which \$293.2 million was utilized to acquire all of the outstanding common stock of the Bank. The Company owns all of the outstanding common stock of the Bank, and as such, is a bank holding company subject to regulation by the Federal Reserve Board.

On April 1, 2015, Beacon Trust Company (“Beacon”), a wholly owned subsidiary of the Bank, completed its acquisition of certain assets and liabilities of The MDE Group, Inc. and the equity interests of Acertus Capital Management, LLC (together “MDE”), both Morristown, New Jersey-based registered investment advisory firms that manage assets for affluent and high net-worth clients. MDE was acquired with both cash and contingent consideration. The Company recognized goodwill of \$18.3 million and a customer relationship intangible of \$7.0 million related to the acquisition. The Company recognized a contingent consideration liability at its fair value of \$338,000. The contingent consideration arrangement requires the Company to pay additional cash consideration to MDE’s former stakeholders four years after the closing of the acquisition if certain revenue targets are met. The fair value of the contingent consideration was estimated using a discounted cash flow model. The acquisition agreement limits the total payment to a maximum of \$12.5 million, to be determined based on actual future results.

On October 31, 2014, Beacon acquired the fiduciary account relationships of Suffolk County National Bank, a subsidiary of Suffolk Bancorp, in Suffolk County, New York.

On May 30, 2014, the Company completed its acquisition of Team Capital Bank (“Team Capital”), which, after purchase accounting adjustments, added \$964.0 million to total assets, \$631.2 million to loans, and \$769.9 million to deposits. Total consideration paid for Team Capital was \$115.1 million: \$31.6 million in cash and 4.9 million shares

of common stock valued at \$83.5 million on the acquisition date. Team Capital was merged with and into the Company's subsidiary, The Provident Bank as of the close of business on the date of acquisition.

At December 31, 2015, the Company had total assets of \$8.91 billion, loans of \$6.54 billion, total deposits of \$5.92 billion, and total stockholders' equity of \$1.20 billion. The Company's mailing address is 239 Washington Street, Jersey City, New Jersey 07302, and the Company's telephone number is (732) 590-9200.

Capital Management. The Company paid cash dividends totaling \$41.3 million and repurchased 108,589 shares of its common stock at a cost of \$2.0 million in 2015. At December 31, 2015, 3.3 million shares were eligible for repurchase under the board

approved stock repurchase program. The Company and the Bank were “well capitalized” at December 31, 2015 under current regulatory standards.

Available Information. The Company is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission (“SEC”). These respective reports are on file and a matter of public record with the SEC and may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (<http://www.sec.gov>). All filed SEC reports and interim filings can also be obtained from the Bank’s website, www.providentnj.com, on the “Investor Relations” page, without charge from the Company.

The Provident Bank

Established in 1839, the Bank is a New Jersey-chartered capital stock savings bank currently operating 87 full-service branch offices in the New Jersey counties of Hudson, Bergen, Essex, Mercer, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren, as well as in Bucks, Lehigh and Northampton counties in Pennsylvania. As a community- and customer-oriented institution, the Bank emphasizes personal service and customer convenience in serving the financial needs of the individuals, families and businesses residing in its primary market areas. The Bank attracts deposits from the general public and businesses primarily in the areas surrounding its banking offices and uses those funds, together with funds generated from operations and borrowings, to originate commercial real estate loans, commercial business loans, residential mortgage loans, and consumer loans. The Bank also invests in mortgage-backed securities and other permissible investments.

The following are highlights of The Provident Bank’s operations:

Diversified Loan Portfolio. To improve asset yields and reduce its exposure to interest rate risk, the Bank continues to diversify its loan portfolio and has emphasized the origination of commercial real estate loans, multi-family loans and commercial business loans. These loans generally have adjustable rates or shorter fixed terms and interest rates that are higher than the rates applicable to one- to four-family residential mortgage loans. However, these loans generally have a higher risk of loss than one- to four- family residential mortgage loans.

Asset Quality. As of December 31, 2015, non-performing assets were \$55.1 million or 0.62% of total assets, compared to \$59.0 million or 0.69% of total assets at December 31, 2014. The Bank’s non-performing asset levels continued to decline from higher levels reported in prior years as local and national economic conditions have gradually improved. The Bank continues to focus on conservative underwriting criteria and on active and timely collection efforts.

Emphasis on Relationship Banking and Core Deposits. The Bank emphasizes the acquisition and retention of core deposit accounts, consisting of savings and demand deposit accounts, and expanding customer relationships. Core deposit accounts totaled \$5.18 billion at December 31, 2015, representing 87.5% of total deposits, compared with \$4.97 billion, or 85.7% of total deposits at December 31, 2014. The Bank also focuses on increasing the number of households and businesses served and the number of banking products per customer.

Non-Interest Income. The Bank’s focus on transaction accounts and expanded products and services has enabled the Bank to generate non-interest income. Fees derived from core deposit accounts are a primary source of non-interest income. The Bank also offers investment, wealth and asset management services through its subsidiaries to generate non-interest income. Total non-interest income was \$55.2 million for the year ended December 31, 2015, compared with \$41.2 million for the year ended December 31, 2014, of which fee income was \$26.3 million for the year ended December 31, 2015, compared with \$21.9 million for the year ended December 31, 2014.

Managing Interest Rate Risk. The Bank manages its exposure to interest rate risk through the origination and retention of adjustable rate and shorter-term loans, and its investments in securities. In addition, the Bank uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Bank making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. At December 31, 2015, 57.7% of the Bank’s loan portfolio had a term to maturity of one year or less, or had adjustable interest rates. At December 31, 2015, the Bank’s securities portfolio totaled \$1.52 billion and had an expected average life of 4.40 years. to manage its exposure

to interest rate movements.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2015, the Bank operated a network of 87 full-service banking offices throughout thirteen counties in northern and central New Jersey, as well as in Bucks, Lehigh and Northampton counties in Pennsylvania. The Bank maintains its administrative

2

offices in Iselin, New Jersey and satellite loan production offices in Convent Station, Flemington, Paramus, Princeton and West Orange, New Jersey, as well as in Bethlehem and Newtown, Pennsylvania. The Bank's lending activities, though concentrated in the communities surrounding its offices, extend predominantly throughout New Jersey and eastern Pennsylvania.

The Bank's primary market area includes a mix of urban and suburban communities, and has a diversified mix of industries including pharmaceutical, manufacturing companies, network communications, insurance and financial services, healthcare, and retail. According to the U.S. Census Bureau's most recent population data, the Bank's New Jersey market area has a population of 6.9 million, which was 74.6% of the state's total population. The Bank's Pennsylvania market area has a population of 1.3 million, which was 10.0% of that state's total population. Because of the diversity of industries within the Bank's market area and, to a lesser extent, its proximity to the New York City financial markets, the area's economy can be significantly affected by changes in national and international economies. According to the U.S. Bureau of Labor Statistics, the unemployment rate in New Jersey was 5.1% at December 31, 2015, a decrease from 6.2% at December 31, 2014. The unemployment rate in Pennsylvania remained unchanged at 4.8% for December 31, 2015, compared to December 31, 2014.

Within its primary market areas in New Jersey and Pennsylvania, the Bank had an approximate 2.13% and 0.85% share of bank deposits as of June 30, 2015, respectively, the latest date for which statistics are available. On a statewide basis, the Bank had an approximate 1.57% deposit share of the New Jersey market and an approximate 0.07% deposit share of the Pennsylvania market.

COMPETITION

The Bank faces intense competition in originating and retaining loans and attracting deposits. The northern and central New Jersey and eastern Pennsylvania market areas have a high concentration of financial institutions, including large money center and regional banks, community banks, credit unions, investment brokerage firms and insurance companies. The Bank faces direct competition for loans from each of these institutions as well as from mortgage companies and other loan origination firms operating in its market area. The Bank's most direct competition for deposits has come from several commercial banks and savings banks in its market area. Certain of these banks have substantially greater financial resources than the Bank. In addition, the Bank faces significant competition for deposits from the mutual fund and investment advisory industries and from investors' direct purchases of short-term money market securities and other corporate and government securities.

The Bank competes in this environment by maintaining a diversified product line, including mutual funds, annuities and other investment services made available through its investment subsidiaries. Relationships with customers are built and maintained through the Bank's branch network, its deployment of branch ATMs, and its mobile, telephone and web-based banking services.

LENDING ACTIVITIES

The Bank originates commercial real estate loans, commercial business loans, fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate and other consumer loans, for borrowers generally located within its primary market area.

Residential mortgage loans are primarily underwritten to standards that allow the sale of the loans to the secondary markets, primarily to the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"), the Federal National Mortgage Association ("FNMA" or "Fannie Mae") and the Federal Home Loan Bank of New York ("FHLBNY"). To manage interest rate risk, the Bank generally sells fixed-rate residential mortgages that it originates with terms greater than 15 years. The Bank commonly retains biweekly payment fixed-rate residential mortgage loans with a maturity of 30 years or less and a majority of the originated adjustable rate mortgages for its portfolio.

The Bank originates commercial real estate loans that are secured by income-producing properties such as multi-family apartment buildings, office buildings, and retail and industrial properties. Generally, these loans have maturities of either 5 or 10 years. For loans greater than \$5.0 million originated with maturities in excess of 7 years, the Bank generally requires loan-level interest rate swaps.

The Bank has historically provided construction loans for both single family and condominium projects intended for sale and commercial projects, including residential for rent projects, that will be retained as investments by the

borrower. The Bank underwrites most construction loans for a term of three years or less. The majority of these loans are underwritten on a floating rate basis. The Bank recognizes that there is higher risk in construction lending than permanent lending. As such, the Bank takes certain precautions to mitigate this risk, including the retention of an outside engineering firm to perform plan and cost reviews and to review all construction advances made against work in place and a limitation on how and when loan proceeds are advanced. In most cases, for the single family and condominium projects, the Bank limits its exposure against houses or units that are not under contract. Similarly, commercial construction loans usually have commitments for significant pre-leasing, or funds are held

back until the leases are finalized. Funding requirements and loan structure for residential for-rent projects vary depending on whether such projects are vertical or horizontal construction.

The Bank originates consumer loans that are secured, in most cases, by a borrower's assets. Home equity loans and home equity lines of credit that are secured by a first or second mortgage lien on the borrower's residence comprise the largest category of the Bank's consumer loan portfolio.

Commercial loans are made to businesses of varying size and type within the Bank's market. The Bank lends to established businesses, and the loans are generally secured by business assets such as equipment, receivables, inventory, real estate or marketable securities. On a limited basis, the Bank makes unsecured commercial loans. Most commercial lines of credit are made on a floating interest rate basis and most term loans are made on a fixed interest rate basis, usually with terms of five years or less.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of the loan portfolio by type, including Purchased Credit Impaired ("PCI") loans, (after deductions for deferred fees and costs, unearned discounts and premiums and allowances for losses) at the dates indicated.

At December 31,												
2015		2014		2013		2012		2011		2010		
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
(Dollars in thousands)												
Residential mortgage loans	\$ 1,255,159	19.38 %	\$ 1,252,526	20.79 %	\$ 1,174,043	22.89 %	\$ 1,265,015	26.17 %	\$ 1,308,635	28.12 %	\$ 1,308,635	28.12 %
Commercial mortgage loans	1,716,117	26.50	1,695,822	28.15	1,400,624	27.30	1,349,950	27.92	1,253,542	27.92	1,253,542	27.92
Multi-family mortgage loans	1,234,066	19.06	1,042,223	17.30	928,906	18.11	723,958	14.98	564,147	12.55	564,147	12.55
Construction loans	331,649	5.12	221,102	3.67	183,289	3.57	120,133	2.48	114,817	2.55	114,817	2.55
Total mortgage loans	4,536,991	70.06	4,211,673	69.91	3,686,862	71.87	3,459,056	71.55	3,241,141	70.06	3,241,141	70.06
Commercial loans	1,434,291	22.15	1,263,618	20.98	932,199	18.17	866,395	17.92	849,009	18.92	849,009	18.92
Consumer loans	566,175	8.74	611,596	10.15	577,602	11.26	579,166	11.98	560,970	12.55	560,970	12.55
Total gross loans	6,537,457	100.95	6,086,887	101.04	5,196,663	101.30	4,904,617	101.45	4,651,120	100.95	4,651,120	100.95
Premiums on purchased loans	5,740	0.09	5,307	0.09	4,202	0.08	4,964	0.10	5,823	0.13	5,823	0.13
Unearned discounts	(41)	—	(53)	—	(62)	—	(78)	—	(100)	—	(100)	—
Net deferred costs (fees)	(5,482)	(0.09)	(6,636)	(0.11)	(5,990)	(0.12)	(4,804)	(0.10)	(3,334)	(0.07)	(3,334)	(0.07)
Total loans	6,537,674	100.95	6,085,505	101.02	5,194,813	101.26	4,904,699	101.45	4,653,509	100.95	4,653,509	100.95
Allowance for loan losses	(61,424)	(0.95)	(61,734)	(1.02)	(64,664)	(1.26)	(70,348)	(1.45)	(74,351)	(1.60)	(74,351)	(1.60)

Total loans, net \$6,476,250 100.00 % \$6,023,771 100.00 % \$5,130,149 100.00 % \$4,834,351 100.00 % \$4,579,158 100.00 %

Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2015, regarding the maturities of loans in the loan portfolio, including PCI loans. Demand loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due within one year.

4

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years	Ten Through Twenty Years	Beyond Twenty Years	Total
	(Dollars in thousands)						
Residential mortgage loans	\$2,770	\$17,106	\$13,863	\$90,878	\$490,378	\$640,164	\$1,255,159
Commercial mortgage loans	73,695	231,110	239,096	977,771	169,699	24,746	1,716,117
Multi-family mortgage loans	23,307	32,990	213,139	756,409	205,328	2,893	1,234,066
Construction loans	137,538	181,303	1,667	11,141	—	—	331,649
Total mortgage loans	237,310	462,509	467,765	1,836,199	865,405	667,803	4,536,991
Commercial loans	274,795	206,400	188,879	513,658	209,380	41,179	1,434,291
Consumer loans	17,659	10,281	16,895	82,245	342,811	96,284	566,175
Total gross loans	\$529,764	\$679,190	\$673,539	\$2,432,102	\$1,417,596	\$805,266	\$6,537,457

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2015 the amount of all fixed-rate and adjustable-rate loans due after December 31, 2016.

	Due After December 31, 2016		
	Fixed	Adjustable	Total
	(Dollars in thousands)		
Residential mortgage loans	\$784,803	\$467,586	\$1,252,389
Commercial mortgage loans	726,712	915,710	1,642,422
Multi-family mortgage loans	452,330	758,429	1,210,759
Construction loans	12,808	181,303	194,111
Total mortgage loans	1,976,653	2,323,028	4,299,681
Commercial loans	454,108	705,388	1,159,496
Consumer loans	333,815	214,701	548,516
Total loans	\$2,764,576	\$3,243,117	\$6,007,693

Residential Mortgage Loans. The Bank originates residential mortgage loans secured by first mortgages on one- to four-family residences, generally located in the State of New Jersey and the eastern part of Pennsylvania. The Bank originates residential mortgages primarily through commissioned mortgage representatives and through the Internet. The Bank originates both fixed-rate and adjustable-rate mortgages. As of December 31, 2015, \$1.26 billion or 19.4% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 62.7% were fixed-rate and 37.3% were adjustable-rate loans.

The Bank originates fixed-rate fully amortizing residential mortgage loans with the principal and interest due each month, that typically have maturities ranging from 10 to 30 years. The Bank also originates fixed-rate residential mortgage loans with maturities of 10, 15, 20 and 30 years that require the payment of principal and interest on a biweekly basis. Fixed-rate jumbo residential mortgage loans (loans over the maximum that one of the government-sponsored agencies will purchase) are originated with maturities of up to 30 years. The Bank currently offers adjustable-rate mortgage loans with a fixed-rate period of 5, 7 or 10 years prior to the first annual interest rate adjustment. The standard adjustment formula is the one-year constant maturity Treasury rate plus 2.75%, adjusting annually after its first re-set period, with a 2% maximum annual adjustment and a 6% maximum adjustment over the life of the loan.

Residential mortgage loans are primarily underwritten to Freddie Mac and Fannie Mae standards. The Bank's standard maximum loan to value ratio is 80%. However, working through mortgage insurance companies, the Bank underwrites loans for sale to Freddie Mac or Fannie Mae programs that will finance up to 95% of the value of the residence. Generally all fixed-rate loans with terms of 20 years or more are sold into the secondary market with

servicing rights retained. Fixed-rate residential mortgage loans retained in the Bank's portfolio generally include loans with a term of 15 years or less and biweekly payment residential mortgage loans with a term of 30 years or less. The Bank retains the majority of the originated adjustable-rate mortgages for its portfolio.

Loans are sold without recourse, generally with servicing rights retained by the Bank. The percentage of loans sold into the secondary market will vary depending upon interest rates and the Bank's strategies for reducing exposure to interest rate risk. In 2015, \$3.9 million or 3.3% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2015 were long-term, fixed-rate mortgages.

The retention of adjustable-rate mortgages, as opposed to longer-term, fixed-rate residential mortgage loans, helps reduce the Bank's exposure to interest rate risk. However, adjustable-rate mortgages generally pose credit risks different from the credit risks inherent in fixed-rate loans primarily because as interest rates rise, the underlying debt service payments of the borrowers rise, thereby increasing the potential for default. The Bank believes that these credit risks, which have not had a material adverse effect on the Bank to date, generally are less onerous than the interest rate risk associated with holding 20- and 30-year fixed-rate loans in its loan portfolio.

For many years, the Bank has offered discounted rates on residential mortgage loans to low- to moderate-income individuals. Loans originated in this category over the last five years have totaled \$21.8 million. The Bank also offers a special rate program for first-time homebuyers under which originations have totaled over \$7.6 million for the past five years. The Bank does not originate or purchase sub-prime or option ARM loans.

Commercial Real Estate Loans. The Bank originates loans secured by mortgages on various commercial income producing properties, including multi-family apartment buildings, office buildings and retail and industrial properties. Commercial real estate loans were 26.5% of the loan portfolio at December 31, 2015. A substantial majority of the Bank's commercial real estate loans are secured by properties located in the State of New Jersey.

The Bank originates commercial real estate loans with adjustable rates and with fixed interest rates for a period that is generally five to ten years or less, which may adjust after the initial period. Typically these loans are written for maturities of ten years or less and generally have an amortization schedule of 20 or 25 years. As a result, the typical amortization schedule will result in a substantial principal payment upon maturity. The Bank generally underwrites commercial real estate loans to a maximum 75% advance against either the appraised value of the property, or its purchase price (for loans to fund the acquisition of real estate), whichever is less. The Bank generally requires minimum debt service coverage of 1.20 times. There is a potential risk that the borrower may be unable to pay off or refinance the outstanding balance at the loan maturity date. The Bank typically lends to experienced owners or developers who have knowledge and contacts in the commercial real estate market.

Among the reasons for the Bank's continued emphasis on commercial real estate lending is the desire to invest in assets bearing interest rates that are generally higher than interest rates on residential mortgage loans and more sensitive to changes in market interest rates. Commercial real estate loans, however, entail significant additional credit risk as compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on commercial real estate loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and thus may be more significantly impacted by adverse conditions in the real estate market or in the economy generally.

The Bank performs more extensive due diligence in underwriting commercial real estate loans than loans secured by owner-occupied one- to four-family residential properties due to the larger loan amounts and the riskier nature of such loans. The Bank assesses and mitigates the risk in several ways, including inspection of all such properties and the review of the overall financial condition of the borrower and guarantors, which may include, for example, the review of the rent rolls and the verification of income. If applicable, a tenant analysis and market analysis are part of the underwriting. Generally, for commercial real estate secured loans in excess of \$1.0 million and for all other commercial real estate loans where it is deemed appropriate, the Bank requires environmental professionals to inspect the property and ascertain any potential environmental risks.

In accordance with regulatory guidelines, the Bank requires a full independent appraisal for commercial real estate properties. The appraiser must be selected from the Bank's approved list, or otherwise approved by the Chief Credit Officer in instances such as out-of-state or special use property. The Bank also employs an independent review appraiser to ensure that the appraisal meets the Bank's standards. Financial statements are also required annually for review. The Bank's policy also requires that a property inspection of commercial mortgages over \$2.5 million be completed at least every 18 months, or more frequently when warranted.

The Bank's largest commercial mortgage loan as of December 31, 2015 was a \$27.4 million loan secured by a first mortgage lien on a 378 room, full service hotel and a 422 car parking garage located in Elizabeth, New Jersey. The loan has a risk rating of "4" (loans rated 1-4 are deemed to be "acceptable quality"—see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section) and was performing in

accordance with its terms and conditions as of December 31, 2015.

Multi-family Loans. The Bank underwrites loans secured by apartment buildings that have five or more units. The Bank considers multi-family lending a component of the commercial real estate lending portfolio. The underwriting standards and procedures that are used to underwrite commercial real estate loans are used to underwrite multi-family loans, except the loan-to-value ratio shall not exceed 80% of the appraised value of the property, the debt-service coverage should be a minimum of 1.15 times and an amortization period of up to 30 years may be used.

6

The Bank's largest multi-family loan as of December 31, 2015 was a \$41.0 million loan secured by a first lease-hold mortgage lien on a newly renovated 129-unit, six story class A luxury rental apartment building with 12,000 square feet of office/retail space located in Morristown, New Jersey. The project sponsor is one of the largest privately-held real estate owner/developers in the United States, and has extensive experience and a successful track record in the development and management of multi-family projects. The loan has a risk rating of "3" (loans rated 1-4 are deemed to be "acceptable quality"—see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section) and was performing in accordance with its terms and conditions as of December 31, 2015.

Construction Loans. The Bank originates commercial construction loans. Commercial construction lending includes both new construction of residential and commercial real estate projects and the reconstruction of existing structures. The Bank's commercial construction financing includes projects constructed for investment purposes (rental property), projects for sale (single family/condominiums) and to a lesser extent owner-occupied business properties. To mitigate the speculative nature of construction loans, the Bank generally requires significant pre-leasing on rental properties; requires that a percentage of the for-sale single-family residences or condominiums be under contract to support construction loan advances; and requires other covenants on residential for rent projects depending on whether the project is vertical or horizontal construction.

The Bank underwrites construction loans for a term of three years or less. The majority of the Bank's construction loans are floating-rate loans with a maximum 75% loan-to-value ratio for the completed project. The Bank employs professional engineering firms to assist in the review of construction cost estimates and make site inspections to determine if the work has been completed prior to the advance of funds for the project.

Construction lending generally involves a greater degree of risk than commercial real estate or multi-family lending. Repayment of a construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject project and the successful marketing of the sale or lease of the project. Construction delays, slower than anticipated absorption or the financial impairment of the builder may negatively affect the borrower's ability to repay the loan.

For all construction loans, the Bank requires an independent appraisal, which includes information on market rents and/or comparable sales for competing projects. The Bank also obtains personal guarantees and conducts environmental due diligence as appropriate.

The Bank also employs other means to mitigate the risk of the construction lending process. On commercial construction projects that the developer maintains for rental, the Bank typically holds back funds for tenant improvements until a lease is executed. For single family and condominium financing, the Bank generally requires payment for the release of a unit that exceeds the amount of the loan advance attributable to such unit.

The Bank's largest construction loan at December 31, 2015 was a \$23.8 million loan secured by a first mortgage lien on a 138,600 square foot freezer warehouse which is under construction in Elizabeth, New Jersey. The loan had an outstanding balance of \$2.5 million at December 31, 2015. Construction of the project is approximately 30% complete. The building is 100% pre-leased. The project's sponsors have extensive experience and a successful track record in the development and management of commercial real estate. The loan has a risk rating of "4" (loans rated 1-4 are deemed to be "acceptable quality"—see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section) and was performing in accordance with its terms and conditions as of December 31, 2015.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 22.1% of the loan portfolio at December 31, 2015. The majority of the Bank's commercial loan customers are local businesses with revenues of less than \$50.0 million. The Bank primarily offers commercial loans for equipment purchases, lines of credit for working capital purposes, letters of credit, asset-based lines of credit and real estate loans where the borrower is the primary occupant of the property. Most commercial loans are originated on a floating-rate basis and the majority of fixed-rate commercial term loans are fully amortized over a five-year period. Owner-occupied commercial real estate loans are generally underwritten to terms consistent with those utilized for commercial real estate; however, the maximum loan-to-value ratio for owner-occupied commercial real estate loans is 80%.

The Bank also underwrites Small Business Administration (“SBA”) guaranteed loans and guaranteed or assisted loans through various state, county and municipal programs. These governmental guarantees are typically used in cases where the borrower requires additional credit support. The Bank has “Preferred Lender” status with the SBA, allowing a more streamlined application and approval process.

The underwriting of a commercial loan is based upon a review of the financial statements of the prospective borrower and guarantors. In most cases the Bank obtains a general lien on accounts receivable and inventory, along with the specific collateral such as real estate or equipment, as appropriate.

Commercial loans generally bear higher interest rates than mortgage loans, but they also involve a higher risk of default since their repayment is generally dependent on the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself and the general economic environment.

The Bank's largest commercial loan as of December 31, 2015 was a \$38.0 million line of credit to a general contracting company specializing in bridge and highway construction with a risk rating of "3" (loans rated 1-4 are deemed "acceptable quality"-see discussion of the Bank's nine-point risk rating system for loans under "Allowance for Loan Losses" in the "Asset Quality" section). The line is used primarily for bid bonding and working capital purposes. The Bank sold a participation interest of \$10.0 million in the line of credit to another financial institution, which reduced the Bank's exposure to \$28.0 million. As of December 31, 2015, the line of credit did not have an outstanding balance.

Consumer Loans. The Bank offers a variety of consumer loans on a direct basis to individuals. Consumer loans represented 8.7% of the loan portfolio at December 31, 2015. Home equity loans and home equity lines of credit constituted 93.7% of the consumer loan portfolio and indirect marine loans constituted 3.3% of the consumer loan portfolio as of December 31, 2015. The remaining 3% of the consumer loan portfolio includes personal loans and unsecured lines of credit, direct auto loans and recreational vehicle loans.

Interest rates on home equity loans are fixed for a term not to exceed 20 years and the maximum loan amount is \$650,000. A portion of the home equity loan portfolio includes "first lien product loans," under which the Bank has offered special rates to borrowers who refinance first mortgage loans on the home equity (first lien) basis. As of December 31, 2015, there was \$282.4 million of first-lien home equity loans outstanding. The Bank's home equity lines are made at floating interest rates and the Bank provides lines of credit of up to \$500,000. The approved home equity lines and utilization amounts as of December 31, 2015 were \$506.3 million and \$212.8 million, respectively, representing utilization of 42.0%.

Consumer loans generally entail greater credit risk than residential mortgage loans, particularly in the case of home equity loans and lines of credit secured by second lien positions, consumer loans that are unsecured or that are secured by assets that tend to depreciate, such as automobiles, boats and recreational vehicles. Collateral repossessed by the Bank from a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance, and the remaining deficiency may warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent upon the borrower's continued financial stability, and which is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount the Bank can recover on such loans.

Loan Originations, Purchases, and Repayments. The following table sets forth the Bank's loan origination, purchase and repayment activities for the periods indicated.

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Originations:			
Residential mortgage	\$ 117,397	\$ 72,418	\$ 122,492
Commercial mortgage	332,940	222,516	254,087
Multi-family mortgage	308,298	127,060	294,288
Construction	304,733	242,898	182,895
Commercial	1,437,749	972,866	711,248
Consumer	154,781	168,747	205,282
Subtotal of loans originated	2,655,898	1,806,505	1,770,292
Loans purchased	95,283	130,540	34,766
Total loans originated and purchased	2,751,181	1,937,045	1,805,058
Net loans acquired in acquisition	—	631,209	—
Loans sold	11,918	12,609	30,977
Repayments:			
Residential mortgage	204,863	151,004	228,195
Commercial mortgage	303,165	196,002	216,068
Multi-family mortgage	176,312	48,758	137,576
Construction	119,784	229,695	47,835
Commercial	1,279,978	851,682	635,764
Consumer	196,819	177,406	203,256
Total repayments	2,280,921	1,654,547	1,468,694
Total reductions	2,292,839	1,667,156	1,499,671
Other items, net ⁽¹⁾	(6,173	) (10,406	) (15,273
Net increase	\$452,169	\$ 890,692	\$ 290,114

(1) Other items, net include charge-offs, deferred fees and expenses, discounts and premiums.

Loan Approval Procedures and Authority. The Bank's Board of Directors approves the Lending Policy on an annual basis as well as on an interim basis as modifications are warranted. The Lending Policy sets the Bank's lending authority for each type of loan. The Bank's lending officers are assigned dollar authority limits based upon their experience and expertise. All loan approvals require joint lending authority.

The largest individual lending authority is \$10.0 million, which is only available to the Chief Executive Officer and the Chief Lending Officer. The authority of the Chief Lending Officer may be increased to \$15.0 million for permanent commercial real estate loans when combined with the additional approval of the Chief Credit Officer. Loans in excess of these limits, or which when combined with existing credits of the borrower or related borrowers exceed these limits, are presented to the management Credit Committee for approval. The Credit Committee currently consists of eight senior officers including the Chief Executive Officer, the Chief Lending Officer, the Chief Financial Officer and the Chief Credit Officer, and requires a majority vote for credit approval.

While the Bank discourages loan policy exceptions, from time to time, based upon reasonable business considerations exceptions to the policy may be warranted. The business reason and mitigants for the exception must be noted on the loan approval document. The policy exception requires the approval of the Chief Lending Officer or the Department Manager of the lending department responsible for the underlying loan, if it is within his or her approval authority limit. All other policy exceptions must be approved by the Credit Committee. The Credit Administration Department

reports the type and frequency of loan policy

9

exceptions to the Credit Committee and the Risk Committee of the Board of Directors on a quarterly basis, or more frequently if necessary.

The Bank has adopted a risk rating system as part of the credit risk assessment of its loan portfolio. The Bank's commercial real estate and commercial lending officers are required to assign a risk rating to each loan in their portfolio at origination. When the lender learns of important financial developments, the risk rating is reviewed accordingly. Risk ratings are subject to review by the Credit Administration Department. Similarly, the Credit Committee can adjust a risk rating. Quarterly, management's Credit Risk Management Committee meets to review all loans rated a "watch" ("5") or worse. In addition, a loan review examination is performed by an independent third party which validates the risk ratings on a sample basis. The Bank requires an annual review be performed for commercial and commercial real estate loans above certain dollar thresholds, depending on loan type, to help determine the appropriate risk ratings. The risk ratings play an important role in the establishment of the loan loss provision and to confirm the adequacy of the allowance for loan losses.

Loans to One Borrower. The regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of the Bank's unimpaired capital and surplus. As of December 31, 2015, the regulatory lending limit was \$114.8 million. The Bank's current internal policy limit on total loans to a borrower or related borrowers that constitute a group exposure is up to \$80.0 million for loans with a risk rating of "2" or better, up to \$70.0 million for loans with a risk rating of "3", and up to \$50.0 million for loans with a risk rating of "4". Maximum group exposure limits may be lower depending on the type of loans involved. The Bank reviews these group exposures on a quarterly basis. The Bank also sets additional limits on size of loans by loan type.

At December 31, 2015, the Bank's largest group exposure with an individual borrower and its related entities was \$81.2 million, consisting of 15 commercial permanent mortgage loans totaling \$69.2 million, secured by 10 first mortgage liens and five second mortgage liens on 10 commercial real estate properties located in northern New Jersey with an average risk rating of "3", as well as a \$12.0 million acquisition and renovation loan secured by a first mortgage lien on a 135,500 square foot retail shopping center in Little Ferry, New Jersey with a risk rating of "3". As of December 31, 2015, this loan had an outstanding balance of \$8.0 million. The borrower, headquartered in New Jersey, is an experienced real estate owner and developer in the state of New Jersey. Management has determined that this exception to the internal group exposure policy limit is manageable and is mitigated by the borrower's diverse revenue mix, as well as its reputation and proven successful track record. This lending relationship was approved as an exception to the internal policy limits by the management Credit Committee and reported to the Risk Committee of the Board of Directors, and conformed to the regulatory limit applicable to the Bank at the time the loan was originated. As of December 31, 2015, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2015, the Bank had \$1.9 billion in loans outstanding to its 50 largest borrowers and their related entities.

ASSET QUALITY

General. One of the Bank's key objectives has been and continues to be to maintain a high level of asset quality. In addition to maintaining sound credit standards for new loan originations, the Bank employs proactive collection and workout processes in dealing with delinquent or problem loans. The Bank actively markets properties that it acquires through foreclosure or otherwise in the loan collection process.

Collection Procedures. In the case of residential mortgage and consumer loans, the collections personnel in the Bank's Asset Recovery Department are responsible for collection activities from the sixteenth day of delinquency. Collection efforts include automated notices of delinquency, telephone calls, letters and other notices to delinquent borrowers. Foreclosure proceedings and other appropriate collection activities such as repossession of collateral are commenced within at least 90 to 120 days after a loan is delinquent provided a plan of repayment to cure the delinquency cannot be reached with the borrower. Periodic inspections of real estate and other collateral are conducted throughout the collection process. The Bank's collection procedures for Federal Housing Association ("FHA") and Veteran's Administration ("VA") one- to four-family mortgage loans follow the collection guidelines outlined by those agencies. Real estate and other assets acquired through foreclosure or in connection with a loan workout are held as foreclosed assets. The Bank carries other real estate owned and other foreclosed assets at the lower of their cost or their fair value

less estimated selling costs. The Bank attempts to sell the property at foreclosure sale or as soon as practical after the foreclosure sale through a proactive marketing effort.

The collection procedures for commercial real estate and commercial loans include sending periodic late notices and letters to a borrower once a loan is past due. The Bank attempts to make direct contact with a borrower once a loan is 16 days past due, usually by telephone. The Chief Lending Officer and Chief Credit Officer review all commercial real estate and commercial loan delinquencies on a weekly basis. Generally, delinquent commercial real estate and commercial loans are transferred to the Asset Recovery Department for further action if the delinquency is not cured within a reasonable period of time, typically 90 days. The

Chief Lending Officer and Chief Credit Officer have the authority to transfer performing commercial real estate or commercial loans to the Asset Recovery Department if, in their opinion, a credit problem exists or is likely to occur. Loans deemed uncollectible are proposed for charge-off on a monthly basis. Any charge-off recommendation of \$500,000 or greater is submitted to Executive Management for approval.

Delinquent Loans and Non-performing Loans and Assets. The Bank's policies require that the Chief Credit Officer continuously monitor the status of the loan portfolios and report to the Board of Directors on a monthly basis. These reports include information on impaired loans, delinquent loans, criticized and classified assets, and foreclosed assets. An impaired loan is defined as a non-homogenous loan greater than \$1.0 million for which it is probable, based on current information, that the Bank will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings ("TDRs"). A loan is deemed to be a TDR when a modification resulting in a concession is made by the Bank in an effort to mitigate potential loss arising from a borrower's financial difficulty. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans, except for TDRs. Impaired loans are individually identified and reviewed to determine that each loan's carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows. As of December 31, 2015, there were 148 impaired loans totaling \$50.9 million, of which 143 loans totaling \$43.9 million were TDRs. Included in this total were 122 TDRs to 120 borrowers totaling \$26.0 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2015.

Interest income stops accruing on loans when interest or principal payments are 90 days in arrears or earlier when the timely collectability of such interest or principal is doubtful. When the accrual of interest on a loan is stopped, the loan is designated as a non-accrual loan and the outstanding unpaid interest previously credited is reversed. A non-accrual loan is returned to accrual status when factors indicating doubtful collection no longer exist, the loan has been brought current and the borrower demonstrates some period (generally six months) of timely contractual payments.

Federal and state regulations as well as the Bank's policy require the Bank to utilize an internal risk rating system as a means of reporting problem and potential problem assets. Under this system, the Bank classifies problem and potential problem assets as "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the Bank will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories, but possess potential weaknesses, are designated "special mention."

Management estimates the amount of loan losses for groups of loans by applying quantitative loss factors to loan segments at the risk rating level, and applying qualitative adjustments to each loan segment at the portfolio level. Quantitative loss factors give consideration to historical loss experience by loan type based upon an appropriate look back period and adjusted for a loss emergence period. Qualitative adjustments give consideration to other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries and loan volumes, as well as national and local economic trends and conditions. Qualitative adjustments reflect risks in the loan portfolio not captured by the quantitative loss factors and, as such, are evaluated from a risk level perspective relative to the risk levels present over the look back period. The reserves resulting from the application of both of these sets of loss factors are combined to arrive at the allowance for loan losses. When the Bank classifies one or more assets, or portions thereof, as "substandard" or "doubtful," the Bank may establish a specific allowance for loan losses in an amount deemed prudent by management. When the Bank classifies one or more assets, or portions thereof, as "loss," the Bank is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge-off such amount.

The Bank's determination as to the classification of assets and the amount of the valuation allowances is subject to review by the FDIC and the New Jersey Department of Banking and Insurance, each of which can require the

establishment of additional general or specific loss allowances. The FDIC, in conjunction with the other federal banking agencies, issued an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of the board of directors and management for the maintenance of adequate allowances, and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement reaffirms that institutions should have effective loan review systems and controls to identify, monitor and address asset quality problems; that loans deemed uncollectible are promptly charged off; and that the institution's process for determining an adequate level for its valuation allowance is based on a comprehensive, adequately documented, and consistently applied analysis of the

institution's loan and lease portfolio. While management believes that on the basis of information currently available to it, the allowance for loans losses is adequate as of December 31, 2015, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

Loans are classified in accordance with the risk rating system described previously. At December 31, 2015, \$77.8 million of loans were classified as "substandard," which consisted of \$20.7 million in commercial and multi-family mortgage loans, \$38.7 million in commercial loans, \$12.0 million in residential loans, \$2.4 million in construction loans and \$4.1 million in consumer loans. At that same date, loans classified as "doubtful" totaled \$8,000, which consisted of one commercial loan. There were no loans classified as "loss" at December 31, 2015. As of December 31, 2015, \$113.5 million of loans were designated "special mention."

The following table sets forth delinquencies in the loan portfolio as of the dates indicated.

	At December 31, 2015				At December 31, 2014				At December 31, 2013			
	60-89 Days Number of Loans	Principal Balance of Loans	90 Days or More Number of Loans	Principal Balance of Loans	60-89 Days Number of Loans	Principal Balance of Loans	90 Days or More Number of Loans	Principal Balance of Loans	60-89 Days Number of Loans	Principal Balance of Loans	90 Days or More Number of Loans	Principal Balance of Loans
Residential mortgage loans	29	\$ 5,434	71	\$12,031	27	\$ 4,331	86	\$17,222	23	\$ 5,062	116	\$23,011
Commercial mortgage loans	1	543	8	1,263	1	30	13	19,107	1	318	12	6,189
Multi-family mortgage loans	1	506	2	741	—	—	1	321	—	—	2	403
Construction loans	—	—	1	2,351	—	—	—	—	—	—	—	—
Total mortgage loans	31	6,483	82	16,386	28	4,361	100	36,650	24	5,380	130	29,603
Commercial loans	4	801	26	5,812	8	371	19	5,031	3	77	23	9,722
Consumer loans	19	1,194	50	4,054	28	2,509	42	3,724	23	2,194	49	3,819
Total loans	54	\$ 8,478	158	\$26,252	64	\$ 7,241	161	\$45,405	50	\$ 7,651	202	\$43,144

Non-Accrual Loans and Non-Performing Assets. The following table sets forth information regarding non-accrual loans and other non-performing assets. At December 31, 2015, there were 21 TDRs totaling \$18.0 million that were classified as non-accrual, compared to 20 non-accrual TDRs which totaled \$26.9 million at December 31, 2014. Loans are generally placed on non-accrual status when they become 90 days or more past due or if they have been identified as presenting uncertainty with respect to the collectability of interest or principal.

	At December 31,				
	2015	2014	2013	2012	2011
Non-accruing loans:					
Residential mortgage loans	\$12,031	\$17,222	\$23,011	\$29,293	\$40,386
Commercial mortgage loans	1,263	20,026	18,662	29,072	29,522
Multi-family mortgage loans	742	322	403	412	997
Construction loans	2,351	—	8,448	8,896	11,018
Commercial loans	23,875	12,342	22,228	25,467	32,093

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

Consumer loans	4,109	3,944	3,928	5,850	8,533	
Total non-accruing loans	44,371	53,856	76,680	98,990	122,549	
Accruing loans - 90 days or more delinquent	165	—	—	—	—	
Total non-performing loans	44,536	53,856	76,680	98,990	122,549	
Foreclosed assets	10,546	5,098	5,486	12,473	12,802	
Total non-performing assets	\$55,082	\$58,954	\$82,166	\$111,463	\$135,351	
Total non-performing assets as a percentage of total assets	0.62	% 0.69	% 1.10	% 1.53	% 1.91	%
Total non-performing loans to total loans	0.68	% 0.88	% 1.48	% 2.02	% 2.63	%

12

Non-performing commercial mortgage loans decreased \$18.8 million to \$1.3 million at December 31, 2015, from \$20.0 million at December 31, 2014. At December 31, 2015, the Company held 8 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a \$609,000 loan secured by a first mortgage on a mixed-use property located in Franklin Township, New Jersey. The loan is presently in default. There is no contractual commitment to advance additional funds to this borrower.

Non-performing commercial loans increased \$11.5 million, to \$23.9 million at December 31, 2015, from \$12.3 million at December 31, 2014. Non-performing commercial loans at December 31, 2015 consisted of 27 loans. The largest non-performing commercial loan relationship consisted of four loans to a health and fitness club with total outstanding balances of \$6.8 million at December 31, 2015. All of the loans are secured by liens on a commercial property. The loans are presently in default.

Non-performing constructions loans amounted to \$2.4 million at December 31, 2015. Non-performing construction loans consisted of a single loan to a health and fitness club, which combined with four non-performing commercial loans comprises a \$9.2 million loan relationship with this borrower. This non-performing construction loan is presently in default. There were no non-performing construction loans at December 31, 2014.

Non-performing residential mortgage loans decreased \$5.2 million to \$12.0 million at December 31, 2015, from \$17.2 million at December 31, 2014. Gross charge-offs of residential loans were \$1.3 million for the year ended December 31, 2015.

At December 31, 2015, the Company held \$10.5 million of foreclosed assets, compared with \$5.1 million at December 31, 2014. Foreclosed assets at December 31, 2015 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of \$5.2 million of residential properties, \$5.1 million of commercial real estate, and \$274,000 of marine vessels at December 31, 2015.

Non-performing assets totaled \$55.1 million, or 0.62% of total assets at December 31, 2015, compared to \$59.0 million, or 0.69% of total assets at December 31, 2014. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by \$1.2 million during the year ended December 31, 2015. The amount of cash basis interest income that was recognized on impaired loans during the year ended December 31, 2015 was not material.

Allowance for Loan Losses. The allowance for loan losses is a valuation account that reflects an evaluation of the probable losses in the loan portfolio. The allowance for loan losses is maintained through provisions for loan losses that are charged to income. Charge-offs against the allowance for loan losses are taken on loans where it is determined the collection of loan principal is unlikely. Recoveries made on loans that have been charged-off are credited to the allowance for loan losses.

Management's evaluation of the adequacy of the allowance for loan losses includes the review of all loans on which the collectability of principal may not be reasonably assured. For residential mortgage and consumer loans, this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis. As part of the evaluation of the adequacy of the allowance for loan losses, each quarter management prepares an analysis that categorizes the entire loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating.

When assigning a risk rating to a loan, management utilizes the Bank's internal nine-point risk rating system. Loans deemed to be "acceptable quality" are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to be of "questionable quality" are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings for loans requiring Credit Committee approval are periodically reviewed by the Credit Committee in the credit approval or renewal process. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports by the independent third party are presented directly to the Audit and Risk Committees of the Board of Directors.

Each quarter, the lending groups prepare individual Credit Risk Management Reports for the Credit Administration Department. These reports review all commercial loans and commercial mortgage loans that have been determined to involve above-average risk (risk rating of 5 or worse). The Credit Risk Management Reports contain the reason for the risk rating assigned to each loan, status of the loan and any current developments. These reports are submitted to a committee chaired by the Chief Credit Officer. Each loan officer reviews the loan and the corresponding Credit Risk Management Report with the committee and the risk rating is evaluated for appropriateness.

Management estimates the amount of loan losses for groups of loans by applying quantitative loss factors to loan segments at the risk rating level, and applying qualitative adjustments to each loan segment at the portfolio level. Quantitative loss factors give consideration to historical loss experience by loan type based upon an appropriate look back period and adjusted for a loss emergence period; these factors are evaluated at least annually. The most recent periodic review and recalculation of quantitative loss factors was completed in the third quarter of 2015 using historical loss data through June 30, 2015 and was applied effective September 30, 2015. Qualitative adjustments give consideration to other qualitative or environmental factors such as:

- levels of and trends in delinquencies and impaired loans;
- levels of and trends in charge-offs and recoveries;
- trends in volume and terms of loans;
- effects of any changes in lending policies, procedures and practices;
- changes in the quality or results of the Bank's loan review system;
- experience, ability, and depth of lending management and other relevant staff;
- national and local economic trends and conditions;
- industry conditions;
- effects of changes in credit concentration; and
- changes in collateral values.

Qualitative adjustments reflect risks in the loan portfolio not captured by the quantitative loss factors and, as such, are evaluated from a risk level perspective relative to the risk levels present over the look back period; qualitative adjustments are recalibrated at least annually and evaluated at least quarterly. The range of adjustments to historical loss rates applicable to qualitative factors were updated in the third quarter of 2015 in conjunction with the review and recalculation of quantitative loss factors. The reserves resulting from the application of both of these sets of loss factors are combined to arrive at the general allowance for loan losses.

The reserve factors applied to each loan risk rating are inherently subjective in nature. Reserve factors are assigned to each of the risk rating categories. This methodology permits adjustments to the allowance for loan losses in the event that, in management's judgment, significant conditions impacting the credit quality and collectability of the loan portfolio as of the evaluation date are not otherwise adequately reflected in the analysis.

The provision for loan losses is established after considering the allowance for loan loss analysis, the amount of the allowance for loan losses in relation to the total loan balance, loan portfolio growth, loan portfolio composition, loan delinquency trends and peer group analysis. As a result of this process, management may establish an unallocated portion of the allowance for loan losses. The unallocated portion of the allowance for loan losses accounts for the inherent impression of the overall loss estimation process, including the periodic updating of appraisals, commercial loan risk ratings, and economic uncertainty that may not be fully captured in the Bank's loss history or the qualitative factors.

Management believes the primary risks inherent in the portfolio are a decline in the economy, generally, a decline in real estate market values, rising unemployment or a protracted period of unemployment at elevated levels, increasing vacancy rates in commercial investment properties and possible increases in interest rates in the absence of economic improvement. Any one or a combination of these events may adversely affect borrowers' ability to repay the loans, resulting in increased delinquencies, loan losses and future levels of provisions. Accordingly, the Company has provided for loan losses at the current level to address the current risk in its loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level given current economic conditions, interest rates and the composition of the portfolio. Management will continue to review the entire loan portfolio to determine the extent, if any, to which further additional loan loss provisions may be deemed necessary. The allowance for loan losses is maintained at a level that represents management's best estimate of probable losses related to specifically identified loans as well as probable losses inherent in the remaining loan portfolio. There can be no assurance that the allowance for loan losses will be adequate to cover all losses that may in fact be realized in the future or that additional provisions for loan losses will not be required.

Analysis of the Allowance for Loan Losses. The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	Years Ended December 31,				
	2015	2014	2013	2012	
	(Dollars in thousands)				
Balance at beginning of period	\$61,734	\$64,664	\$70,348	\$74,351	
Charge offs:					
Residential mortgage loans	1,296	3,184	3,900	4,622	
Commercial mortgage loans	1,086	705	2,882	3,253	
Multi-family mortgage loans	105	4	—	19	
Construction loans	—	15	234	238	
Commercial loans	2,863	4,449	3,686	12,259	
Consumer loans	3,478	2,515	3,704	3,516	
Total	8,828	10,872	14,406	23,907	
Recoveries:					
Residential mortgage loans	102	73	160	105	
Commercial mortgage loans	86	131	104	56	
Multi-family mortgage loans	2	1	—	1	
Construction loans	57	80	869	—	
Commercial loans	2,413	1,776	1,075	2,771	
Consumer loans	1,508	1,231	1,014	971	
Total	4,168	3,292	3,222	3,904	
Net charge-offs	4,660	7,580	11,184	20,003	
Provision for loan losses	4,350	4,650	5,500	16,000	
Balance at end of period	\$61,424	\$61,734	\$64,664	\$70,348	
Ratio of net charge-offs to average loans outstanding during the period	0.07	% 0.13	% 0.22	% 0.43	%
Allowance for loan losses to total loans	0.94	% 1.01	% 1.24	% 1.43	%
Allowance for loan losses to non-performing loans	137.92	% 114.63	% 84.33	% 71.07	%

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the allowance for loan losses by loan category for the periods indicated. This allocation is based on management's assessment, as of a given point in time, of the risk characteristics of each of the component parts of the total loan portfolio and is subject to changes as and when the risk factors of each such component part change. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may be taken, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

	At December 31, 2015		2014		2013		2012		2011	
	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Amount of Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
(Dollars in thousands)										
Residential mortgage loans	\$5,110	19.20 %	\$4,805	20.58 %	\$5,500	22.60 %	\$6,053	25.79 %	\$5,873	28.14 %
Commercial mortgage loans	12,798	26.25	16,645	27.86	16,404	26.96	21,639	27.52	22,308	26.95
Multi-family mortgage loans	7,841	18.88	6,258	17.12	5,933	17.87	7,163	14.76	6,933	12.13
Construction loans	6,345	5.06	4,269	3.62	6,307	3.52	3,107	2.45	4,329	2.47
Commercial loans	25,829	21.94	24,381	20.76	24,107	17.93	20,315	17.67	25,381	18.25
Consumer loans	3,501	8.67	4,881	10.06	4,929	11.12	5,224	11.81	5,515	12.06
Unallocated	—	—	495	—	1,484	—	6,847	—	4,012	—
Total	\$61,424	100.00 %	\$61,734	100.00 %	\$64,664	100.00 %	\$70,348	100.00 %	\$74,351	100.00 %

¹⁾ For the year ended December 31, 2015, the Company enhanced its allowance for loan losses process and allocated the previously unallocated allowance using both qualitative and quantitative factors.

INVESTMENT ACTIVITIES

General. The Board of Directors annually approves the Investment Policy for the Bank and the Company. The Chief Financial Officer and the Treasurer are authorized by the Board to implement the Investment Policy and establish investment strategies. Each of the Chief Executive Officer, Chief Financial Officer, Treasurer and Assistant Treasurer is authorized to make investment decisions consistent with the Investment Policy. Investment transactions for the Bank are reported to the Board of Directors of the Bank on a monthly basis.

The Investment Policy is designed to generate a favorable rate of return, consistent with established guidelines for liquidity, safety, duration and diversification, and to complement the lending activities of the Bank. Investment decisions are made in accordance with the policy and are based on credit quality, interest rate risk, balance sheet composition, market expectations, liquidity, income and collateral needs.

The Investment Policy does not currently permit the purchase of any securities that are below investment grade. The investment strategy is to maximize the return on the investment portfolio consistent with the Investment Policy. The investment strategy considers the Bank's and the Company's interest rate risk position as well as liquidity, loan demand and other factors. Acceptable investment securities include U.S. Treasury and Agency obligations, collateralized mortgage obligations ("CMOs"), corporate debt obligations, municipal bonds, mortgage-backed securities,

commercial paper, mutual funds, bankers' acceptances and Federal funds. Securities purchased for the investment portfolio require a minimum credit rating of "A" by Moody's or Standard & Poor's at the time of purchase. Securities in the investment portfolio are classified as held to maturity, available for sale or held for trading. Securities that are classified as held to maturity are securities that the Bank or the Company has the intent and ability to hold until their contractual maturity date and are reported at cost. Securities that are classified as available for sale are reported at fair value. Available for sale securities include U.S. Treasury and Agency obligations, U.S. Agency and privately-issued CMOs, corporate debt obligations and equities. Sales of securities may occur from time to time in response to changes in market rates and liquidity needs and to facilitate balance sheet reallocation to effectively manage interest rate risk. At the present time, there are no securities that are classified as held for trading. Management conducts a periodic review and evaluation of the securities portfolio to determine if any securities with a market value below book value were other-than-temporarily impaired. If such an impairment were deemed other-than-temporary, management would measure the total credit-related component of the unrealized loss, and the Company would recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an

adjustment to accumulated other comprehensive income. The fair value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the fair value of fixed-rate securities decreases and as interest rates fall, the fair value of fixed-rate securities increases. The market for non-investment grade, privately issued mortgage-backed securities remains illiquid and prices have not appreciated despite favorable movements in interest rates. The Company evaluates if it has the intent to sell these securities and if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery.

CMOs are a type of debt security issued by a special-purpose entity that aggregates pools of mortgages and mortgage-related securities and creates different classes of CMO securities with varying maturities and amortization schedules as well as a residual interest with each class possessing different risk characteristics. In contrast to pass-through mortgage-backed securities from which cash flow is received (and prepayment risk is shared) pro rata by all securities holders, the cash flow from the mortgages or mortgage-related securities underlying CMOs is paid in accordance with predetermined priority to investors holding various tranches of such securities or obligations. A particular tranche of CMOs may therefore carry prepayment risk that differs from that of both the underlying collateral and other tranches. Accordingly, CMOs attempt to moderate risks associated with conventional mortgage-related securities resulting from unexpected prepayment activity. In declining interest rate environments, the Bank attempts to purchase CMOs with principal lock-out periods, reducing prepayment risk in the investment portfolio. During rising interest rate periods, the Bank's strategy is to purchase CMOs that are receiving principal payments that can be reinvested at higher current yields. Investments in CMOs involve a risk that actual prepayments will differ from those estimated in pricing the security, which may result in adjustments to the net yield on such securities. Additionally, the fair value of such securities may be adversely affected by changes in the market interest rates. Management believes these securities may represent attractive alternatives relative to other investments due to the wide variety of maturity, repayment and interest rate options available.

At December 31, 2015, the Bank held \$3.7 million in privately-issued CMOs in the investment portfolio. The Bank and the Company do not invest in collateralized debt obligations, mortgage-related securities secured by sub-prime loans, or any preferred equity securities.

Amortized Cost and Fair Value of Securities. The following table sets forth certain information regarding the amortized cost and fair values of the Company's securities as of the dates indicated.

	At December 31,		2014		2013	
	2015		Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	\$1,597	\$1,658	\$2,816	\$2,939	\$5,273	\$5,520
FHLB obligations	500	498	1,050	1,048	895	893
FHLMC obligations	500	500	1,700	1,696	1,900	1,876
FNMA obligations	3,096	3,099	3,413	3,414	3,909	3,883
FFCB obligations	—	—	650	652	819	818
State and municipal obligations	458,062	472,661	449,410	462,238	334,750	332,987
Corporate obligations	9,929	9,915	10,489	10,486	9,954	9,936
Total held-to-maturity	\$473,684	\$488,331	\$469,528	\$482,473	\$357,500	\$355,913
Available for Sale:						
U.S Treasury obligations	8,006	8,004	8,016	8,016	—	—
Mortgage-backed securities	857,430	863,861	944,796	957,257	1,060,013	1,054,974
FHLMC obligations	20,101	20,059	32,360	32,351	47,713	47,709
FHLB obligations	30,298	30,273	—	—	12,163	12,178
FNMA obligations	31,997	31,998	16,398	16,472	33,347	33,529
FFCB obligations	—	—	46,113	46,253	—	—
State and municipal obligations	4,193	4,308	6,855	7,002	8,739	8,758
Corporate obligations	5,516	5,512	6,526	6,520	—	—
Equity securities	397	519	397	524	357	446
Total available for sale	\$957,938	\$964,534	\$1,061,461	\$1,074,395	\$1,162,332	\$1,157,594
Average expected life of securities ⁽¹⁾	4.40 years		4.22 years		4.55 years	

(1) Average expected life is based on prepayment assumptions utilizing prevailing interest rates as of the reporting dates and excludes equity securities.

The aggregate carrying values and fair values of securities by issuer, where the aggregate book value of such securities exceeds ten percent of stockholders' equity are as follows (in thousands):

	Amortized Cost	Fair Value
At December 31, 2015:		
FNMA	\$464,961	\$467,039
FHLMC	370,798	374,169

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

The following table sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Company's debt securities portfolio as of December 31, 2015. No tax equivalent adjustments were made to the weighted average yields. Amounts are shown at amortized cost for held to maturity securities and at fair value for available for sale securities.

At December 31, 2015

	One Year or Less		More Than One Year to Five Years		More Than Five Years to Ten Years		After Ten Years		Total	
	Carrying Value	Weighted Average Yield ⁽¹⁾	Carrying Value	Weighted Average Yield ⁽¹⁾	Carrying Value	Weighted Average Yield ⁽¹⁾	Carrying Value	Weighted Average Yield ⁽¹⁾	Carrying Value	Weighted Average Yield ⁽¹⁾
(Dollars in thousands)										
Held to Maturity:										
Mortgage-backed securities	\$—	— %	\$1,089	4.10 %	\$508	5.40 %	\$—	— %	\$1,597	4.51 %
Agency obligations	—	—	4,096	1.18	—	—	—	—	4,096	1.18
Corporate obligations	1,761	2.24	8,168	1.99	—	—	—	—	9,929	2.03
State and municipal obligations	7,321	3.27	40,361	3.52	218,488	2.82	191,892	2.76	458,062	2.86
Total held to maturity	\$9,082	3.07 %	\$53,714	3.12 %	\$218,996	2.83 %	\$191,892	2.76 %	\$473,684	2.84 %
Available for Sale:										
U.S. Treasury obligations	\$—	— %	\$8,004	1.06 %	\$—	— %	\$—	— %	\$8,004	1.06 %
State and municipal obligations	426	3.86 %	426	3.91	681	2.50	2,775	3.01	4,308	3.10
Mortgage-backed securities	—	—	23,245	2.46	73,677	3.21	766,939	2.46	863,861	2.52
Agency obligations	25,133	0.73	57,197	1.02	—	—	—	—	82,330	0.93
Corporate obligations	1,500	0.72	992	1.48	3,020	2.99	—	—	5,512	—
Total available for sale ⁽²⁾	\$27,059	0.78 %	\$89,864	1.41 %	\$77,378	3.19 %	\$769,714	2.46 %	\$964,015	2.35 %

(1) Yields are not tax equivalent.

(2) Totals exclude \$519,000 of available for sale equity securities at fair value.

SOURCES OF FUNDS

General. Primary sources of funds consist of principal and interest cash flows received from loans and mortgage-backed securities, contractual maturities on investments, deposits, Federal Home Loan Bank of New York ("FHLBNY") advances and proceeds from sales of loans and investments. These sources of funds are used for lending, investing and general corporate purposes, including acquisitions and common stock repurchases.

Deposits. The Bank offers a variety of deposits for retail and business accounts. Deposit products include savings accounts, checking accounts, interest-bearing checking accounts, money market deposit accounts and certificate of deposit accounts at varying interest rates and terms. The Bank also offers IRA and KEOGH accounts. Business customers are offered several checking account and savings plans, cash management services, remote deposit capture services, payroll origination services, escrow account management and business credit cards. The Bank focuses on relationship banking for retail and business customers to enhance the customer experience. Deposit activity is influenced by state and local economic conditions, changes in interest rates, internal pricing decisions and competition. Deposits are primarily obtained from the areas surrounding the Bank's branch locations. To attract and retain deposits, the Bank offers competitive rates, quality customer service and a wide variety of products and services that meet customers' needs, including online and mobile banking.

Deposit pricing strategy is monitored monthly by the management Asset/Liability Committee and Pricing Committee. Deposit pricing is set weekly by the Bank's Treasury Department. When setting deposit pricing, the Bank considers competitive market rates, FHLB NY advance rates and rates on other sources of funds. Core deposits, defined as savings accounts, interest and non-interest bearing checking accounts and money market deposit accounts represented 87.5% of total deposits at December 31, 2015 and 85.7% of total deposits at December 31, 2014. As of December 31, 2015 and December 31, 2014, time deposits maturing in less than one year amounted to \$499.2 million and \$568.5 million, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2015.

	Maturity				Total
	3 Months or Less (Dollars in thousands)	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	
Certificates of deposit of \$100,000 or more	\$ 116,296	\$ 42,594	\$ 68,893	\$ 96,432	\$ 324,215
Certificates of deposit less than \$100,000	100,806	82,189	88,443	144,068	415,506
Total certificates of deposit	\$ 217,102	\$ 124,783	\$ 157,336	\$ 240,500	\$ 739,721

Certificates of Deposit Maturities. The following table sets forth certain information regarding certificates of deposit.

Rate:	Period to Maturity from December 31, 2015						At December 31,		
	Less Than One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	Five Years or More	2015	2014	2013
	(Dollars in thousands)								
0.00 to 0.99%	\$ 444,551	\$ 43,386	\$ 9,027	\$ —	\$ 54	\$ 309	\$ 497,327	\$ 536,945	\$ 524,311
1.00 to 2.00%	39,965	44,518	35,047	53,575	52,614	737	226,456	175,010	120,750
2.01 to 3.00%	14,288	89	—	—	700	4	15,081	92,603	111,898
3.01 to 4.00%	23	—	—	—	—	—	23	19,899	45,845
4.01 to 5.00%	379	113	—	—	—	—	492	781	3,849
5.01 to 6.00%	9	293	—	—	—	—	302	413	31
6.01 to 7.00%	6	—	—	—	—	—	6	7	—
Over 7.01%	—	34	—	—	—	—	34	31	70
Total	\$ 499,221	\$ 88,433	\$ 44,074	\$ 53,575	\$ 53,368	\$ 1,050	\$ 739,721	\$ 825,689	\$ 806,754

Borrowed Funds. At December 31, 2015, the Bank had \$1.71 billion of borrowed funds. Borrowed funds consist primarily of FHLBNY advances and repurchase agreements. Repurchase agreements are contracts for the sale of securities owned or borrowed by the Bank, with an agreement to repurchase those securities at an agreed-upon price and date. The Bank uses wholesale repurchase agreements, as well as retail repurchase agreements as an investment vehicle for its commercial sweep checking product. Bank policies limit the use of repurchase agreements to collateral consisting of U.S. Treasury obligations, U.S. government agency obligations or mortgage-related securities.

As a member of the FHLBNY, the Bank is eligible to obtain advances upon the security of the FHLBNY common stock owned and certain residential mortgage loans, provided certain standards related to credit-worthiness have been met. FHLBNY advances are available pursuant to several credit programs, each of which has its own interest rate and range of maturities.

The following table sets forth the maximum month-end balance and average balance of FHLBNY advances and securities sold under agreements to repurchase for the periods indicated.

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Maximum Balance:			
FHLBNY advances	\$1,363,122	\$1,190,280	\$774,557
FHLBNY line of credit	160,000	180,000	183,000
Securities sold under agreements to repurchase	346,361	255,633	294,035
Average Balance:			
FHLBNY advances	1,249,193	989,245	599,991
FHLBNY line of credit	80,847	104,121	48,784
Securities sold under agreements to repurchase	273,934	245,260	260,004
Weighted Average Interest Rate:			
FHLBNY advances	1.84	% 2.08	% 2.34
FHLBNY line of credit	0.40	0.37	0.38
Securities sold under agreements to repurchase	1.49	1.72	1.74

The following table sets forth certain information as to borrowings at the dates indicated.

	At December 31,		
	2015	2014	2013
	(Dollars in thousands)		
FHLBNY advances	1,350,282	1,190,280	774,557
FHLBNY line of credit	96,000	73,000	183,000
Securities sold under repurchase agreements	261,350	246,571	246,322
Total borrowed funds	\$1,707,632	\$1,509,851	\$1,203,879
Weighted average interest rate of FHLBNY advances	1.77	% 1.88	% 2.17
Weighted average interest rate of FHLBNY line of credit	0.49	% 0.32	% 0.40
Weighted average interest rate of securities sold under agreements to repurchase	1.47	% 1.69	% 1.69

WEALTH MANAGEMENT SERVICES

As part of the Company's strategy to increase fee related income, the Company's wholly owned subsidiary, Beacon Trust Company ("Beacon") is engaged in providing wealth management and asset management services. In addition to its trust and estate administration services, Beacon is also a provider of asset management services which are often introduced to existing clients through the Bank's extensive branch network. Beacon offers a full range of asset management services to individuals, municipalities, non-profits, corporations and pension funds. These services include investment management, asset allocation, trust and fiduciary services, financial and tax planning, family office services, estate settlement services and custody.

Beacon focuses on delivering personalized investment strategies based on the client's risk profile. These strategies are focused on maximizing clients' investment returns, while minimizing expenses. Most of the fee income generated by Beacon is based on assets under management.

On October 31, 2014, Beacon acquired the fiduciary account relationships of a bank in Suffolk County, New York. On April 1, 2015, Beacon completed the acquisition of certain assets and liabilities of The MDE Group, Inc. and the equity interests of Acertus Capital Management, LLC, both Morristown, New Jersey-based registered investment advisers under common ownership.

SUBSIDIARY ACTIVITIES

PFS Insurance Services, Inc., formerly Provident Investment Services, Inc., is a wholly owned subsidiary of the Bank, and a New Jersey licensed insurance producer that sells insurance and investment products, including annuities to

customers through a third-party networking arrangement.

21

Dudley Investment Corporation is a wholly owned subsidiary of the Bank which operates as a New Jersey Investment Company. Dudley Investment Corporation owns all of the outstanding common stock of Gregory Investment Corporation.

Gregory Investment Corporation is a wholly owned subsidiary of Dudley Investment Corporation. Gregory Investment Corporation operates as a Delaware Investment Company. Gregory Investment Corporation owns all of the outstanding common stock of PSB Funding Corporation.

PSB Funding Corporation is a majority owned subsidiary of Gregory Investment Corporation. It was established as a New Jersey corporation to engage in the business of a real estate investment trust for the purpose of acquiring mortgage loans and other real estate related assets from the Bank.

Bergen Avenue Realty, LLC, a New Jersey limited liability company is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure. At December 31, 2015, Bergen Avenue Realty, LLC had total assets of \$4.7 million.

Bergen Avenue Realty PA, LLC, a Pennsylvania limited liability company is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure located in Pennsylvania. At December 31, 2015, Bergen Avenue Realty PA, LLC had total assets of \$195,500.

Beacon Trust Company, a New Jersey limited purpose trust company, is a wholly owned subsidiary of the Bank. Beacon Investment Advisory Services, Inc. is a wholly owned subsidiary of Beacon Trust Company, incorporated under Delaware law and is a registered investment advisor that conducts the business acquired from The MDE Group, Inc.

Acertus Capital Management, LLC, a Delaware limited liability company is a wholly owned subsidiary of Beacon Trust Company and is a registered investment advisor that manages two private funds and serves as a sub-advisor to a mutual fund.

Team Capital Service Co., LLC is an inactive New Jersey limited liability company which became a wholly owned subsidiary of the Company by way of the Team Capital Bank acquisition.

Team Capital NJ Investment Co. is an inactive New Jersey corporation which became a wholly owned subsidiary of the Company by way of the Team Capital Bank acquisition.

PERSONNEL

As of December 31, 2015, the Company had 951 full-time and 113 part-time employees. None of the Company's employees are represented by a collective bargaining group. The Company believes its working relationship with its employees is good.

REGULATION and SUPERVISION

General

As a bank holding company controlling the Bank, the Company is subject to the Bank Holding Company Act of 1956, as amended ("BHCA"), and the rules and regulations of the Federal Reserve Board under the BHCA. The Company is also subject to the provisions of the New Jersey Banking Act of 1948 (the "New Jersey Banking Act") and the regulations of the Commissioner of the New Jersey Department of Banking and Insurance ("Commissioner") under the New Jersey Banking Act applicable to bank holding companies. The Company and the Bank are required to file reports with, and otherwise comply with the rules and regulations of the Federal Reserve Board and the Commissioner. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company's compliance with various regulatory requirements. The Company files certain reports with, and otherwise complies with, the rules and regulations of the SEC under the federal securities laws and the listing requirements of the New York Stock Exchange.

The Bank is a New Jersey chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to extensive regulation, examination and supervision by the Commissioner as the issuer of its charter, and by the FDIC as its deposit insurer. The Bank files reports with the Commissioner and the FDIC concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the FDIC conduct periodic examinations to assess the Bank's compliance with various regulatory requirements. This regulation and supervision

establishes a comprehensive framework of activities in which a savings bank can engage and is intended primarily for the protection of the deposit insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Any change in applicable laws and regulations, whether by the Commissioner, the FDIC, the Federal Reserve Board or through legislation, could have a material adverse impact on the Company and the Bank and their operations. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) made extensive changes in the regulation of depository institutions and their holding companies. Certain provisions of the Dodd-Frank Act are impacting the Company and the Bank. For example, the Dodd-Frank Act created the Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau has assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has the authority to impose new requirements. However, institutions with less than \$10 billion in assets, such as the Bank, continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and are subject to the enforcement authority of their principal regulator, although the Consumer Financial Protection Bureau has back-up authority to examine and enforce consumer protection laws against all institutions, including those with less than \$10 billion in assets.

The material laws and regulations applicable to the Company and the Bank are summarized below and elsewhere in the Form 10-K.

New Jersey Banking Regulation

Activity Powers. The Bank derives its lending, investment and other activity powers primarily from the applicable provisions of the New Jersey Banking Act and its related regulations. Under these laws and regulations, savings banks, including the Bank, generally may, subject to certain limits, invest in:

- (1) real estate mortgages;
- (2) consumer and commercial loans;
- (3) specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies;
- (4) certain types of corporate equity securities; and
- (5) certain other assets.

A savings bank may also invest pursuant to a “leeway” power that permits investments not otherwise permitted by the New Jersey Banking Act, subject to certain restrictions imposed by the FDIC. “Leeway” investments must comply with a number of limitations on the individual and aggregate amounts of “leeway” investments. A savings bank may also exercise trust powers upon the approval of the Commissioner. New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers is limited by federal law and the related regulations. See “Federal Banking Regulation—Activity Restrictions on State-Chartered Bank” below.

Loans-to-One-Borrower Limitations. With certain specified exceptions, a New Jersey chartered savings bank may not make loans or extend credit to a single borrower and to entities related to the borrower in an aggregate amount that would exceed 15% of the bank’s capital funds. A New Jersey chartered savings bank may lend an additional 10% of the bank’s capital funds if secured by collateral meeting the requirements of the New Jersey Banking Act. The Bank currently complies with applicable loans-to-one-borrower limitations.

Dividends. Under the New Jersey Banking Act, a stock savings bank may declare and pay a dividend on its capital stock only to the extent that the payment of the dividend would not impair the capital stock of the savings bank. In addition, a stock savings bank may not pay a dividend unless the savings bank would, after the payment of the dividend, have a surplus of not less than 50% of its capital stock, or the payment of the dividend would not reduce the surplus. Federal law may also limit the amount of dividends that may be paid by the bank.

Minimum Capital Requirements. Regulations of the Commissioner impose on New Jersey chartered depository institutions, including the Bank, minimum capital requirements similar to those imposed by the FDIC on insured state banks. At December 31, 2015, the Bank was considered “well capitalized” under FDIC guidelines.

Examination and Enforcement. The New Jersey Department of Banking and Insurance may examine the Company and the Bank whenever it deems an examination advisable. The Department examines the Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or unsound

business practice and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Commissioner has ordered the activity to be terminated, to show cause at a hearing before the Commissioner why such person should not be removed.

Federal Banking Regulation

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. These capital requirements are the result of a final rule implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act, and were effective January 1, 2015.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

The following table shows the Bank's Tier 1 leverage ratio, common equity Tier 1 risk-based capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio, at December 31, 2015:

	As of December 31, 2015:			
	Capital	Percent of Assets ⁽¹⁾	Capital Requirements ⁽¹⁾	
	(Dollars in thousands)			
Tier 1 leverage capital	\$709,690	8.42	% 4.00	%
Common equity Tier 1 risk-based capital	709,690	10.61	4.50	
Tier 1 risk-based capital	709,690	10.61	6.00	
Total risk-based capital	771,268	11.53	8.00	

(1) For purposes of calculating regulatory Tier 1 leverage capital, assets are based on adjusted total leverage assets. In calculating common equity Tier 1 risk-based capital, Tier 1 risk-based capital and total risk-based capital, assets are based on total risk-weighted assets.

As of December 31, 2015, the Bank was considered "well capitalized" under FDIC guidelines.

Activity Restrictions on State-Chartered Banks. Federal law and FDIC regulations generally limit the activities and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by law or consented to by the FDIC.

Before making a new investment or engaging in a new activity that is not permissible for a national bank or otherwise permissible under federal law or FDIC regulations, an insured bank must seek approval from the FDIC to make such investment or engage in such activity. The FDIC will not approve the activity unless the bank meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the FDIC insurance fund. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a “financial subsidiary” are subject to additional restrictions.

Federal law permits a state-chartered savings bank to engage, through financial subsidiaries, in any activity in which a national bank may engage through a financial subsidiary and on substantially the same terms and conditions. In general, the law permits a national bank that is well-capitalized and well-managed to conduct, through a financial subsidiary, any activity permitted for a financial holding company other than insurance underwriting, insurance investments, real estate investment or development or merchant banking. The total assets of all such financial subsidiaries may not exceed the lesser of 45% of the bank's total assets or \$50 billion. The bank must have policies and procedures to assess the financial subsidiary's risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary's assets with the bank's and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. The Bank currently meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries.

Federal Home Loan Bank System. The Bank is a member of the FHLB system which consists of twelve regional FHLBs, each subject to supervision and regulation by the Federal Housing Finance Agency ("FHFA"). The FHLB provides a central credit facility primarily for member institutions. As a member of the FHLB of New York, the Bank is required to purchase and hold shares of capital stock in that FHLB in an amount as required by that FHLB's capital plan and minimum capital requirements. The Bank is in compliance with these requirements. The Bank has received dividends on its FHLB NY stock, although no assurance can be given that these dividends will continue to be paid. For the year ended December 31, 2015, dividends paid by the FHLB NY to the Bank totaled \$3.1 million.

Deposit Insurance. As a member institution of the FDIC, deposit accounts at the Bank are generally insured up to a maximum of \$250,000 for each separately insured depositor.

Under the FDIC's risk-based assessment system, insured institutions are assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower assessments. The FDIC may adjust the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No institution may pay a dividend if in default of its federal deposit insurance assessment.

The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

On February 7, 2011, the FDIC issued a final rule that established a target size for the Deposit Insurance Fund ("DIF") at 2 percent of insured deposits as mandated by the Dodd-Frank Act. The rule also implements a lower assessment rate schedule when the DIF reaches 1.15 percent of total insured deposits. The FDIC may terminate the insurance of an institution's deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Management is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Enforcement. The FDIC has extensive enforcement authority over insured savings banks, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of law and to unsafe or unsound practices.

Transactions with Affiliates. Transactions between an insured bank, such as the Bank, and any of its affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and its implementing regulations. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. A subsidiary of a bank that is not also a depository institution, financial subsidiary or other entity defined by the regulation generally is not treated as an affiliate of the bank for purposes of Sections 23A and 23B.

Section 23A:

limits the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such bank's capital stock and retained earnings, and limits all such transactions with all affiliates to an amount equal to 20% of such capital stock and retained earnings; and requires that all such transactions be on terms that are consistent with safe and sound banking practices.

The term “covered transaction” includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amounts. In addition, any covered transaction by a bank with an affiliate and any purchase of assets or services by a bank from an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those that would be provided to a non-affiliate.

Prohibitions Against Tying Arrangements. Banks are subject to statutory prohibitions on certain tying arrangements. A depository institution is prohibited, subject to certain exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or that the customer not obtain services of a competitor of the institution.

Privacy Standards. FDIC regulations require the Company and the Bank to disclose their privacy policies, including identifying with whom they share “non-public personal information” to customers at the time of establishing the customer relationship and annually thereafter.

The FDIC regulations also require the Company and the Bank to provide their customers with initial and annual notices that accurately reflect their privacy policies and practices. In addition, the Company and the Bank are required to provide their customers with the ability to “opt-out” of having the Company and the Bank share their non-public personal information with unaffiliated third parties before they can disclose such information, subject to certain exceptions.

Community Reinvestment Act and Fair Lending Laws. All FDIC insured institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a state chartered savings bank, the FDIC is required to assess the institution’s record of compliance with the Community Reinvestment Act. Among other things, the current Community Reinvestment Act regulations rate an institution based upon its actual performance in meeting community needs. In particular, the current evaluation system focuses on three tests:

- a lending test, to evaluate the institution’s record of making loans in its service areas;
- an investment test, to evaluate the institution’s record of investing in community development projects, affordable housing, and programs benefiting low- or moderate-income individuals and businesses; and
- a service test, to evaluate the institution’s delivery of services through its branches, ATMs and other offices.

An institution’s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities, including, but not limited to, engaging in acquisitions and mergers. The Bank received an “Outstanding” Community Reinvestment Act rating in its most recently completed federal examination, which was conducted by the FDIC as of December 2014.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution’s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice.

Safety and Soundness Standards. Each federal banking agency, including the FDIC, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder. In addition, FDIC regulations require a bank that is given notice by the FDIC that it is not satisfying any of such safety and soundness standards to submit a compliance plan to the FDIC. If, after being so notified, a bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FDIC may issue an order directing corrective and other actions of the types to which a significantly undercapitalized institution is subject under the “prompt corrective action” provisions discussed below. If a bank fails to comply with such an order, the FDIC may seek to enforce such an order in judicial proceedings and to impose civil monetary penalties.

Prompt Corrective Action. Federal law requires the FDIC and the other federal banking regulators to promptly resolve the problems of undercapitalized institutions. Federal law also establishes five categories, consisting of “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” The FDIC’s regulations define the five capital categories as follows:

An institution will be treated as “well capitalized” if:

its ratio of total capital to risk-weighted assets is at least 10%;
its ratio of Tier 1 capital to risk-weighted assets is at least 8%;

26

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

An institution will be treated as “adequately capitalized” if:

its ratio of total capital to risk-weighted assets is at least 8%; or
its ratio of Tier 1 capital to risk-weighted assets is at least 6%;
its ratio of common equity Tier 1 capital to risk-weighted assets is at least 4.5%; and
its ratio of Tier 1 capital to total assets is at least 4% and it is not a well-capitalized institution.

An institution will be treated as “undercapitalized” if:

its total risk-based capital is less than 8%; or
its Tier 1 risk-based-capital is less than 6%;
• its ratio of common equity Tier 1 capital to risk-weighted assets is less than 4.5%; or

its leverage ratio is less than 4%

An institution will be treated as “significantly undercapitalized” if:

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

An institution that has a tangible capital to total assets ratio equal to or less than 2% would be deemed “critically undercapitalized.” The FDIC is required, with some exceptions, to appoint a receiver or conservator for an insured state bank if that bank is critically undercapitalized. The FDIC may also appoint a conservator or receiver for an insured state bank on the basis of the institution’s financial condition or upon the occurrence of certain events, including:

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

The previously discussed final rule that increased capital requirements effective January 1, 2015 adjusted the prompt action categories as reflected above.

Loans to a Bank’s Insiders

Federal Regulation. A bank’s loans to its executive officers, directors, any owner of 10% or more of its stock (each, an insider) and any of certain entities affiliated with any such person (an insider’s related interest) are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the Federal Reserve Board’s Regulation O. Under these restrictions, the aggregate amount of the loans to any insider and the insider’s related interests may not exceed the loans-to-one-borrower limit applicable to national banks, which is comparable to the loans-to-one-borrower limit applicable to loans by the Bank. All loans by a bank to all insiders and insiders’ related interests in the aggregate may not exceed the bank’s unimpaired capital and unimpaired surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer’s children and certain loans secured by the officer’s residence may not exceed at any one time the higher of 2.5% of the bank’s unimpaired capital and unimpaired surplus or \$25,000, but in no event more than \$100,000. Regulation O also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the board of directors of the bank, with any interested directors not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider’s related interests, would exceed either (1) \$500,000; or (2) the greater of \$25,000 or 5% of the bank’s unimpaired capital and surplus.

Generally, loans to insiders must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those prevailing at the time for, comparable transactions with other persons, and not involve more than the normal risk of payment or present other unfavorable features. An exception may be made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank. In addition, federal law prohibits extensions of credit to a bank's insiders and their related interests by any other institution that has a correspondent banking relationship with the bank, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

The Bank does not, as a matter of policy, make loans to its directors or to their immediate family members and related interests.

New Jersey Regulation. Provisions of the New Jersey Banking Act impose conditions and limitations on the liabilities owed to a savings bank by its directors and executive officers and by corporations and partnerships controlled by such persons that are comparable in many respects to the conditions and limitations imposed on the loans and extensions of credit to insiders and their related interests under Regulation O, as discussed above. The New Jersey Banking Act also provides that a savings bank that is in compliance with Regulation O is deemed to be in compliance with such provisions of the New Jersey Banking Act.

Federal Reserve System

Under Federal Reserve Board regulations, the Bank is required to maintain non-interest earning reserves against its transaction accounts. The Federal Reserve Board regulations generally require that reserves of 3% must be maintained against aggregate transaction accounts over \$15.2 million and up to \$110.2 million, and 10% against that portion of total transaction accounts in excess of up to \$110.2 million. The first \$15.2 million of otherwise reservable balances are exempted from the reserve requirements. The Bank is in compliance with these requirements. These requirements are adjusted annually by the Federal Reserve Board. Because required reserves must be maintained in the form of either vault cash, a non-interest bearing account at a Federal Reserve Bank or a pass-through account as defined by the Federal Reserve Board, the effect of this reserve requirement is to reduce the Bank's interest-earning assets. The Bank is authorized to borrow from the Federal Reserve Bank discount window.

Internet Banking

Technological developments continue to significantly alter the ways in which financial institutions conduct their business. The growth of the Internet has caused banks to adopt and refine alternative distribution and marketing systems. The federal bank regulatory agencies have targeted various aspects of internet banking, including the security and systems. There can be no assurance that the bank regulatory agencies will adopt new regulations that will not materially affect the Bank's Internet operations or restrict any such further operations.

The USA PATRIOT Act

The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act included measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III imposed affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

The bank regulatory agencies have increased the regulatory scrutiny of the Bank Secrecy Act and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, the federal bank regulatory agencies must consider the effectiveness of financial institutions engaging in a merger transaction in combating money laundering activities. The Bank has adopted policies and procedures which are in compliance with these requirements.

Holding Company Regulation

Federal Regulation. The Company is regulated as a bank holding company, and as such, is subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis.

The Dodd-Frank Act directed the Federal Reserve Board to issue consolidated capital requirements for depository institution holding companies that are not less stringent, both quantitatively and in terms of components of capital, than those applicable to

institutions themselves. The previously discussed final rule regarding regulatory capital requirements implemented the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks applied to bank holding companies (with greater than \$1 billion of assets) as of January 1, 2015. As is the case with institutions themselves, the capital conservation buffer will be phased in between 2016 and 2019. As of December 31, 2015, the Company's regulatory capital ratios exceed these minimum capital requirements.

The following table shows the Company's Tier 1 leverage capital ratio, common equity Tier 1 risk-based capital ratio, Tier 1 risk-based capital ratio and the total risk-based capital ratio as of December 31, 2015

	As of December 31, 2015:		
	Capital	Percent of Assets ⁽¹⁾	Capital Requirements ⁽¹⁾
	(Dollars in thousands)		
Tier 1 leverage capital	\$779,246	9.25	% 4.00 %
Common Equity Tier 1 risk-based capital	779,246	11.65	4.50
Tier 1 risk-based capital	779,246	11.65	6.00
Total risk-based capital	840,670	12.57	8.00

For purposes of calculating regulatory Tier 1 leverage capital, assets are based on adjusted total leverage assets. In (1) calculating common equity Tier 1 capital, Tier 1 risk-based capital and total risk-based capital, assets are based on total risk-weighted assets.

As of December 31, 2015, the Company was "well capitalized" under Federal Reserve Board guidelines.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Federal Reserve Board policies generally provide that bank holding companies should pay dividends only out of current earnings and only if the prospective rate of earnings retention in the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Federal Reserve Board guidance sets forth the supervisory expectation that bank holding companies will inform and consult with Federal Reserve Board staff in advance of issuing a dividend that exceeds earnings for the quarter and should inform the Federal Reserve Board and should eliminate, defer or significantly reduce dividends if (i) net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Under the prompt corrective action provisions discussed above, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of such an undercapitalized bank. If the undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the Federal Reserve Board may prohibit the bank holding company parent of the undercapitalized bank from paying any dividends or making any other form of capital distribution without the prior approval of the Federal Reserve Board.

As a bank holding company, the Company is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval will be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company.

A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months will be equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written

agreement with, the Federal Reserve Board. Such notice and approval is not required for a bank holding company that would be treated as “well capitalized” under applicable regulations of the Federal Reserve Board, is well-managed, and that is not the subject of any unresolved supervisory issues.

In addition, a bank holding company which does not opt to become a financial holding company under applicable federal law is generally prohibited from engaging in, or acquiring direct or indirect control of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be permissible. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking as to be permissible are:

29

- making or servicing loans;
- performing certain data processing services;
- providing discount brokerage services; or acting as fiduciary, investment or financial advisor;
- leasing personal or real property;
- making investments in corporations or projects designed primarily to promote community welfare; and
- acquiring a savings and loan association.

Bank holding companies that qualify and opt to become a financial holding company may engage in activities that are financial in nature or incident to activities which are financial in nature. Financial holding companies may engage in a broader array of activities including insurance and investment banking. The Company filed an election to qualify as a financial holding company under federal regulations on January 31, 2014 which was deemed effective by the Federal Reserve Board on March 5, 2015.

Bank holding companies may qualify to become a financial holding company if at the time of the election and on a continuing basis:

- each of its depository institution subsidiaries is “well capitalized”;
- each of its depository institution subsidiaries is “well managed”; and
- each of its depository institution subsidiaries has at least a “Satisfactory” Community Reinvestment Act rating at its most recent examination.

Under federal law, depository institutions are liable to the FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. This law would potentially be applicable to the Company if it ever acquired as a separate subsidiary, a depository institution in addition to the Bank.

New Jersey Regulation. Under the New Jersey Banking Act, a company owning or controlling a savings bank is regulated as a bank holding company. The New Jersey Banking Act defines the terms “company” and “bank holding company” as such terms are defined under the BHCA. Each bank holding company controlling a New Jersey chartered bank or savings bank must file certain reports with the Commissioner and is subject to examination by the Commissioner.

Acquisition of Control. Under federal law and under the New Jersey Banking Act, no person may acquire control of the Company or the Bank without first obtaining approval of such acquisition of control from the Federal Reserve Board and the Commissioner.

Federal Securities Laws. The Company’s common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Investment Adviser Regulation

Each of Beacon Investment Advisory Services, Inc. and Acertus Capital Management, LLC are investment advisers registered with the Securities and Exchange Commission. As such, they are required to make certain filings with and are subject to periodic examination by, the Securities and Exchange Commission.

Delaware Corporation Law

The Company is incorporated under the laws of the State of Delaware. As a result, the rights of its stockholders are governed by the Delaware General Corporate Law and the Company’s Certificate of Incorporation and Bylaws.

TAXATION

Federal Taxation

General. The Company is subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company.

Method of Accounting. For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its consolidated federal income tax returns.

Bad Debt Reserves. Prior to the Small Business Protection Act of 1996 (the “1996 Act”), the Bank was permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at taxable income. The Bank was required to use the direct charge-off method to compute its bad debt deduction beginning with its 1996 federal income tax return. Savings institutions were required to recapture any excess reserves over those established as of December 31, 1987 (base year reserve). **Taxable Distributions and Recapture.** Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income should the Bank fail to meet certain asset and definitional tests. Federal legislation has eliminated these recapture rules. Retained earnings at December 31, 2015 included approximately \$51.8 million for which no provisions for income tax had been made. This amount represents an allocation of income to bad debt deductions for tax purposes only. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to shareholders. At December 31, 2015, the Bank had an unrecognized tax liability of \$20.1 million with respect to this reserve.

Corporate Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended (the “Code”), imposes an alternative minimum tax (AMT) at a rate of 20% on a base of regular taxable income plus certain tax preferences (alternative minimum taxable income or AMTI). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company has not been subject to the alternative minimum tax and has no such amounts available as credits for carryover.

Net Operating Loss Carryovers. Under the general rule, a financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2015, the Company had approximately \$3,000,000 of Federal Net Operating Losses (“NOLs”). These NOLs were generated by entities the Company acquired in previous years and are subject to an annual Code Section 382 limitation.

Corporate Dividends-Received Deduction. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations.

State Taxation

New Jersey State Taxation. The Company and the Bank file New Jersey Corporation Business Tax returns. Generally, the income of financial institutions in New Jersey, which is calculated based on federal taxable income subject to certain adjustments, is subject to New Jersey tax. The Company and the Bank are currently subject to the corporate business tax (“CBT”) at 9% of apportioned taxable income.

New Jersey tax law does not and has not allowed for a taxpayer to file a tax return on a combined or consolidated basis with another member of the affiliated group where there is common ownership. However, if the taxpayer cannot demonstrate by clear and convincing evidence that the tax filing discloses the true earnings of the taxpayer on its business carried on in the State of New Jersey, the Director of the New Jersey Division of Taxation may, at the director’s discretion, require the taxpayer to file a consolidated return of the entire operations of the affiliated group or controlled group, including its own operations and income.

Pennsylvania State Taxation. As a result of the acquisition of Team Capital in 2014, the Bank is now subject to Pennsylvania Mutual Thrift Institutions Tax. Mutual thrift institutions tax is imposed at the rate of 11.5 percent on net taxable income of mutual thrift institutions in Pennsylvania, including savings banks without capital stock, building and loan associations, savings and loan associations, and savings institutions having capital stock.

Item 1A. Risk Factors.

In the ordinary course of operating our business, we are exposed to a variety of risks inherent to the financial services industry. The following discusses the significant risk factors that could affect our business and operations. If any of the following conditions or events actually occur, our business, financial condition or results of operations could be negatively affected, the market price of your investment in the Company’s common stock could decline, and you could lose all or a part of your investment in the Company’s common stock.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our financial condition and results of operations are significantly affected by changes in market interest rates, and the degree to which these changes disparately impact short-term and long-term interest rates. Our results of operations substantially depend on our net interest income, which is the difference between the interest income we earn on our interest-earning assets and the interest expense we pay on our interest-bearing liabilities. Our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets.

Until recently, the Federal Reserve Board had maintained interest rates at historically low levels through its targeted federal funds rate. If the Federal Reserve Board's recent action to start increasing short-term rates does not result in an increase in long-term rates, we may experience a flattening or inverted yield curve that would negatively impact our net interest margin and earnings.

Further, if rates increase rapidly, we may have to increase the rates we pay on our deposits and borrowed funds more quickly than any changes in interest rates earned on our loans and investments, resulting in a negative effect on interest spreads and net interest income. In addition, the effect of rising rates could be compounded if deposit customers move funds into higher yielding accounts. Conversely, should market interest rates fall below current levels, our net interest margin could also be negatively affected if competitive pressures keep us from further reducing rates on our deposits, while the yields on our assets decrease more rapidly through loan prepayments and interest rate adjustments. In the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no actions to mitigate the effect of such change, we are projecting that our net interest income would decrease 2.5% or \$6.2 million.

Changes in interest rates also affect the value of our interest-earning assets and in particular our securities portfolio. Generally, the value of securities fluctuates inversely with changes in interest rates. At December 31, 2015, our available for sale securities portfolio totaled \$964.5 million. Unrealized gains and losses on securities available for sale are reported as a separate component of stockholders' equity. Decreases in the fair value of securities available for sale resulting from increases in interest rates therefore could have an adverse effect on stockholders' equity.

We are also subject to prepayment and reinvestment risk related to interest rate movements. Changes in interest rates can affect the average life of loans and mortgage related securities. Decreases in interest rates can result in the prepayment or refinancing of loans and loans underlying mortgage related securities, resulting in accelerated cash flows subject to reinvestment at reduced market interest rates and increased premium amortization. Under these circumstances, we are subject to reinvestment risk to the extent that such prepayments cannot be reinvested at a profitable spread in excess of our funding costs. Increases in interest rates can result in reduced prepayments of loans and mortgage related securities, as borrowers retain existing loans to maintain lower borrowing costs.

We are subject to liquidity risk.

Liquidity risk is the potential that we will be unable to meet our obligations as they become due or capitalize on growth opportunities as they arise because of an inability to liquidate assets or obtain adequate funding on a timely basis at a reasonable cost within acceptable risk tolerances. Liquidity is required to fund various obligations, including loan originations and commitments, withdrawals by depositors, repayments of borrowings, operating expenses and capital expenditures. Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; the sale, maturity and prepayment of investment securities; net cash provided from operations; and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors specific to us or the financial services industry in general. Factors detrimental to our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Recent regulations implemented under the Dodd-Frank Act have made retail deposits in transaction accounts more attractive to banks with assets greater than \$50 billion, which pressures will likely continue to increase the competition we face to retain these deposits. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we rely on our loan quality reviews and credit risk ratings, our experience and our evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, or if delinquencies or non-accrual and non-performing loans increase, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to the allowance would materially decrease our net income.

Our emphasis on the diversification of our loan portfolio through the origination of commercial mortgage loans, commercial loans, and construction loans has been one of the more significant factors we have taken into account in evaluating our allowance for loan losses and provision for loan losses. In the event we were to further increase the amount of such types of loans in our portfolio, we may decide to make additional or increased provisions for loans losses, which could adversely affect our earnings.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our results of operations and financial condition.

A downturn in the housing sector and related markets may adversely affect our business and financial results. Our lending business and investments in mortgage-backed securities are tied in large part to the housing market. Lower home prices, a heightened level of foreclosures, or a protracted foreclosure process would adversely impact the credit performance of real estate related loans and collateral values. These conditions could potentially cause a reduction in loan demand, and increases in our non-performing assets, net charge-offs and provisions for loan losses. Such negative economic conditions could adversely impact our prospects for growth, asset and goodwill valuations, and could result in a decrease in our interest income and a material increase in our provision for loan losses.

A general economic slowdown or uncertainty that produces either reduced returns or excessive market volatility could adversely impact our wealth management fee income.

A general economic slowdown could affect the value of the assets under management in our wealth management business resulting in lower fee income. Furthermore, conditions that produce extended market volatility could affect our ability to provide our customers with an adequate return, thereby causing them to seek more stable investment opportunities with alternative wealth advisors.

Our commercial real estate, multi-family, and commercial loans expose us to increased lending risks.

A significant portion of our loan portfolio consists of commercial real estate, multi-family, commercial and, to a lesser extent, construction loans. These loans are generally regarded as having a higher risk of default and loss than single-family residential mortgage loans, because repayment of these loans often depends on the successful operation of a business or of the underlying property. In addition, our construction loans, commercial mortgage loans, multi-family loans and commercial loans have significantly larger average loan balances compared to our single-family residential mortgage loans. Also, many of our borrowers of these types of loans have more than one loan outstanding with us. Consequently, any adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to one single-family residential mortgage loan.

Our continuing concentration of loans in our primary market area may increase our risk.

Our success is significantly affected by general economic conditions in northern and central New Jersey, and with the acquisition of Team Capital Bank in 2014, eastern Pennsylvania. Unlike some larger banks that are more geographically diversified, we provide banking and financial services to customers mostly located in our primary markets. Consequently, a downturn in economic conditions in our local markets would have a significant impact on our loan portfolios, the ability of borrowers to repay their loans and the value of the collateral securing our loans. Adverse local economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact these local economic conditions and could negatively affect the financial results of our banking operations. Additionally, because we have a significant amount of real estate loans, depressed real estate values and real estate sales may also have a negative effect on the ability of many of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings and overall financial condition.

We target our business development and marketing strategy for loans to serve primarily the banking and financial services needs of small- to medium-sized businesses in northern and central New Jersey and eastern Pennsylvania. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact these businesses, our results of operations and financial condition may be adversely affected.

Risks associated with cyber-security could negatively affect our earnings.

The financial services industry has experienced an increase in both the number and severity of reported cyber attacks aimed at gaining unauthorized access to bank systems as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions.

We have established policies and procedures to prevent or limit the impact of security breaches, but such events may still occur or may not be adequately addressed if they do occur. Although we rely on security safeguards to secure our data, these safeguards may not fully protect our systems from compromises or breaches.

We also rely on the integrity and security of a variety of third party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers' transaction data may put us at risk for

possible losses due to fraud or operational disruption.

Our customers are also the target of cyber attacks and identity theft. Large scale identity theft could result in customers' accounts being compromised and fraudulent activities being performed in their name. We have implemented certain safeguards against these types of activities but they may not fully protect us from fraudulent financial losses.

The occurrence of a breach of security involving our customers' information, regardless of its origin, could damage our reputation and result in a loss of customers and business and subject us to additional regulatory scrutiny, and could expose us to

litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

Because the financial services business involves a high volume of transactions, we face significant operational risks. We operate in diverse market segments and rely on the ability of our employees, systems and third party providers, who are used extensively in support of our operations, to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements, the occurrence of systems failures and disruptions, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. While we maintain a risk management program that is designed to minimize risk, we could suffer losses, face regulatory action, and suffer damage to our reputation as a result of our failure to properly anticipate and manage these risks.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations. We are subject to extensive regulation, supervision and examination by the New Jersey Department of Banking and Insurance, our chartering authority, and by the Federal Deposit Insurance Corporation, as insurer of our deposits. As a bank holding company, we are subject to regulation and oversight by the Board of Governors of the Federal Reserve System. Such regulation and supervision govern the activities in which a bank and its holding company may engage and are intended primarily for the protection of the insurance fund and depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the requirement for additional capital, the imposition of restrictions on our operations, restrictions on our ability to pay dividends and make other capital distributions to stockholders, the classification of our assets, the adequacy of our allowance for loan losses, and our management of risks posed by our reliance on third party vendors. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on our operations.

The potential exists for additional Federal or state laws and regulations regarding capital requirements, lending and funding practices and liquidity standards, and bank regulatory agencies are expected to remain active in responding to concerns and trends identified in examinations, including the potential issuance of formal enforcement orders. Actions taken to date, as well as potential actions, may not have the beneficial effects that are intended. In addition, new laws, regulations, and other regulatory changes could increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws, regulations, and other regulatory changes, may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability.

Financial reform legislation could substantially increase our compliance burden and costs and necessitate changes in the conduct of our business.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act is having a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act are being implemented over time. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear and may not be known for many years. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. In particular, the following provisions of the Dodd-Frank Act, among others, are impacting our operations and activities, both currently and prospectively:

- imposition of comprehensive, new consumer protection requirements, which could substantially increase our compliance burden and potentially expose us to new liabilities;
- application of regulatory capital requirements to the Company; and

- changes in methodologies for calculating deposit insurance premiums and increases in required deposit insurance fund reserve levels, which could increase our deposit insurance expense.

Banks with assets in excess of \$10 billion are subject to additional requirements imposed by the Dodd Frank Act and its implementing regulations such as the imposition of higher FDIC premiums, reduced debit card interchange fees, enhanced risk management frameworks and stress testing, all of which increase operating costs and reduce earnings.

As we approach \$10 billion in assets, we will be required to incur additional costs to address these imposed requirements.

Further, we may be required to invest significant management attention and resources to evaluate and continue to make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act.

Failure to comply with

the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain.

The federal banking agencies have adopted proposals that have substantially amended the regulatory risk-based capital rules applicable to the Bank and the Company. The amendments implemented the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. The new rules apply regulatory capital requirements to both the Bank and the consolidated Company. The amended rules included new minimum risk-based capital and leverage ratios, which became effective in January 2015, with certain requirements to be phased in beginning in 2016, and refined the definition of what constitutes “capital” for purposes of calculating those ratios.

The new minimum capital level requirements applicable to the Bank and the Company include: (i) a new common equity Tier 1 risk-based capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The amended rules also establish a “capital conservation buffer” of 2.5% above the new regulatory minimum capital ratios, and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

The Basel III changes and other regulatory capital requirements will result in generally higher regulatory capital standards. The application of more stringent capital requirements to the Bank and the consolidated Company could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could further limit our ability to make distributions, including paying out dividends or buying back shares.

Strong competition within our market area may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, investment advisers, wealth managers, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. In particular, over the past decade, our local markets have experienced the effects of substantial banking consolidation, and large out-of-state competitors have grown significantly. There are also a number of strong locally-based competitors in our market. Many of these competitors have substantially greater resources and lending limits than we do, and may offer certain deposit and loan pricing, services or credit criteria that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our market area.

Acts of terrorism and other external events could impact our ability to conduct business.

Our business is subject to risk from external events. Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising their operating and communication systems. The metropolitan New York and Northern New Jersey areas remain central targets for potential acts of terrorism, which could affect not only our operations but those of our customers. Events such as these may become more common in the future and could cause significant damage, cause disruption of power and communication services, impact the stability of our facilities and result in additional expenses, impair the ability of our borrowers to repay their loans, reduce the value of collateral securing the repayment of our loans, and result in the loss of revenue. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business,

operations and financial condition.

We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings could decline.

We record all assets acquired and liabilities assumed by the Company in purchase acquisitions, including goodwill and other intangible assets, at fair value. At December 31, 2015, goodwill totaling \$411.6 million was not amortized but remains subject to impairment tests at least annually, or more often if events or circumstances indicate it may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a potential

inability to realize the carrying amount. The initial recording and subsequent impairment testing of goodwill and other intangible assets requires subjective judgments about the estimates of the fair value of assets acquired.

A company has the option to qualitatively determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before proceeding with a two step quantitative impairment analysis. If a company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required to perform Step 1 of the quantitative impairment analysis and then, if needed, Step 2 to determine whether goodwill is impaired. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of the reporting unit exceeds its fair value, an additional test must be performed. The second step test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied value.

Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other factors. Estimated cash flows may extend far into the future and by their nature are difficult to determine over an extended time frame. Factors that may significantly affect the estimates include specific industry or market sector conditions, changes in revenue growth trends, customer behavior, competitive forces, cost structures and changes in discount rates.

It is possible that our future impairment testing could result in an impairment of the value of goodwill or other identified intangible assets, or both. If we determine impairment exists at a given point in time, our earnings and the book value of the related intangible asset(s) will be reduced by the amount of the impairment. In any event, the results of impairment testing on goodwill and other identified intangible assets have no impact on our tangible book value or regulatory capital levels.

Item 1B. Unresolved Staff Comments

There are no unresolved comments from the staff of the SEC to report.

Item 2. Properties

Property

At December 31, 2015, the Bank conducted business through 87 full-service branch offices located in Hudson, Bergen, Essex, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Union and Warren counties in New Jersey, and in Bucks, Lehigh and Northampton counties in Pennsylvania. The aggregate net book value of premises and equipment was \$89.0 million at December 31, 2015.

The Company's executive offices are located in a leased facility at 239 Washington Street, Jersey City, New Jersey, which is also the Bank's Main Office. The Bank's administrative offices are located in a leased facility at 100 Wood Avenue South, Iselin, New Jersey.

Item 3. Legal Proceedings

The Company is involved in various legal actions and claims arising in the normal course of its business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company's financial condition and results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The Company's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "PFS." Trading in the Company's common stock commenced on January 16, 2003.

As of February 1, 2016, there were 83,209,293 shares of the Company's common stock issued and 65,794,731 shares outstanding, and approximately 5,270 stockholders of record.

The table below shows the high and low closing prices reported on the NYSE for the Company's common stock, as well as the cash dividends paid per common share during the periods indicated.

	2015			2014		
	High	Low	Dividend	High	Low	Dividend
First Quarter	\$18.91	\$16.91	\$0.16	\$19.11	\$16.38	\$0.15
Second Quarter	19.52	17.85	0.16	18.65	16.48	0.15
Third Quarter	19.78	18.30	0.16	17.50	16.37	0.15
Fourth Quarter	21.18	19.30	0.17	18.27	16.21	0.15

On January 28, 2016, the Board of Directors declared a quarterly cash dividend of \$0.17 per common share, which was paid on February 26, 2016, to common stockholders of record as of the close of business on February 12, 2016.

The Company's Board of Directors intends to review the payment of dividends quarterly and plans to continue to maintain a regular quarterly cash dividend in the future, subject to financial condition, results of operations, tax considerations, industry standards, economic conditions, regulatory restrictions that affect the payment of dividends by the Bank to the Company and other relevant factors.

The Company is subject to the requirements of Delaware law that generally limit dividends to an amount equal to the difference between the amount by which total assets exceed total liabilities and the amount equal to the aggregate par value of the outstanding shares of capital stock. If there is no difference between these amounts, dividends are limited to net income for the current and/or immediately preceding year. In addition, Federal Reserve Board guidance sets forth the supervisory expectation that bank holding companies will inform and consult with Federal Reserve Board staff in advance of issuing a dividend that exceeds earnings for the quarter and should inform the Federal Reserve Board and should eliminate, defer or significantly reduce dividends if (i) net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Stock Performance Graph

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company's common stock for the period December 31, 2010 through December 31, 2015, (b) the cumulative total return on stocks included in the Russell 2000 Index over such period, and (c) the cumulative total return of the SNL Thrift Index over such period. The SNL Thrift Index, produced by SNL Financial LC, contains all thrift institutions traded on the New York and NASDAQ stock exchanges. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an assumed investment of \$100 on December 31, 2010.

Index	Period Ending					
	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Provident Financial Services, Inc.	100.00	91.66	107.27	143.66	139.06	160.50
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
SNL Thrift	100.00	84.12	102.39	131.30	141.22	158.80

The following table reports information regarding purchases of the Company's common stock during the fourth quarter of 2015 under the stock repurchase plan approved by the Company's Board of Directors:
ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾⁽²⁾
October 1, 2015 through October 31, 2015	1,074	\$19.75	1,074	3,342,298
November 1, 2015 through November 30, 2015	994	20.69	994	3,341,304
December 1, 2015 through December 31, 2015	—	—	—	3,341,304
Total	2,068	\$20.20	2,068	

On October 24, 2007, the Company's Board of Directors approved the purchase of up to 3,107,077 shares of its common stock under a seventh general repurchase program which commenced upon completion of the previous repurchase program. The repurchase program has no expiration date. All shares purchased during the fourth quarter of 2015 were repurchased pursuant to the seventh general repurchase program.

On December 20, 2012, the Company's Board of Directors approved the purchase of up to 3,017,770 shares of its common stock under an eighth general repurchase program which will commence upon completion of the seventh repurchase program. The repurchase program has no expiration date.

Common stock repurchases for the three months ended December 31, 2015 were made in connection with employee income tax withholding on stock-based compensation.

Item 6. Selected Financial Data

The summary information presented below at or for each of the periods presented is derived in part from and should be read in conjunction with the consolidated financial statements of the Company presented in Item 8.

	At December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Selected Financial Condition Data:					
Total assets	\$8,911,657	\$8,523,377	\$7,487,328	\$7,283,695	\$7,097,403
Loans, net ⁽¹⁾	6,476,250	6,023,771	5,130,149	4,834,351	4,579,158
Investment securities held to maturity	473,684	469,528	357,500	359,464	348,318
Securities available for sale	964,534	1,074,395	1,157,594	1,264,002	1,376,119
Deposits	5,923,987	5,792,523	5,202,471	5,428,271	5,156,597
Borrowed funds	1,707,632	1,509,851	1,203,879	803,264	920,180
Stockholders' equity	1,196,065	1,144,099	1,010,753	981,246	952,477

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Selected Operations Data:					
Interest income	\$291,781	\$279,361	\$252,777	\$262,259	\$275,719
Interest expense	41,901	40,472	36,767	44,922	59,729
Net interest income	249,880	238,889	216,010	217,337	215,990
Provision for loan losses	4,350	4,650	5,500	16,000	28,900
Net interest income after provision for loan losses	245,530	234,239	210,510	201,337	187,090
Non-interest income	55,222	41,168	44,153	43,613	32,542
Non-interest expense	180,589	169,991	148,763	148,828	142,446
Income before income tax expense	120,163	105,416	105,900	96,122	77,186
Income tax expense	36,441	31,785	35,366	28,855	19,842
Net income	\$83,722	\$73,631	\$70,534	\$67,267	\$57,344
Earnings per share:					
Basic earnings per share	\$1.33	\$1.22	\$1.23	\$1.18	\$1.01
Diluted earnings per share	\$1.33	\$1.22	\$1.23	\$1.18	\$1.01

(1) Loans are shown net of allowance for loan losses, deferred fees and unearned discount.

	At or For the Years Ended December 31,					
	2015	2014	2013	2012	2011	
Selected Financial and Other Data⁽¹⁾						
Performance Ratios:						
Return on average assets	0.96	% 0.92	% 0.97	% 0.94	% 0.83	%
Return on average equity	7.12	6.75	7.08	6.88	6.09	
Average net interest rate spread	3.07	3.18	3.19	3.25	3.33	
Net interest margin ⁽²⁾	3.20	3.30	3.31	3.38	3.49	
Average interest-earning assets to average interest-bearing liabilities	1.24	1.22	1.22	1.19	1.16	
Non-interest income to average total assets	0.64	0.51	0.61	0.61	0.47	
Non-interest expenses to average total assets	2.07	2.11	2.05	2.08	2.07	
Efficiency ratio ⁽³⁾	59.19	60.70	57.18	57.03	57.31	
Asset Quality Ratios:						
Non-performing loans to total loans	0.68	% 0.88	% 1.48	% 2.02	% 2.63	%
Non-performing assets to total assets	0.62	0.69	1.10	1.53	1.91	
Allowance for loan losses to non-performing loans	137.92	114.63	84.32	71.07	60.67	
Allowance for loan losses to total loans	0.94	1.01	1.24	1.43	1.60	
Capital Ratios:						
Leverage capital ⁽⁴⁾	9.25	% 9.21	% 9.42	% 8.93	% 8.74	%
Total risk based capital ⁽⁴⁾	12.57	13.06	12.89	12.68	12.80	
Average equity to average assets	13.53	13.57	14.14	13.93	14.05	
Other Data:						
Number of full-service offices	87	86	77	78	82	
Full time equivalent employees	1,008	967	886	884	906	

(1) Averages presented are daily averages.

(2) Net interest income divided by average interest earning assets.

(3) Represents the ratio of non-interest expense divided by the sum of net interest income and non-interest income.

40

(4) Leverage capital ratios are presented as a percentage of quarterly average tangible assets. Risk-based capital ratios are presented as a percentage of risk-weighted assets.

Efficiency Ratio Calculation:	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011	
Net interest income	\$249,880	\$238,889	\$216,010	\$217,337	\$215,990	
Non-interest income	55,222	41,168	44,153	43,613	32,542	
Total income	\$305,102	\$280,057	\$260,163	\$260,950	\$248,532	
Non-interest expense	\$180,589	\$169,991	\$148,763	\$148,828	\$142,446	
Expense/income	59.19	% 60.70	% 57.18	% 57.03	% 57.31	%

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

General

On January 15, 2003, the Company became the holding company for the Bank, following the completion of the conversion of the Bank to a New Jersey-chartered capital stock savings bank. The Company issued an aggregate of 59,618,300 shares of its common stock in a subscription offering to eligible depositors. Concurrent with the conversion, the Company contributed an additional 1,920,000 shares of its common stock and \$4.8 million in cash to The Provident Bank Foundation, a charitable foundation established by the Bank.

The Company conducts business through its subsidiary, the Bank, a community- and customer-oriented bank currently operating 87 full-service branches throughout northern and central New Jersey, as well as Bucks, Lehigh and Northampton counties in Pennsylvania.

Strategy

Established in 1839, the Bank is the oldest New Jersey-chartered bank in the state. The Bank offers a full range of retail and commercial loan and deposit products, and emphasizes personal service and convenience.

The Bank's strategy is to grow profitably through a commitment to credit quality and expanding market share by acquiring, retaining and expanding customer relationships, while carefully managing interest rate risk.

In recent years, the Bank has focused on commercial real estate, multi-family and commercial loans as part of its strategy to diversify the loan portfolio and reduce interest rate risk. These types of loans generally have adjustable rates that initially are higher than residential mortgage loans and generally have a higher rate of risk. The Bank's credit policy focuses on quality underwriting standards and close monitoring of the loan portfolio. At December 31, 2015, these commercial loan types accounted for 72.1% of the loan portfolio and retail loans accounted for 27.9%. The Company intends to continue to focus on commercial real estate, multi-family and commercial lending relationships. The Company's relationship banking strategy focuses on increasing core accounts and expanding relationships through its branch network, mobile banking, online banking and telephone banking touch points. The Company continues to evaluate opportunities to increase market share by expanding within existing and contiguous markets. Core deposits, consisting of savings and demand deposit accounts, are generally a stable, relatively inexpensive source of funds. At December 31, 2015, core deposits were 87.5% of total deposits.

The Company's results of operations are primarily dependent upon net interest income, the difference between interest earned on interest-earning assets and the interest paid on interest-bearing liabilities. Changes in interest rates could have an adverse effect on net interest income to the extent the Company's interest-bearing assets and interest-bearing liabilities reprice or mature at different times or relative interest rates. An increase in interest rates generally would result in a decrease in the Company's average interest rate spread and net interest income, which could have a negative effect on profitability. The Company generates non-interest income such as income from retail and business account fees, loan servicing fees, loan origination fees, loan level swap fees, appreciation in the cash surrender value of Bank-owned life insurance, income from loan or securities sales, fees from wealth management services and investment product sales and other fees. The Company's operating expenses consist primarily of compensation and benefits expense, occupancy and equipment expense, data processing expense, the amortization of intangible assets, marketing and advertising expense and other general and administrative expenses. The Company's results of operations are also affected by general economic conditions, changes in market interest rates, changes in asset quality, changes in asset values, actions of regulatory agencies and government policies.

Acquisitions

On April 1, 2015, Beacon Trust Company ("Beacon"), a wholly owned subsidiary of The Provident Bank, completed its acquisition of certain assets and liabilities of The MDE Group, Inc. and the equity interests of Acertus Capital Management, LLC (together "MDE"), both Morristown, New Jersey-based registered investment advisory firms that manage assets for affluent and high net-worth clients. MDE was acquired with both cash and contingent consideration. The Company recognized goodwill of \$18.3 million and a customer relationship intangible of \$7.0 million related to the acquisition. The Company recognized a contingent consideration liability at its fair value of \$338,000. The contingent consideration arrangement requires the Company to pay additional cash consideration to MDE's former stakeholders four years after the closing of the acquisition if certain revenue targets are met. The fair value of the contingent consideration was estimated using a discounted cash flow model. The acquisition agreement limits the total payment to a maximum of \$12.5 million, to be determined based on actual future results.

On October 31, 2014, Beacon acquired the fiduciary account relationships of Suffolk County National Bank, a subsidiary of Suffolk Bancorp, in Suffolk County, New York.

On May 30, 2014, the Company completed its acquisition of Team Capital Bank ("Team Capital"), which after purchase accounting adjustments added \$964.0 million to total assets, \$631.2 million to loans, and \$769.9 million to deposits. Total consideration paid for Team Capital was \$115.1 million: \$31.6 million in cash and 4.9 million shares of common stock valued at \$83.5 million on the acquisition date. Team Capital was merged with and into the Company's subsidiary, The Provident Bank as of the close of business on the date of acquisition. The merger added twelve branches to The Provident Bank branch network, with five branches in Pennsylvania and seven in New Jersey.

Critical Accounting Policies

The Company considers certain accounting policies to be critically important to the fair presentation of its financial condition and results of operations. These policies require management to make complex judgments on matters which by their nature have elements of uncertainty. The sensitivity of the Company's consolidated financial statements to these critical accounting policies, and the assumptions and estimates applied, could have a significant impact on its financial condition and results of operations. These assumptions, estimates and judgments made by management can be influenced by a number of factors, including the general economic environment. The Company has identified the following as critical accounting policies:

- Adequacy of the allowance for loan losses
- Goodwill valuation and analysis for impairment
- Valuation of securities available for sale and impairment analysis
- Valuation of deferred tax assets

The calculation of the allowance for loan losses is a critical accounting policy of the Company. The allowance for loan losses is a valuation account that reflects management's evaluation of the probable losses in the loan portfolio. The Company maintains the allowance for loan losses through provisions for loan losses that are charged to income. Charge-offs against the allowance for loan losses are taken on loans where management determines that the collection of loan principal is unlikely. Recoveries made on loans that have been charged-off are credited to the allowance for loan losses.

The Company's evaluation of the adequacy of the allowance for loan losses includes a review of all loans on which the collectibility of principal may not be reasonably assured. For residential mortgage and consumer loans, this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis. As part of the evaluation of the adequacy of the allowance for loan losses, each quarter management prepares an analysis that categorizes the entire loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating.

When assigning a risk rating to a loan, management utilizes a nine point internal risk rating system. Loans deemed to be "acceptable quality" are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans deemed to be of "questionable quality" are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial and construction loans are rated individually and each lending officer is responsible for risk rating loans in their portfolio. These risk

ratings are then reviewed by the department manager and/or the Chief Lending Officer and the Credit Administration Department. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party, and periodically by the Credit Committee in the credit renewal or approval. In addition, the Bank requires an annual review be performed for commercial and commercial real estate loans above certain dollar thresholds, depending on loan type, to help determine the appropriate risk rating.

Management estimates the amount of loan losses for groups of loans by applying quantitative loss factors to loan segments at the risk rating level, and applying qualitative adjustments to each loan segment at the portfolio level. Quantitative loss factors give consideration to historical loss experience by loan type based upon an appropriate look back period and adjusted for a loss emergence period. Quantitative loss factors are evaluated at least annually. Qualitative adjustments give consideration to other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries and loan volumes, as well as national and local economic trends and conditions. Qualitative adjustments reflect risks in the loan portfolio not captured by the quantitative loss factors and, as such, are evaluated from a risk level perspective relative to the risk levels present over the look back period. Qualitative adjustments are evaluated at least quarterly. The reserves resulting from the application of both of these sets of loss factors are combined to arrive at the allowance for loan losses.

Management believes the primary risks inherent in the portfolio are a general decline in the economy, a decline in real estate market values, rising unemployment or a protracted period of elevated unemployment, increasing vacancy rates in commercial investment properties and possible increases in interest rates in the absence of economic improvement. Any one or a combination of these events may adversely affect borrowers' ability to repay the loans, resulting in increased delinquencies, loan losses and future levels of provisions. Accordingly, the Company has provided for loan losses at the current level to address the current risk in its loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level given current economic conditions, interest rates and the composition of the portfolio.

Although management believes that the Company has established and maintained the allowance for loan losses at appropriate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Management evaluates its estimates and assumptions on an ongoing basis giving consideration to historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets, volatile securities markets, and declines in the housing and commercial real estate markets and the economy generally have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. In addition, various regulatory agencies periodically review the adequacy of the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions to the allowance or additional write-downs based on their judgments about information available to them at the time of their examination. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. Goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. Management qualitatively determines whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing Step 1 of the goodwill impairment test. If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required to perform Step 1 of the assessment and then, if needed, Step 2 to determine whether goodwill is impaired. However, if it is more likely than not that the fair value of the reporting unit is more than its carrying amount, the entity does not need to apply the two-step impairment test. For this analysis, the Reporting Unit is defined as the Bank, which includes all core and retail banking operations of the Company but excludes the assets, liabilities, equity, earnings and operations held exclusively at the Company level. The guidance provides certain factors an entity should consider in its qualitative assessment in determining whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. The factors include:

- Macroeconomic conditions, such as deterioration in economic condition and limited access to capital.
- Industry and market considerations, such as increased competition, regulatory developments and decline in market-dependent multiples.

Cost factors, such as increased labor costs, cost of materials and other operating costs.

Overall financial performance, such as declining cash flows and decline in revenue or earnings.

Other relevant entity-specific events, such as changes in management, strategy or customers, litigation and contemplation of bankruptcy.

Reporting unit events, such as selling or disposing a portion of a reporting unit and a change in composition of assets.

The Company may, based upon its qualitative assessment, or at its option, perform the two-step process to evaluate the potential impairment of goodwill. If, based upon Step 1, the fair value of the Reporting Unit exceeds its carrying amount, goodwill of the Reporting Unit is considered not impaired. However, if the carrying amount of the Reporting Unit exceeds its fair value, an additional test must be performed. The second step test compares the implied fair value of the Reporting Unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

The Company completed its annual goodwill impairment test as of September 30, 2015. Based upon its qualitative assessment of goodwill, the Company concluded it is more likely than not that the fair value of the reporting unit exceeds its carrying amount, such that goodwill was not impaired and no further quantitative analysis (Step 1) was warranted.

The Company's available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Estimated fair values are based on market quotations or matrix pricing as discussed in Note 16 to the consolidated financial statements. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Management conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. In this evaluation, if such a decline were deemed other-than-temporary, Management would measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. The fair value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the fair value of fixed-rate securities decreases and as interest rates fall, the fair value of fixed-rate securities increases. The Company determines if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If either exists, the decline in value is considered other-than-temporary. In its evaluations, the Company did not recognize an other-than-temporary impairment charge on securities for 2015 and 2014, while in 2013, the Company recognized an other-than-temporary impairment of \$434,000.

The determination of whether deferred tax assets will be realizable is predicated on the reversal of existing deferred tax liabilities, utilization against carry-back years and estimates of future taxable income. Such estimates are subject to management's judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. The Company did not require a valuation allowance at December 31, 2015.

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 on the relative amounts of interest-earning assets and interest-bearing liabilities and the rates of interest earned on such assets and paid on such liabilities.

Average Balance Sheet. The following table sets forth certain information for the years ended December 31, 2015, 2014 and 2013. For the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities is expressed both in dollars and rates. No tax equivalent adjustments were made. Average balances are daily averages.

	For the Years Ended December 31,									
	2015			2014			2013			
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Cost	
	(Dollars in thousands)									
Interest-earning assets:										
Deposits	\$22,663	\$57	0.25 %	\$21,548	\$53	0.25 %	\$15,240	\$38	0.25 %	
Federal funds sold and short-term investments	1,431	1	0.04	1,398	—	0.02	1,560	1	0.04	
Investment securities ⁽¹⁾	473,425	13,494	2.85	420,161	12,263	2.91	353,639	10,987	3.11	
Securities available for sale	1,029,249	20,323	1.97	1,131,496	23,998	2.12	1,188,253	23,567	1.98	
Federal Home Loan Bank Stock	73,162	3,075	4.20	63,697	2,477	3.89	44,127	1,683	3.81	
Net loans ⁽²⁾	6,215,347	254,831	4.10	5,599,586	240,570	4.30	4,922,245	216,501	4.40	
Total interest-earning assets	7,815,277	291,781	3.73	7,237,886	279,361	3.86	6,525,064	252,777	3.87	
Non-interest earning assets	876,723			806,296			739,168			
Total assets	\$8,692,000			\$8,044,182			\$7,264,232			
Interest-bearing liabilities:										
Savings deposits	\$984,704	1,039	0.11 %	\$963,807	938	0.10 %	\$928,245	960	0.10 %	
Demand deposits	2,955,133	8,045	0.27	2,812,451	7,733	0.27	2,652,419	7,456	0.28	
Time deposits	784,242	5,437	0.69	818,753	6,661	0.81	878,413	9,615	1.09	
Borrowed funds	1,603,974	27,380	1.71	1,338,463	25,140	1.88	908,778	18,736	2.06	
Total interest-bearing liabilities	6,328,053	41,901	0.66	5,933,474	40,472	0.68	5,367,855	36,767	0.68	
Non-interest bearing liabilities:										
Non-interest bearing deposits	1,117,372			959,751			839,258			
	70,976			59,577			61,106			

Other Non-interest bearing liabilities				
Total Non-Interest Bearing Liabilities	1,188,348	1,019,328	900,364	
Total liabilities	7,516,401	6,952,802	6,268,219	
Stockholders' equity	1,175,599	1,091,380	996,013	
Total liabilities and equity	\$8,692,000	\$8,044,182	\$7,264,232	
Net interest income	\$249,880	\$238,889	\$216,010	
Net interest rate spread	3.07 %	3.18 %	3.19 %	
Net interest earning assets	\$1,487,224	\$1,304,412	\$1,157,209	
Net interest margin ⁽³⁾	3.20 %	3.30 %	3.31 %	
Ratio of interest-earning assets to total interest-bearing liabilities	1.24x	1.22x	1.22x	

(1) Average outstanding balance amounts are at amortized cost.

(2) Average outstanding balances are net of the allowance for loan losses, deferred loan fees and expenses, and loan premiums and discounts and include non-accrual loans.

(3) Net interest income divided by average interest-earning assets.

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

	Years Ended December 31, 2015 vs. 2014			2014 vs. 2013		
	Increase/(Decrease) Due to		Total	Increase/(Decrease) Due to		Total
	Volume	Rate	Increase/ (Decrease)	Volume	Rate	Increase/ (Decrease)
	(In thousands)					
Interest-earning assets:						
Deposits, Federal funds sold and short-term investments	\$5	\$—	\$5	\$14	\$—	\$14
Investment securities	1,524	(293)	) 1,231	1,972	(696)	) 1,276
Securities available for sale	(2,084)	) (1,591)	) (3,675)	) (1,157)	) 1,588	431
Federal Home Loan Bank Stock	199	399	598	760	34	794
Loans	25,600	(11,339)	) 14,261	29,200	(5,131)	) 24,069
Total interest-earning assets	25,244	(12,824)	) 12,420	30,789	(4,205)	) 26,584
Interest-bearing liabilities:						
Savings deposits	21	80	101	36	(58)	) (22)
Demand deposits	388	(76)	) 312	442	(165)	) 277
Time deposits	(272)	) (952)	) (1,224)	) (618)	) (2,336)	) (2,954)
Borrowed funds	4,675	(2,435)	) 2,240	8,196	(1,792)	) 6,404
Total interest-bearing liabilities	4,812	(3,383)	) 1,429	8,056	(4,351)	) 3,705
Net interest income	\$20,432	\$(9,441)	) \$10,991	\$22,733	\$146	\$22,879

Comparison of Financial Condition at December 31, 2015 and December 31, 2014

Total assets increased \$388.3 million, or 4.6%, to \$8.91 billion at December 31, 2015, from \$8.52 billion at December 31, 2014, primarily due to a \$452.2 million increase in total loans and a \$21.9 million increase in intangible assets, partially offset by a \$97.3 million decrease in total investments.

Total loans increased \$452.2 million, or 7.4%, to \$6.54 billion at December 31, 2015, from \$6.09 billion at December 31, 2014. For the year ended December 31, 2015, loan originations totaling \$2.66 billion and loan purchases of \$95.3 million were partially offset by repayments of \$2.28 billion and loan sales of \$11.9 million. Multi-family loans increased \$191.8 million to \$1.23 billion at December 31, 2015, compared to \$1.04 billion at December 31, 2014, commercial loans increased \$170.7 million to \$1.43 billion at December 31, 2015, compared to \$1.26 billion at December 31, 2014, construction loans increased \$110.5 million to \$331.6 million at December 31, 2015, compared to \$221.1 million at December 31, 2014, commercial real estate loans increased \$20.3 million to \$1.72 billion at December 31, 2015, compared to \$1.70 billion at December 31, 2014, residential mortgage loans increased \$2.6 million to \$1.26 billion at December 31, 2015, compared to \$1.25 billion at December 31, 2014, and consumer loans decreased \$45.4 million to \$566.2 million at December 31, 2015, compared to \$611.6 million at December 31, 2014.

Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled \$4.72 billion, accounting for 72.1% of the loan portfolio at December 31, 2015, compared to \$4.22 billion, or 69.4% of the loan portfolio at December 31, 2014. The Company intends to continue to focus on the origination of commercially-oriented loans. Retail loans, which consist of one- to four-family residential mortgage and consumer loans, such as fixed-rate home equity loans and lines of credit, totaled \$1.82 billion and accounted for 27.9% of the loan portfolio at December 31, 2015, compared to \$1.86 billion, or 30.6%, of the loan portfolio at December 31, 2014.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated "Alt-A" mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50% on a limited basis. The balance of these "Alt-A" loans at December 31, 2015 was \$6.2 million. Of this total, 6 loans totaling \$1.0 million were 90 days or more delinquent. These loans were allocated total loss reserves of \$70,506. The Company participates in loans originated by other banks, including participations designated as Shared National Credits ("SNC"). The Company's gross commitments and outstanding balances as a participant in SNCs were \$220.5 million and \$155.7 million, respectively, at December 31, 2015. At December 31, 2015, no SNC relationships were classified as substandard.

The Company had outstanding junior lien mortgages totaling \$247.0 million at December 31, 2015. Of this total, 27 loans totaling \$2.0 million were 90 days or more delinquent. These 27 loans were allocated total loss reserves of \$488,000.

At December 31, 2015, the Company had outstanding indirect marine loans totaling \$18.9 million. Of this total, 3 loans totaling \$315,000 were 90 days or more delinquent. Marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The allowance for loan losses decreased \$310,000 to \$61.4 million at December 31, 2015, as a result of net charge-offs of \$4.7 million, partially offset by provisions for loan losses of \$4.4 million during 2015. The reduction in the allowance for loan losses was a function of an improvement in the weighted average risk rating of the loan portfolio and a decline in non-performing loans. Total non-performing loans at December 31, 2015 were \$44.5 million, or 0.68% of total loans, compared with \$53.9 million, or 0.88% of total loans at December 31, 2014. At December 31, 2015, impaired loans totaled \$50.9 million with related specific reserves of \$2.3 million, compared with impaired loans totaling \$85.4 million with related specific reserves of \$7.1 million at December 31, 2014. Within total impaired loans, there were \$33.4 million of loans for which the present value of expected future cash flows or current collateral valuations exceeded the carrying amounts of the loans and for which no specific reserves were required in accordance with GAAP. At December 31, 2015, the Company's allowance for loan losses was 0.94% of total loans, compared with 1.01% of total loans at December 31, 2014. The decline in the loan coverage ratio from December 31, 2014, resulted from an overall improvement in asset quality.

Non-performing commercial mortgage loans decreased \$18.8 million to \$1.3 million at December 31, 2015, from \$20.0 million at December 31, 2014. At December 31, 2015, the Company held 8 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a \$609,000 loan secured by a first mortgage on a mixed-use property located in Franklin Township, New Jersey. The loan is presently in default. There is no contractual commitment to advance additional funds to this borrower.

Non-performing commercial loans increased \$11.5 million, to \$23.9 million at December 31, 2015, from \$12.3 million at December 31, 2014. Non-performing commercial loans at December 31, 2015 consisted of 27 loans. The largest non-performing commercial loan relationship consisted of four loans to a health and fitness club with outstanding balances totaling \$6.8 million at December 31, 2015. All of the loans are secured by liens on commercial property. These five loans are presently in default.

Non-performing constructions loans amounted to \$2.4 million at December 31, 2015. Non-performing construction loans consisted of a single loan to a health and fitness club, which combined with four non-performing commercial loans comprises a \$9.2 million loan relationship with this borrower. This non-performing construction loan is presently in default. There were no non-performing construction loans on December 31, 2014.

Non-performing residential mortgage loans decreased \$5.2 million to \$12.0 million at December 31, 2015, from \$17.2 million at December 31, 2014. Gross charge-offs of residential loans were \$1.3 million for the year ended December 31, 2015.

At December 31, 2015, the Company held \$10.5 million of foreclosed assets, compared with \$5.1 million at December 31, 2014. Foreclosed assets are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted primarily of \$5.2 million of residential properties, \$5.1 million of commercial real estate and \$274,000 of marine vessels at December 31, 2015.

Non-performing assets totaled \$55.1 million, or 0.62% of total assets at December 31, 2015, compared to \$59.0 million, or 0.69% of total assets, at December 31, 2014. If the non-accrual loans had performed in accordance with

their original terms, interest income would have increased by \$1.2 million during the year ended December 31, 2015. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2015 and 2014 was not material.

Total deposits increased \$131.5 million, or 2.3%, during the year ended December 31, 2015 to \$5.92 billion from \$5.79 billion at December 31, 2014. Core deposits, which consist of savings and demand deposit accounts, increased \$217.4 million, or 4.4%, to \$5.18 billion at December 31, 2015, while time deposits decreased \$86.0 million to \$739.7 million at December 31, 2015. Within the core deposit category, non-interest bearing demand deposits and interest bearing demand deposits increased

\$139.9 million and \$115.5 million, respectively, to \$1.19 billion and \$1.54 billion, respectively, at December 31, 2015. Core deposits represented 87.5% of total deposits at December 31, 2015, compared to 85.7% at December 31, 2014.

Borrowed funds increased \$197.8 million, or 13.1%, during the year ended December 31, 2015, to \$1.71 billion. Borrowed funds represented 19.2% of total assets at December 31, 2015, an increase from 17.7% at December 31, 2014.

Total stockholders' equity increased \$52.0 million, or 4.5%, to \$1.20 billion at December 31, 2015, from \$1.14 billion at December 31, 2014. This increase resulted from net income of \$83.7 million, the allocation of shares to stock-based compensation plans of \$9.4 million, exercised stock options of \$3.2 million, and the reissuance of shares for the dividend reinvestment program of \$1.4 million, partially offset by cash dividends paid to stockholders of \$41.3 million, other comprehensive loss of \$2.6 million and common stock repurchases of \$2.0 million. Common stock repurchases for the year ended December 31, 2015 totaled 108,589 shares at an average cost of \$18.32 per share. At December 31, 2015, 3.3 million shares remained eligible for repurchase under the current authorization.

Comparison of Operating Results for the Years Ended December 31, 2015 and December 31, 2014

General. Net income for the year ended December 31, 2015 was \$83.7 million, compared to \$73.6 million for the year ended December 31, 2014. Basic and diluted earnings per share were \$1.33 for the year ended December 31, 2015, compared to basic and diluted earnings per share of \$1.22 for 2014. Net income for the year ended December 31, 2015 was favorably impacted by year-over-year growth in both average loans outstanding and average non-interest bearing deposits, growth in non-interest income and improved asset quality. These factors helped offset the unfavorable impact of compression in the net interest margin.

Net Interest Income. Net interest income increased \$11.0 million to \$249.9 million for 2015, from \$238.9 million for 2014. The average interest rate spread declined 11 basis point to 3.07% for 2015, from 3.18% for 2014. The net interest margin decreased 10 basis point to 3.20% for 2015, compared to 3.30% for 2014. For the year ended December 31, 2015, net interest income was favorably impacted by the growth in average loans outstanding and average non-interest bearing demand deposits, mitigating the effects of compression in the net interest margin.

Interest income increased \$12.4 million, or 4.4%, to \$291.8 million for 2015, compared to \$279.4 million for 2014.

The increase in interest income was attributable to an increase in average earning asset balances, partially offset by a decrease in the yield on average interest-earning assets. Average interest-earning assets increased \$577.4 million, or 8.0%, to \$7.82 billion for 2015, compared to \$7.24 billion for 2014. The average outstanding loan balances increased \$615.8 million, or 11.0%, to \$6.22 billion for 2015 from \$5.60 billion for 2014, the average balance of securities available for sale decreased \$102.2 million, or 9.0%, to \$1.03 billion for 2015, compared to \$1.13 billion for 2014, and the average balance of investment securities held to maturity increased \$53.3 million, or 12.7%, to \$473.4 million for 2015, compared to \$420.2 million for 2014. The yield on interest-earning assets decreased 13 basis points to 3.73% for 2015, from 3.86% for 2014, with a reduction in the weighted average yield on total loans and investment securities, partially offset by an increase in the weighted average yield on the Federal Home Loan Bank stock.

Interest expense increased \$1.4 million, or 3.5%, to \$41.9 million for 2015, from \$40.5 million for 2014. The increase in interest expense was attributable to an increase in average borrowings, which funded a portion of the growth in average interest-earning assets, partially offset by a shift in the funding composition to lower-costing core deposits from time deposits and a reduction in the average cost of borrowings. Also offsetting the increase in interest expense was a \$157.6 million, or 16.4%, increase in average non-interest bearing demand deposits to \$1.12 billion for 2015, from \$959.8 million for 2014. The average rate paid on interest-bearing liabilities decreased 2 basis points to 0.66% for 2015, compared to 2014. The average rate paid on interest-bearing deposits decreased 2 basis points to 0.31% for 2015, from 0.33% for 2014. The average rate paid on borrowings decreased 17 basis points to 1.71% for 2015, from 1.88% for 2014. The average balance of interest-bearing liabilities increased \$394.6 million to \$6.33 billion for 2015, compared to \$5.93 billion for 2014. Average interest-bearing deposits increased \$129.1 million, or 2.8%, to \$4.72 billion for 2015, from \$4.60 billion for 2014. Within average interest-bearing deposits, average interest-bearing core deposits increased \$163.6 million, or 4.3%, for 2015, compared with 2014, while average time deposits decreased \$34.5 million, or 4.2%, for 2015, compared with 2014. Average outstanding borrowings increased \$265.5 million, or 19.8%, to \$1.60 billion for 2015, compared with \$1.34 billion for 2014.

Provision for Loan Losses. Provisions for loan losses are charged to operations to maintain the allowance for loan losses at a level management considers necessary to absorb probable credit losses inherent in the loan portfolio. In determining the level of the allowance for loan losses, management considers past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay the loan and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or later events change. Management assesses the adequacy of the allowance for loan losses on a quarterly basis and makes provisions for loan losses, if necessary, in order to maintain the adequacy of the allowance. The Company's emphasis on continued diversification of the loan portfolio through the

origination of commercial loans has been one of the more significant factors management has considered in evaluating the allowance for loan losses and provision for loan losses for the past several years. In the event the Company further increases the amount of such types of loans in the portfolio, management may determine that additional or increased provisions for loan losses are necessary, which could adversely affect earnings.

The provision for loan losses was \$4.4 million in 2015, compared to \$4.7 million in 2014. The decrease in the provision for loan losses was primarily attributable to a decline in non-performing loans and an improvement in the weighted average credit risk ratings of the loan portfolio. Net charge-offs for 2015 were \$4.7 million, compared to \$7.6 million for 2014. Total charge-offs for the year ended December 31, 2015 were \$8.8 million, compared to \$10.9 million for the year ended December 31, 2014. Recoveries for the year ended December 31, 2015, were \$4.2 million, compared to \$3.3 million for the year ended December 31, 2014. The allowance for loan losses at December 31, 2015 was \$61.4 million, or 0.94% of total loans, compared to \$61.7 million, or 1.01% of total loans, at December 31, 2014. At December 31, 2015, non-performing loans as a percentage of total loans were 0.68%, compared to 0.88% at December 31, 2014. Non-performing assets as a percentage of total assets were 0.62% at December 31, 2015, compared to 0.69% at December 31, 2014. At December 31, 2015, non-performing loans were \$44.5 million, compared to \$53.9 million at December 31, 2014, and non-performing assets were \$55.1 million at December 31, 2015, compared to \$59.0 million at December 31, 2014.

Non-Interest Income. For the year ended December 31, 2015, non-interest income totaled \$55.2 million, an increase of \$14.1 million, or 34.1%, compared to 2014. Wealth management income increased \$7.4 million to \$16.8 million for the year ended December 31, 2015, largely due to \$7.0 million in fees resulting from assets under management acquired in the MDE transaction, combined with \$450,000 of increased fee income from the Company's existing wealth management business. Fee income increased \$4.4 million, to \$26.3 million for the year ended December 31, 2015, primarily due to a \$2.1 million increase in prepayment fees on commercial loans, a \$1.3 million increase in deposit related fees and a \$710,000 increase in ATM and debit card revenue. Also contributing to the increase in non-interest income, was an increase in other income of \$2.3 million for the year ended December 31, 2015, compared with 2014, principally due to a \$2.8 million increase in net fees recognized on loan level interest rate swap transactions, partially offset by a \$528,000 decrease in net gains recognized on loan sales and a non-recurring \$486,000 net gain recognized on the prepayment of FHLB borrowings acquired from Team Capital in the prior year. Net gains on securities transactions for the year ended December 31, 2015 increased \$403,000 as compared to 2014.

Non-Interest Expense. Non-interest expense for the year ended December 31, 2015 was \$180.6 million, an increase of \$10.6 million from the year ended December 31, 2014. Compensation and benefits expense increased \$7.5 million to \$99.7 million for the year ended December 31, 2015, compared to the year ended December 31, 2014, due to increased salary expense associated with new employees from both Team Capital and MDE, additional salary expense associated with annual merit increases, an increase in the accrual for incentive compensation and an increase in employee medical benefits expense, partially offset by lower stock-based compensation, severance and pension costs. The decline in pension costs was largely due to the \$1.3 million lump-sum pension distributions made to vested retired employees in 2014. Net occupancy costs increased \$2.1 million, to \$26.0 million for the year ended December 31, 2015, compared to same period in 2014, principally due to additional costs related to facilities acquired in the Team Capital acquisition and increased depreciation expense. The amortization of intangibles increased \$1.3 million for the year ended December 31, 2015, compared with the same period in 2014, primarily due to increases in both the core deposit intangible and customer relationship intangible amortization related to the Team Capital and MDE acquisitions, respectively. Other operating expenses increased \$1.1 million to \$28.8 million for the year ended December 31, 2015, compared to \$27.7 million for the same period in 2014, primarily due to valuation adjustments related to foreclosed real estate, and increases in business development and personnel recruitment expenses. Partially offsetting these increases in non-interest expense, data processing costs decreased \$969,000 to \$12.7 million for the year ended December 31, 2015, compared with the year ended December 31, 2014, principally due to \$2.4 million of non-recurring core system contract termination costs related to the Team Capital acquisition in 2014, partially offset by increased software maintenance costs and telecommunication expenses. Additionally, advertising and promotion expense decreased \$782,000 to \$4.2 million for the year ended December 31, 2015, compared to \$5.0 million for the same period in 2014, largely due to post-merger promotional activities within the former Team Capital marketplace

incurred in the prior year.

Income Tax Expense. For the year ended December 31, 2015, the Company's income tax expense was \$36.4 million, compared with \$31.8 million, for the same period in 2014. The Company's effective tax rate was 30.3% for the year ended December 31, 2015, compared with 30.2% for the year ended December 31, 2014. For the year ended December 31, 2015, the increases in income tax expense and the effective tax rate were a function of growth in pre-tax income, with a greater portion of income derived from taxable sources.

Comparison of Operating Results for the Years Ended December 31, 2014 and December 31, 2013

General. Net income for the year ended December 31, 2014 was \$73.6 million, compared to \$70.5 million for the year ended December 31, 2013. Basic and diluted earnings per share were \$1.22 for the year ended December 31, 2014, compared to

basic and diluted earnings per share of \$1.23 for 2013. Operating results for year ended December 31, 2014 included non-recurring items associated with the acquisition of Team Capital Bank of \$3.9 million, net of taxes. Additionally, earnings for the year ended December 31, 2014 were impacted by a \$788,000, net of tax, non-cash charge due to the recognition of a pro rata portion of unrealized losses related to lump sum distributions from the Company's previously frozen pension plan. Net income for the year ended December 31, 2013 included the non-core write-off of a deferred tax asset related to expired non-qualified stock options issued shortly after the Company's 2003 initial public offering. The write-off in 2013 of the related \$3.9 million deferred tax asset resulted in a \$3.2 million charge to income tax expense and a \$735,000 charge to equity in the third quarter of 2013.

Net Interest Income. Net interest income increased \$22.9 million to \$238.9 million for 2014, from \$216.0 million for 2013. The average net interest rate spread declined 1 basis point to 3.18% for 2014, from 3.19% for 2013. The net interest margin decreased 1 basis point to 3.30% for 2014, compared to 3.31% for 2013. For the year ended December 31, 2014, net interest income was favorably impacted by the assets acquired from Team Capital and growth in non-interest bearing demand deposits, which was mitigated by compression in the net interest margin.

Interest income increased \$26.6 million, or 10.5%, to \$279.4 million for 2014, compared to \$252.8 million for 2013. The increase in interest income was attributable to an increase in average earning asset balances, partially offset by a decrease in the yield on average earning assets. Average interest-earning assets increased \$712.8 million, or 10.9%, to \$7.24 billion for 2014, compared to \$6.53 billion for 2013. The average outstanding loan balances increased \$677.3 million, or 13.8%, to \$5.60 billion for 2014 from \$4.92 billion for 2013, the average balance of securities available for sale decreased \$56.8 million, or 4.8%, to \$1.13 billion for 2014, compared to \$1.19 billion for 2013, and the average balance of investment securities held to maturity increased \$66.5 million, or 18.8%, to \$420.2 million for 2014, compared to \$353.6 million for 2013. The yield on interest-earning assets decreased 1 basis point to 3.86% for 2014, from 3.87% for 2013, with a reduction in the weighted average yield on total loans partially offset by an increase in the weighted average yield on total securities.

Interest expense increased \$3.7 million, or 10.1%, to \$40.5 million for 2014, from \$36.8 million for 2013. The increase in interest expense was attributable to an increase in average borrowings, which funded a portion of the growth in average interest-earning assets, partially offset by a shift in the funding composition to lower-costing core deposits from time deposits and a reduction in the average cost of borrowings. Also offsetting the increase in interest expense was a \$120.5 million, or 14.4% increase in average non-interest bearing demand deposits to \$959.8 million for 2014, from \$839.3 million for 2013. The average rate paid on interest-bearing liabilities remained unchanged at 0.68% for 2014, compared to 2013. The average rate paid on interest-bearing deposits decreased 7 basis points to 0.33% for 2014, from 0.40% for 2013. The average rate paid on borrowings decreased 18 basis points to 1.88% for 2014, from 2.06% for 2013. The average balance of interest-bearing liabilities increased \$565.6 million to \$5.93 billion for 2014, compared to \$5.37 billion for 2013. Average interest-bearing deposits increased \$135.9 million, or 3.05%, to \$4.60 billion for 2014, from \$4.46 billion for 2013. Within average interest-bearing deposits, average interest-bearing core deposits increased \$195.6 million, or 5.5%, for 2014, compared with 2013, while average time deposits decreased \$59.7 million, or 6.79%, for 2014, compared with 2013. Average outstanding borrowings increased \$429.7 million, or 47.3%, to \$1.34 billion for 2014, compared with \$908.8 million for 2013.

Provision for Loan Losses. The provision for loan losses was \$4.7 million in 2014, compared to \$5.5 million in 2013. The decrease in the provision for loan losses was primarily attributable to a decline in non-performing loan formation and an improvement in the weighted average credit risk ratings of the loan portfolio. Net charge-offs for 2014 were \$7.6 million, compared to \$11.2 million for 2013. Total charge-offs for the year ended December 31, 2014 were \$10.9 million, compared to \$14.4 million for the year ended December 31, 2013. Recoveries for the year ended December 31, 2014, were \$3.3 million, compared to \$3.2 million for the year ended December 31, 2013. The allowance for loan losses at December 31, 2014 was \$61.7 million, or 1.01% of total loans, compared to \$64.7 million, or 1.24% of total loans at December 31, 2013. In addition to improvements in asset quality, the reduction in the ratio for allowance for loan losses to loans reflects the acquisition of loans from Team Capital at fair value in 2014. At December 31, 2014, non-performing loans as a percentage of total loans were 0.88%, compared to 1.48% at December 31, 2013. Non-performing assets as a percentage of total assets were 0.69% at December 31, 2014, compared to 1.10% at December 31, 2013. At December 31, 2014, non-performing loans were \$53.9 million,

compared to \$76.7 million at December 31, 2013, and non-performing assets were \$59.0 million at December 31, 2014, compared to \$82.2 million at December 31, 2013.

Non-Interest Income. For the year ended December 31, 2014, non-interest income totaled \$41.2 million, a decrease of \$3.0 million, or 6.8%, compared to 2013. Fee income decreased \$4.1 million, to \$21.9 million for the year ended December 31, 2014, compared to 2013, largely due to a \$4.0 million decrease in prepayment fees on commercial loans. BOLI income decreased \$963,000 for the year ended December 31, 2014, principally due to lower death benefits recognized in the year ended December 31, 2014, compared to 2013, partially offset by income recognized on BOLI assets acquired from Team Capital. Also contributing to the decline in non-interest income, net gains on securities transactions for the year ended December 31, 2014 declined \$745,000 as compared to 2013. These decreases were partially offset by a \$1.4 million increase in wealth management income resulting from improved market conditions and a \$989,000 increase in other income for the year ended December 31, 2014, compared with

2013. The increase in other income was primarily due to a \$486,000 gain recognized on the prepayment of FHLB borrowings acquired from Team Capital, and a \$787,000 gain recognized on loan level interest rate swap transactions, partially offset by a reduction in gains on loan sales. Additionally, for the year ended December 31, 2013, the Company recognized a \$434,000 other-than-temporary impairment charge related to an investment in a non-agency mortgage-backed security.

Non-Interest Expense. Non-interest expense for the year ended December 31, 2014 was \$170.0 million, an increase of \$21.2 million from the year ended December 31, 2013. Non-interest expense for the year ended December 31, 2014 included \$6.6 million of non-recurring costs related to the acquisition of Team Capital. Compensation and benefits expense increased \$9.2 million to \$92.2 million for the year ended December 31, 2014, compared to the year ended December 31, 2013, due to increased salary expense, \$1.7 million of severance and retention expense associated with Team Capital, \$1.3 million of pension costs associated with lump-sum pension distributions made to vested terminated employees and increased stock-based compensation. Net occupancy costs increased \$3.4 million, to \$24.0 million for the year ended December 31, 2014, compared to the year ended December 31, 2013, principally due to additional facilities costs related to Team Capital, increased seasonal maintenance expense in the first quarter of 2014 related to the harsh winter conditions and increased depreciation expense. Other operating expenses increased \$3.3 million to \$27.7 million for the year ended December 31, 2014, compared to \$24.5 million for the same period in 2013, primarily due to non-recurring professional services and customer communication costs related to the Team Capital acquisition. In addition, data processing expense increased \$3.1 million to \$13.7 million for the year ended December 31, 2014, compared to \$10.6 million for the same period in 2013, principally due to \$2.4 million of non-recurring core system contract termination costs related to the Team Capital acquisition and increased software maintenance and telecommunication expenses. The amortization of intangibles increased \$1.1 million for the year ended December 31, 2014, compared with the same period in 2013, primarily due to increases in the core deposit intangible amortization related to the Team Capital acquisition, while advertising and promotion expense increased \$1.1 million, largely due to post-merger promotional activities within the former Team Capital marketplace during 2014.

Income Tax Expense. For the year ended December 31, 2014, the Company's income tax expense was \$31.8 million, compared with \$35.4 million, for the same period in 2013. The Company's effective tax rate was 30.2% for the year ended December 31, 2014, compared with 33.4% for the year ended December 31, 2013. The decreases in income tax expense and the effective tax rate were principally due to a \$3.2 million charge associated with the write-off of a deferred tax asset related to expired non-qualified stock options in 2013.

Liquidity and Capital Resources

Liquidity refers to the Company's ability to generate adequate amounts of cash to meet financial obligations to its depositors, to fund loans and securities purchases, deposit outflows and operating expenses. Sources of funds include scheduled amortization of loans, loan prepayments, scheduled maturities of investments, cash flows from mortgage-backed securities and the ability to borrow funds from the FHLB of New York and approved broker dealers. Cash flows from loan payments and maturing investment securities are a fairly predictable source of funds. Changes in interest rates, local economic conditions and the competitive marketplace can influence loan prepayments, prepayments on mortgage-backed securities and deposit flows. For each of the years ended December 31, 2015 and 2014, loan repayments totaled \$2.28 billion and \$1.65 billion, respectively.

One- to four-family residential loans, consumer loans, commercial real estate loans, multi-family loans and commercial and small business loans are the primary investments of the Company. Purchasing securities for the investment portfolio is a secondary use of funds and the investment portfolio is structured to complement and facilitate the Company's lending activities and ensure adequate liquidity. Loan originations and purchases totaled \$2.75 billion for the year ended December 31, 2015, compared to \$1.94 billion for the year ended December 31, 2014. Purchases for the investment portfolio totaled \$174.0 million for the year ended December 31, 2015, compared to \$137.2 million for the year ended December 31, 2014. At December 31, 2015, the Bank had outstanding loan commitments to borrowers of \$1.15 billion, including undisbursed home equity lines and personal credit lines of \$287.9 million.

Total deposits increased \$131.5 million for the year ended December 31, 2015. Deposit activity is affected by changes in interest rates, competitive pricing and product offerings in the marketplace, local economic conditions, customer confidence and other factors such as stock market volatility. Certificate of deposit accounts that are scheduled to mature within one year totaled \$499.2 million at December 31, 2015. Based on its current pricing strategy and customer retention experience, the Bank expects to retain a significant share of these accounts. The Bank manages liquidity on a daily basis and expects to have sufficient cash to meet all of its funding requirements.

As of December 31, 2015, the Bank exceeded all minimum regulatory capital requirements. At December 31, 2015, the Bank's leverage (Tier 1) capital ratio was 8.42%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2015, the Bank's total risk-based capital ratio was 11.53%. Under

current regulations, the minimum required ratio of total capital to risk-weighted assets is 8.00%. A bank is considered to be well-capitalized if it has a leverage (Tier 1) capital ratio of at least 5.00% and a total risk-based capital ratio of at least 10.00%.

Off-Balance Sheet and Contractual Obligations

Off-balance sheet and contractual obligations as of December 31, 2015, are summarized below:

	Payments Due by Period (In thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Off-Balance Sheet:					
Long-term commitments	\$1,139,807	\$512,021	\$341,403	\$6,092	\$280,291
Letters of credit	14,538	13,049	1,273	216	—
Total Off-Balance Sheet	1,154,345	525,070	342,676	6,308	280,291
Contractual Obligations:					
Operating leases	37,540	6,838	11,793	10,067	8,842
Certificate of deposits	739,721	499,221	132,507	106,943	1,050
Total Contractual Obligations	777,261	506,059	144,300	117,010	9,892
Total	\$1,931,606	\$1,031,129	\$486,976	\$123,318	\$290,183

Off-balance sheet commitments consist of unused commitments to borrowers for term loans, unused lines of credit and outstanding letters of credit. Total off-balance sheet obligations were \$1.15 billion at December 31, 2015, a decrease of \$54.3 million, or 4.5%, from \$1.2 billion at December 31, 2014.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There were no securities purchases in 2015 and 2014 which settled in 2016 and 2015, respectively. Total contractual obligations at December 31, 2015 were \$777.3 million, an decrease of \$90.7 million, or 10.45%, compared to \$868.0 million at December 31, 2014. Contractual obligations under operating leases decreased \$4.7 million, or 11.18%, to \$37.5 million at December 31, 2015, from \$42.3 million at December 31, 2014, and certificate of deposit accounts increased \$86.0 million, or 10.4%, to \$739.7 million at December 31, 2015, from \$825.7 million at December 31, 2014.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Qualitative Analysis. Interest rate risk is the exposure of a bank's current and future earnings and capital arising from adverse movements in interest rates. The guidelines of the Company's interest rate risk policy seek to limit the exposure to changes in interest rates that affect the underlying economic value of assets and liabilities, earnings and capital. To minimize interest rate risk, the Company generally sells 20- and 30-year fixed-rate mortgage loans at origination. Commercial real estate loans generally have interest rates that reset in five years, and other commercial loans such as construction loans and commercial lines of credit reset with changes in the Prime rate, the Federal funds rate or LIBOR. Investment securities purchases generally have maturities of five years or less, and mortgage-backed securities have weighted average lives initially between three and five years.

The Asset/Liability Committee meets on at least a monthly basis to review the impact of interest rate changes on net interest income, net interest margin, net income and economic value of equity. Members of the Asset/Liability Committee include the Chief Executive Officer and Chief Financial Officer, as well as other senior officers from the Bank's finance, lending, credit, retail banking and corporate operations departments. The Asset/Liability Committee reviews a variety of strategies that project changes in asset or liability mix and the impact of those changes on projected net interest income and net income.

The Company's strategy for liabilities has been to maintain a stable core-funding base by focusing on core deposit account acquisition and increasing products and services per household. Certificate of deposit accounts as a percentage of total deposits were 12.5% at December 31, 2015, compared to 14.3% at December 31, 2014. Certificate of deposit accounts are generally short-term. As of December 31, 2015, 67.5% of all certificates of deposit had maturities of one year or less compared to 68.8% at December 31, 2014. The Company's ability to retain maturing certificate of deposit accounts is reliant upon remaining competitively priced within the marketplace. The Company's

pricing strategy may vary depending upon funding needs and the Company's ability to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB of New York during periods of pricing dislocation.

Quantitative Analysis. Current and future sensitivity to changes in interest rates are measured through the use of balance sheet and income simulation models. The analyses capture changes in net interest income using flat rates as a base, a most likely rate forecast and rising and declining interest rate forecasts. Changes in net interest income and net income for the forecast period, generally twelve to twenty-four months, are measured and compared to policy limits for acceptable change. The Company periodically reviews historical deposit repricing activity and makes modifications to certain assumptions used in its income simulation model regarding the interest rate sensitivity of deposits without maturity dates. These modifications are made to more precisely reflect the most likely results under the various interest rate change scenarios. Since it is inherently difficult to predict the sensitivity of interest bearing deposits to changes in interest rates, the changes in net interest income due to changes in interest rates cannot be precisely predicted. There are a variety of reasons that may cause actual results to vary considerably from the predictions presented below which include, but are not limited to, the timing, magnitude, and frequency of changes in interest rates, interest rate spreads, prepayments, and actions taken in response to such changes. Specific assumptions used in the simulation model include:

• Parallel yield curve shifts for market rates;

• Current asset and liability spreads to market interest rates are fixed;

• Traditional savings and interest bearing demand accounts move at 10% of the rate ramp in either direction;

• Retail Money Market and Business Money Market accounts move at 25% and 75% of the rate ramp in either direction, respectively; and

• Higher-balance demand deposit tiers and promotional demand accounts move at 50% to 75% of the rate ramp in either direction.

The following table sets forth the results of the twelve month projected net interest income model as of December 31, 2015.

Change in Interest Rates in Basis Points (Rate Ramp)	Net Interest Income		
	Amount (\$)	Change (\$)	Change (%)
	(Dollars in thousands)		
-100 Static	246,162	(5,704)	(2.3)
+100	251,866	—	—
+200	249,704	(2,162)	(0.9)
+300	247,516	(4,350)	(1.7)
	245,694	(6,172)	(2.5)

The above table indicates that as of December 31, 2015, in the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, the Company would experience a 2.5%, or \$6.2 million decrease in net interest income. In the event of a 100 basis point decrease in interest rates, whereby rates ramp down evenly over a twelve-month period, the Company would experience a 2.3%, or \$5.7 million decrease in net interest income.

Another measure of interest rate sensitivity is to model changes in economic value of equity through the use of immediate and sustained interest rate shocks. The following table illustrates the economic value of equity model results as of December 31, 2015.

Change in Interest Rates (Basis Points)	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
	Dollar Amount (Dollars in thousands)	Dollar Change	Percent Change	Present Value Ratio	Percent Change
-100 Flat	1,353,475	24,595	1.9	14.8	1.1
+100	1,328,880	—	—	14.7	—
	1,294,830	(34,050)	(2.6)	14.4	(1.8)

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

+200	1,244,796	(84,084	) (6.3	) 14.0	(4.6)
+300	1,192,065	(136,815	) (10.3	) 13.5	(7.7)

The preceding table indicates that as of December 31, 2015, in the event of an immediate and sustained 300 basis point increase in interest rates, the Company would experience a 10.3%, or \$136.8 million reduction in the present value of equity. If rates were to decrease 100 basis points, the Company would experience a 1.9%, or \$24.6 million increase in the present value of equity.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the making of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also 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. Accordingly, although the net interest income table provides an indication of the Company's interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

Item 8. Financial Statements and Supplementary Data

The following are included in this item:

(A) Report of Independent Registered Public Accounting Firm

(B) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

(C) Consolidated Financial Statements:

(1) Consolidated Statements of Financial Condition as of December 31, 2015 and 2014

(2) Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013

(3) Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013

(4) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013

(5) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013

(6) Notes to Consolidated Financial Statements

(D) Provident Financial Services, Inc., Condensed Financial Statements:

(1) Condensed Statement of Financial Condition as of December 31, 2015 and 2014

(2) Condensed Statement of Income for the years ended December 31, 2015, 2014 and 2013

(3) Condensed Statement of Cash Flows for the years ended December 31, 2015, 2014 and 2013

The supplementary data required by this Item is provided in Note 19 of the Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Provident Financial Services, Inc.:

We have audited the accompanying consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Provident Financial Services, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey

February 29, 2016

Report of Independent Registered Public Accounting Firm
On Internal Control Over Financial Reporting
The Board of Directors and Stockholders
Provident Financial Services, Inc.:

We have audited Provident Financial Services, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Provident Financial Services, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Short Hills, New Jersey
February 29, 2016

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2015 and 2014

(Dollars in Thousands, except share data)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 100,899	\$ 102,484
Short-term investments	1,327	1,278
Total cash and cash equivalents	102,226	103,762
Securities available for sale, at fair value	964,534	1,074,395
Investment securities held to maturity (fair value of \$488,331 and \$482,473 at December 31, 2015 and December 31, 2014, respectively)	473,684	469,528
Federal Home Loan Bank Stock	78,181	69,789
Loans	6,537,674	6,085,505
Less allowance for loan losses	61,424	61,734
Net loans	6,476,250	6,023,771
Foreclosed assets, net	10,546	5,098
Banking premises and equipment, net	88,987	92,990
Accrued interest receivable	25,766	25,228
Intangible assets	426,277	404,422
Bank-owned life insurance	183,057	177,712
Other assets	82,149	76,682
Total assets	\$8,911,657	\$8,523,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	\$4,198,788	\$3,971,487
Savings deposits	985,478	995,347
Certificates of deposit of \$100,000 or more	324,215	342,072
Other time deposits	415,506	483,617
Total deposits	5,923,987	5,792,523
Mortgage escrow deposits	23,345	21,649
Borrowed funds	1,707,632	1,509,851
Other liabilities	60,628	55,255
Total liabilities	7,715,592	7,379,278
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 65,489,354 shares outstanding at December 31, 2015, and 83,209,293 shares issued and 64,905,905 shares outstanding at December 31, 2014, respectively	832	832
Additional paid-in capital	1,000,810	995,053
Retained earnings	507,713	465,276
Accumulated other comprehensive (loss) income	(2,546	) 29
Treasury stock	(269,014	) (271,779
Unallocated common stock held by the Employee Stock Ownership Plan	(41,730	) (45,312
Common stock acquired by the Directors' Deferred Fee Plan	(6,517	) (7,113
Deferred compensation—Directors' Deferred Fee Plan	6,517	7,113
Total stockholders' equity	1,196,065	1,144,099

Total liabilities and stockholders' equity	\$8,911,657	\$8,523,377
--	-------------	-------------

See accompanying notes to consolidated financial statements.

58

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years Ended December 31, 2015, 2014 and 2013

(Dollars in Thousands, except share data)

	Years ended December 31,		
	2015	2014	2013
Interest income:			
Real estate secured loans	\$176,714	\$166,700	\$152,429
Commercial loans	55,347	50,115	40,428
Consumer loans	22,770	23,755	23,644
Securities available for sale and Federal Home Loan Bank stock	23,398	26,475	25,250
Investment securities held to maturity	13,494	12,263	10,987
Deposits, Federal funds sold and other short-term investments	58	53	39
Total interest income	291,781	279,361	252,777
Interest expense:			
Deposits	14,521	15,332	18,031
Borrowed funds	27,380	25,140	18,736
Total interest expense	41,901	40,472	36,767
Net interest income	249,880	238,889	216,010
Provision for loan losses	4,350	4,650	5,500
Net interest income after provision for loan losses	245,530	234,239	210,510
Non-interest income:			
Fees	26,282	21,925	26,033
Wealth management income	16,838	9,420	8,012
Bank-owned life insurance	5,345	5,633	6,596
Other-than-temporary impairment losses on securities	—	—	(434)
Portion of loss recognized in other comprehensive income (before taxes)	—	—	—
Net impairment losses on securities recognized in earnings	—	—	(434)
Net gain on securities transactions	654	251	996
Other income	6,103	3,939	2,950
Total non-interest income	55,222	41,168	44,153
Non-interest expense:			
Compensation and employee benefits	99,689	92,218	83,000
Net occupancy expense	26,032	23,958	20,560
Data processing expense	12,698	13,667	10,550
FDIC Insurance	5,036	4,662	4,678
Advertising and promotion expense	4,226	5,008	3,890
Amortization of intangibles	4,066	2,757	1,624
Other operating expenses	28,842	27,721	24,461
Total non-interest expenses	180,589	169,991	148,763
Income before income tax expense	120,163	105,416	105,900
Income tax expense	36,441	31,785	35,366
Net income	\$83,722	\$73,631	\$70,534
Basic earnings per share	\$1.33	\$1.22	\$1.23
Average basic shares outstanding	62,945,669	60,388,398	57,236,909
Diluted earnings per share	\$1.33	\$1.22	\$1.23
Average diluted shares outstanding	63,114,718	60,562,070	57,361,443

See accompanying notes to consolidated financial statements.

59

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015, 2014 and 2013

(Dollars in Thousands)

	Years ended December 31,		
	2015	2014	2013
Net income	\$83,722	\$73,631	\$70,534
Other comprehensive income (loss), net of tax:			
Unrealized gains and losses on securities available for sale:			
Net unrealized (losses) gains arising during the period	(3,401	) 10,692	(19,428)
Reclassification adjustment for gains included in net income	(391	) (150	) (589)
Total	(3,792	) 10,542	(20,017)
Other-than-temporary impairment on debt securities available for sale:			
Other-than-temporary impairment losses on securities	—	—	—
Reclassification adjustment for impairment losses included in net income	—	—	257
Total	—	—	257
Unrealized losses on derivatives	(73) —	—
Amortization related to post-retirement obligations	1,290	(5,662	) 7,193
Total other comprehensive (loss) income	(2,575	) 4,880	(12,567)
Total comprehensive income	\$81,147	\$78,511	\$57,967

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2015, 2014 and 2013
(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2012	\$ 832	\$ 1,021,507	\$ 389,549	\$ 7,716	\$(386,270)	\$(52,088)	\$(7,298)	\$ 7,298	\$ 981,246
Net income	—	—	70,534	—	—	—	—	—	70,534
Other comprehensive loss, net of tax	—	—	—	(12,567)	—	—	—	—	\$(12,567)
Cash dividends paid	—	—	(32,320)	—	—	—	—	—	(32,320)
Distributions from DDFP	—	—	—	—	—	—	93	(93)	—
Purchases of treasury stock	—	—	—	—	(5,899)	—	—	—	(5,899)
Shares issued dividend reinvestment plan	—	(57)	—	—	1,301	—	—	—	1,244
Option exercises	—	(134)	—	—	488	—	—	—	354
Allocation of ESOP shares	—	(15)	—	—	—	3,333	—	—	3,318
Allocation of SAP shares	—	4,546	—	—	—	—	—	—	4,546
Allocation of stock options	—	297	—	—	—	—	—	—	297
Balance at December 31, 2013	\$ 832	\$ 1,026,144	\$ 427,763	\$(4,851)	\$(390,380)	\$(48,755)	\$(7,205)	\$ 7,205	\$ 1,010,753

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2015, 2014 and 2013(Continued)

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2013	\$ 832	\$ 1,026,144	\$ 427,763	\$ (4,851)	\$ (390,380)	\$ (48,755)	\$ (7,205)	\$ 7,205	\$ 1,010,753
Net income	—	—	73,631	—	—	—	—	—	73,631
Other comprehensive income, net of tax	—	—	—	4,880	—	—	—	—	4,880
Cash dividends paid	—	—	(36,118)	—	—	—	—	—	(36,118)
Distributions from DDFP	—	—	—	—	—	—	92	(92)	—
Purchases of treasury stock	—	—	—	—	(4,420)	—	—	—	(4,420)
Treasury shares issued - Team Capital Acquisition	—	(962)	—	—	84,479	—	—	—	83,517
Shares issued dividend reinvestment plan	—	—	—	—	1,336	—	—	—	1,336
Option exercises	—	(49)	—	—	166	—	—	—	117
Allocation of ESOP shares	—	107	—	—	—	3,443	—	—	3,550
Allocation of SAP shares	—	6,555	—	—	—	—	—	—	6,555
Reclassification of Stock awards	—	(32,787)	—	—	32,787	—	—	—	—
Allocation of Treasury Shares	—	(4,253)	—	—	4,253	—	—	—	—
Allocation of stock options	—	298	—	—	—	—	—	—	298
Balance at December 31, 2014	\$ 832	\$ 995,053	\$ 465,276	\$ 29	\$ (271,779)	\$ (45,312)	\$ (7,113)	\$ 7,113	\$ 1,144,099

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2015, 2014 and 2013(Continued)

(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2014	\$ 832	\$ 995,053	\$ 465,276	\$ 29	\$(271,779)	\$(45,312)	\$(7,113)	\$ 7,113	\$ 1,144,099
Net income	—	—	83,722	—	—	—	—	—	83,722
Other comprehensive loss, net of tax	—	—	—	(2,575)	—	—	—	—	(2,575)
Cash dividends paid	—	—	(41,285)	—	—	—	—	—	(41,285)
Distributions from DDFP	—	85	—	—	—	—	596	(596)	85
Purchases of treasury stock	—	—	—	—	(1,988)	—	—	—	(1,988)
Shares issued dividend reinvestment plan	—	143	—	—	1,304	—	—	—	1,447
Option exercises	—	(283)	—	—	3,449	—	—	—	3,166
Allocation of ESOP shares	—	467	—	—	—	3,582	—	—	4,049
Allocation of SAP shares	—	5,073	—	—	—	—	—	—	5,073
Allocation of stock options	—	272	—	—	—	—	—	—	272
Balance at December 31, 2015	\$ 832	\$ 1,000,810	\$ 507,713	\$(2,546)	\$(269,014)	\$(41,730)	\$(6,517)	\$ 6,517	\$ 1,196,065

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2015, 2014 and 2013
(Dollars in Thousands)

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$83,722	\$73,631	\$70,534
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangibles	13,714	11,133	8,776
Provision for loan losses	4,350	4,650	5,500
Deferred tax expense	326	3,666	5,531
Increase in cash surrender value of Bank-owned Life Insurance	(5,345)	) (5,633)	) (6,596)
Net amortization of premiums and discounts on securities	10,613	10,461	12,942
Accretion of net deferred loan fees	(4,624)	) (3,364)	) (3,877)
Amortization of premiums on purchased loans, net	1,100	694	1,286
Net increase in loans originated for sale	(11,918)	) (12,609)	) (30,977)
Proceeds from sales of loans originated for sale	12,799	14,018	32,447
Proceeds from sales of foreclosed assets	4,443	6,494	13,686
ESOP expense	2,997	2,654	2,559
Allocation of stock award shares	4,625	6,359	4,869
Allocation of stock options	272	298	297
Net gain on sale of loans	(881)	) (1,409)	) (1,470)
Net gain on securities transactions	(654)	) (251)	) (996)
Impairment charge on securities	—	—	434
Net gain on sale of premises and equipment	(4)	) (5)	) (42)
Net gain on sale of foreclosed assets	(592)	) (516)	) (403)
(Increase) decrease in accrued interest receivable	(538)	) 787	1,046
(Increase) decrease in other assets	(4,912)	) (10,660)	) 4,202
Increase in other liabilities	5,373	7,721	173
Net cash provided by operating activities	114,866	108,119	119,921
Cash flows from investing activities:			
Proceeds from maturities, calls and paydowns of investment securities held to maturity	37,271	41,057	97,974
Purchases of investment securities held to maturity	(44,254)	) (73,397)	) (97,964)
Proceeds from sales of securities available for sale	14,005	25,033	14,834
Proceeds from maturities calls and paydowns of securities available for sale	212,095	207,531	351,472
Purchases of securities available for sale	(129,720)	) (63,835)	) (303,334)
Net increase in Federal Home Loan Bank stock	(8,392)	) (11,719)	) (20,527)
Net cash and cash equivalents (paid) received in acquisition	(25,855)	) 68,650	—
BOLI benefits paid	776	—	—
Purchases of loans	(95,283)	) (130,540)	) (34,766)
Net increase in loans	(363,436)	) (129,240)	) (259,359)
Proceeds from sales of premises and equipment	19	1,903	35
Purchases of premises and equipment	(5,909)	) (16,441)	) (7,709)

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

Net cash used in investing activities	(408,683	) (80,998	) (259,344)
Cash flows from financing activities:				
Net increase (decrease) in deposits	131,464	(179,886	) (226,504)
Increase (decrease) in mortgage escrow deposits	1,696	1,250	(666)
Purchase of treasury stock	(1,988	) (4,420	) (5,899)
Cash dividends paid to stockholders	(41,285	) (36,118	) (32,320)
Shares issued to dividend reinvestment plan	1,447	1,336	1,244	
Stock options exercised	3,166	117	354	
Proceeds from long-term borrowings	694,937	595,063	301,000	
Payments on long-term borrowings	(549,935	) (289,757	) (79,090)
Net increase (decrease) in short-term borrowings	52,779	(112,168	) 178,705	
Net cash provided by (used in) financing activities	292,281	(24,583	) 136,824	
Net (decrease) increase in cash and cash equivalents	(1,536	) 2,538	(2,599)
Cash and cash equivalents at beginning of period	103,762	101,224	103,823	
Cash and cash equivalents at end of period	\$102,226	\$103,762	\$101,224	
Cash paid during the period for:				
Interest on deposits and borrowings	\$41,663	\$39,952	\$36,727	
Income taxes	\$40,620	\$25,776	\$29,119	
Non cash investing activities:				
Transfer of loans receivable to foreclosed assets	\$10,074	\$5,382	\$6,602	
Acquisition:				
Non-cash assets acquired:				
Investment securities available for sale	\$—	\$157,635	\$—	
Loans	—	631,209	—	
Bank-owned life insurance	—	22,319	—	
Goodwill and other intangible assets, net	25,323	50,222	—	
Other assets	1,270	33,939	—	
Total non-cash assets acquired	\$26,593	\$895,324	\$—	
Liabilities assumed:				
Deposits	\$—	\$769,936	\$—	
Borrowings	—	112,835	—	
Other Liabilities	400	(2,314) —	
Total liabilities assumed	\$400	\$880,457	\$—	
Common stock issued for acquisitions	\$—	\$83,517	\$—	

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Provident Financial Services, Inc. (the “Company”), The Provident Bank (the “Bank”) and their wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications.

Business

The Company, through the Bank, provides a full range of banking services to individual and business customers through branch offices in New Jersey and eastern Pennsylvania. The Bank is subject to competition from other financial institutions and to the regulations of certain federal and state agencies, and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”). Certain reclassifications have been made in the consolidated financial statements to conform with current year classifications. In preparing the consolidated financial statements, management is required to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities and disclosures about contingent assets and liabilities as of the dates of the consolidated statements of financial condition, and revenues and expenses for the periods then ended. Such estimates are used in connection with the determination of the allowance for loan losses, evaluation of goodwill for impairment, evaluation of other-than-temporary impairment on securities, evaluation of the need for valuation allowances on deferred tax assets, and determination of liabilities related to retirement and other post-retirement benefits, among others. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets, volatile securities markets, and declines in the housing market and the economy generally have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, Federal funds sold and commercial paper with maturity dates less than 90 days.

Securities

Securities include investment securities held to maturity and securities available for sale. Securities that the Company has the positive intent and ability to hold to maturity are classified as “investment securities held to maturity” and reported at amortized cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as “securities available for sale” and are reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders’ equity, net of deferred taxes.

The estimated fair values of the Company’s securities are affected by changes in interest rates, credit spreads, and market illiquidity. The Company conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. To determine if a decline in value is other-than-temporary, the Company evaluates if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If such a decline were deemed other-than-temporary, the Company would measure the total credit-related component of the unrealized loss,

and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. In general, as interest rates rise, the market value of fixed-rate securities decreases and as interest rates fall, the market value of fixed-rate securities increases. The market for non-investment grade, privately issued mortgage-backed securities remains illiquid and prices have not appreciated despite favorable movements in interest rates. To determine if a decline in value is other-than-temporary, the Company

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

evaluates if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery.

Premiums and discounts on securities are amortized and accreted to income using a method that approximates the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Dividend and interest income are recognized when earned. Realized gains and losses are recognized when securities are sold or called based on the specific identification method.

Fair Value of Financial Instruments

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Federal Home Loan Bank of New York Stock

The Bank, as a member of the Federal Home Loan Bank of New York ("FHLBNY"), is required to hold shares of capital stock of the FHLBNY at cost based on a specified formula. The Bank carries this investment at cost, which approximates fair value.

Loans

Loans receivable are carried at unpaid principal balances plus unamortized premiums, purchase accounting mark-to-market adjustments, certain deferred direct loan origination costs and deferred loan origination fees and discounts, less the allowance for loan losses.

The Bank defers loan origination fees and certain direct loan origination costs and accretes such amounts as an adjustment to yield over the expected lives of the related loans using the interest method. Premiums and discounts on loans purchased are amortized or accreted as an adjustment of yield over the contractual lives of the related loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

Loans are generally placed on non-accrual status when they are past due 90 days or more as to contractual obligations or when other circumstances indicate that collection is questionable. When a loan is placed on non-accrual status, any interest accrued but not received is reversed against interest income. Payments received on a non-accrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on an assessment of the ability to collect the loan. A non-accrual loan is restored to accrual status when principal and interest payments become less than 90 days past due and its future collectibility is reasonably assured.

An impaired loan is defined as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans are individually assessed to determine that each loan's carrying value is not in excess of the fair value of the related collateral or the present value of the expected future cash flows. Residential mortgage and consumer loans are deemed smaller balance homogeneous loans which are evaluated collectively for impairment and are therefore excluded from the population of impaired loans.

Purchased Credit-Impaired ("PCI") loans, are loans acquired at a discount primarily due to deteriorated credit quality. PCI loans are recorded at fair value at the date of acquisition, with no allowance for loan losses. The difference between the undiscounted cash flows expected at acquisition and the fair value of the PCI loans at acquisition represents the accretable yield and is recognized as interest income over the life of the loans. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition represent the non-accretable discount and are not recognized as a yield adjustment or a valuation allowance. Reclassifications of the non-accretable to accretable yield may occur subsequent to the loan acquisition dates due to an increase in expected cash flows of the loans and results in an increase in interest income on a prospective basis.

Allowance for Loan Losses

Losses on loans are charged to the allowance for loan losses. Additions to this allowance are made by recoveries of loans previously charged off and by a provision charged to expense. The determination of the balance of the allowance for loan losses

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

is based on an analysis of the loan portfolio, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate allowance.

While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the Bank's market area. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance or additional write-downs based on their judgments about information available to them at the time of their examination.

Foreclosed Assets

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at the lower of the outstanding loan balance at the time of foreclosure or fair value, less estimated costs to sell. Fair value is generally based on recent appraisals. When an asset is acquired, the excess of the loan balance over fair value, less estimated costs to sell, is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

Banking Premises and Equipment

Land is carried at cost. Banking premises, furniture, fixtures and equipment are carried at cost, less accumulated depreciation, computed using the straight-line method based on their estimated useful lives (generally 25 to 40 years for buildings, and 3 to 5 years for furniture and equipment). Leasehold improvements, carried at cost, net of accumulated depreciation, are amortized over the terms of the leases or the estimated useful lives of the assets, whichever are shorter, using the straight-line method. Maintenance and repairs are charged to expense as incurred.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The determination of whether deferred tax assets will be realizable is predicated on estimates of future taxable income. Such estimates are subject to management's judgment. A valuation reserve is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Trust Assets

Trust assets consisting of securities and other property (other than cash on deposit held by the Bank in fiduciary or agency capacities for customers of the Bank's wholly owned subsidiary, Beacon Trust Company) are not included in the accompanying consolidated statements of financial condition because such properties are not assets of the Bank.

Intangible Assets

Intangible assets of the Bank consist of goodwill, core deposit premiums, customer relationship premium and mortgage servicing rights. Goodwill represents the excess of the purchase price over the estimated fair value of identifiable net assets acquired through purchase acquisitions. In accordance with GAAP, goodwill with an indefinite useful life is not amortized, but is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. Goodwill is analyzed for impairment each year at September 30th. As permitted by GAAP, the Company prepares a qualitative assessment in determining whether goodwill may be impaired. The factors considered in the assessment include macroeconomic conditions, industry and market conditions and overall financial performance of the Company, among others. The Company completed its annual goodwill impairment test as of September 30, 2015. Based upon its qualitative

assessment of goodwill, the Company concluded that goodwill was not impaired and no further quantitative analysis was warranted.

67

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Core deposit premiums represent the intangible value of depositor relationships assumed in purchase acquisitions and are amortized on an accelerated basis over 8.8 years. Customer relationship premiums represent the intangible value of customer relationships assumed in the purchase acquisition of Beacon and MDE, and are amortized on an accelerated basis over 12.0 years and 10.4 years, respectively. Mortgage servicing rights are recorded when purchased or when originated mortgage loans are sold, with servicing rights retained. Mortgage servicing rights are amortized on an accelerated method based upon the estimated lives of the related loans, adjusted for prepayments. Mortgage servicing rights are carried at the lower of amortized cost or fair value.

Bank-owned Life Insurance

Bank-owned life insurance is accounted for using the cash surrender value method and is recorded at its realizable value.

Employee Benefit Plans

The Bank maintains a pension plan which covers full-time employees hired prior to April 1, 2003, the date on which the pension plan was frozen. The Bank's policy is to fund at least the minimum contribution required by the Employee Retirement Income Security Act of 1974. GAAP requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status at the end of the employer's fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

The Bank has a 401(k) plan covering substantially all employees of the Bank. The Bank may match a percentage of the first 6% contributed by participants. The Bank's matching contribution, if any, is determined by the Board of Directors in its sole discretion.

The Bank has an Employee Stock Ownership Plan ("ESOP"). The funds borrowed by the ESOP from the Company to purchase the Company's common stock are being repaid from the Bank's contributions and dividends paid on unallocated ESOP shares over a period of up to 30 years. The Company's common stock not allocated to participants is recorded as a reduction of stockholders' equity at cost. Compensation expense for the ESOP is based on the average price of the Company's stock during each quarter and the amount of shares allocated during the quarter.

The Bank has an Equity Plan designed to provide competitive compensation for demonstrated performance and to align the interests of participants directly to increases in shareholder value. The Equity Plan provides for performance-vesting grants as well as time-vesting grants. Time-vesting stock awards, stock options and performance vesting stock awards that are based on a performance condition, such as return on average assets are valued on the closing stock price on the date of grant. Performance vesting stock awards and options that are based on a market condition, such as Total Shareholder Return, would be valued using a generally accepted statistical technique to simulate future stock prices for Provident and the components of the Peer Group which Provident would be measured against.

Expense related to time vesting stock awards and stock options is based on the fair value of the common stock on the date of the grant and on the fair value of the stock options on the date of the grant, respectively, and is recognized ratably over the vesting period of the awards. Performance vesting stock awards and stock options are either dependent upon a market condition or a performance condition. A market condition performance metric is tied to a stock price, either on an absolute basis, or a relative basis against peers, while a performance-condition is based on internal operations, such as earnings per share. The expense related to a market condition performance-vesting stock award or stock option requires an initial Monte Carlo simulation to determine grant date fair value, which will be recognized as a compensation expense regardless of actual payout, assuming that the executive is still employed at the end of the requisite service period. If pre-vesting termination (forfeiture) occurs, then any expense recognized to date can be reversed. The grant date fair value is recognized ratably over the performance period. The expense related to a performance condition stock award or stock option is based on the fair value of the award on the date of grant,

adjusted periodically based upon the number of awards or options expected to be earned, recognized over the performance period.

In connection with the First Sentinel acquisition in July 2004, the Company assumed the First Savings Bank Directors' Deferred Fee Plan (the "DDFP"). The DDFP was frozen prior to the acquisition. The Company recorded a deferred compensation equity instrument and corresponding contra-equity account for the value of the shares held by the DDFP at the July 14, 2004 acquisition date. These accounts will be liquidated as shares are distributed from the DDFP in accordance with the plan document. At December 31, 2015, there were 372,817 shares held by the DDFP.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The Bank maintains a non-qualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the 401(k) Plan's and the ESOP's benefit formulas under tax law limits for tax-qualified plans.

Post-retirement Benefits Other Than Pensions

The Bank provides post-retirement health care and life insurance plans to certain of its employees. The life insurance coverage is noncontributory to the participant. Participants contribute to the cost of medical coverage based on the employee's length of service with the Bank. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee is fully eligible to receive the benefits. On December 31, 2002, the Bank eliminated postretirement healthcare benefits for employees with less than 10 years of service. GAAP requires an employer to: (a) recognize in its statement of financial position the over-funded or under-funded status of a defined benefit post-retirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period.

Derivatives

The Company records all derivatives on the Consolidated Statements of Financial Condition at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The existing interest rate derivatives result from a service provided to certain qualifying borrowers in a loan related transaction and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. As such, all changes in fair value of the Company's derivatives are recognized directly in earnings.

The Company also uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges, and which satisfy hedge accounting requirements, involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. These derivatives were used to hedge the variable cash outflows associated with Federal Home Loan Bank borrowings. The effective portion of changes in the fair value of these derivatives are recorded in accumulated other comprehensive income, and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of these derivatives are recognized directly in earnings.

The fair value of the Company's derivatives are determined using discounted cash flow analyses using observable market-based inputs.

Comprehensive Income

Comprehensive income is divided into net income and other comprehensive income. Other comprehensive income includes items previously recorded directly to equity, such as unrealized gains and losses on securities available for sale, unrealized gains and losses on derivatives and amortization related to post-retirement obligations.

Comprehensive income is presented in a separate Consolidated Statement of Comprehensive Income.

Segment Reporting

The Company's operations are solely in the financial services industry and include providing traditional banking and other financial services to its customers. The Company operates primarily in the geographical regions of northern and central New Jersey and eastern Pennsylvania. Management makes operating decisions and assesses performance based on an ongoing review of the Bank's consolidated financial results. Therefore, the Company has a single operating segment for financial reporting purposes.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur

if securities or other contracts to issue common stock (such as stock options) were exercised or resulted in the issuance of common stock. These potentially dilutive shares would then be included in the weighted average number of shares outstanding for the period using the

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

treasury stock method. Shares issued and shares reacquired during the period are weighted for the portion of the period that they were outstanding.

Impact of Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842).” This ASU requires all lessees to recognize a lease liability and a right-of-use asset, measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently assessing the impact that the guidance will have on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities.” This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity’s other deferred tax assets. This amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Company intends to adopt the accounting standard during the first quarter of 2018, as required, and is currently evaluating the impact that the guidance will have on the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations, Simplifying the Accounting for Measurement - Period Adjustments.” The amendments in this update apply to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. In these cases, the acquirer must record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update are effective for fiscal years beginning after December 15, 2015 including interim periods within those fiscal years. The Company’s adoption of this ASU is not expected to have a material impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14, “Receivables - Troubled Debt Restructurings by Creditors: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.” The amendments in this update affect creditors that hold government guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration and the U.S. Department of Veterans Affairs. The amendments in this update require that a mortgage

loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (i) the loan has a government guarantee that is not separable from the loan before foreclosure; (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company's adoption of this ASU did not have a significant impact on its consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period," which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This update is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have a significant impact on the Company's consolidated financial statements.

Also in June 2014, the FASB issued ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" which aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. This update is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption was prohibited. The Company's adoption of this ASU did not have an impact on its consolidated financial statements.

(2) Stockholders' Equity and Acquisitions

Stockholders' Equity

On January 15, 2003, the Bank completed its plan of conversion, and the Bank became a wholly owned subsidiary of the Company. The Company sold 59.6 million shares of common stock (par value \$0.01 per share) at \$10.00 per share. The Company received net proceeds in the amount of \$567.2 million.

In connection with the Bank's commitment to its community, the plan of conversion provided for the establishment of a charitable foundation. Provident donated \$4.8 million in cash and 1.92 million of authorized but unissued shares of common stock to the foundation, which amounted to \$24.0 million in aggregate. The Company recognized an expense, net of income tax benefit, equal to the cash and fair value of the stock during 2003. Conversion costs were deferred and deducted from the proceeds of the shares sold in the offering.

Upon completion of the plan of conversion, a "liquidation account" was established in an amount equal to the total equity of the Bank as of the latest practicable date prior to the conversion. The liquidation account was established to provide a limited priority claim to the assets of the Bank to "eligible account holders" and "supplemental eligible account holders" as defined in the Plan, who continue to maintain deposits in the Bank after the conversion. In the unlikely event of a complete liquidation of the Bank, and only in such event, each eligible account holder and supplemental eligible account holder would receive a liquidation distribution, prior to any payment to the holder of the Bank's common stock. This distribution would be based upon each eligible account holder's and supplemental eligible account holder's proportionate share of the then total remaining qualifying deposits. At December 31, 2015, the liquidation account, which is an off-balance sheet memorandum account, amounted to \$13.9 million.

Acquisitions

On April 1, 2015, Beacon Trust Company ("Beacon"), a wholly owned subsidiary of The Provident Bank, completed its acquisition of certain assets and liabilities of The MDE Group, Inc. and the equity interests of Acertus Capital Management, LLC (together "MDE"), both Morristown, New Jersey-based registered investment advisory firms that manage assets for affluent and high net-worth clients. MDE was acquired with both cash and contingent consideration. The Company recognized goodwill of \$18.3 million and a customer relationship intangible of \$7.0 million related to the acquisition. The Company recognized a contingent consideration liability at its fair value of \$338,000. The contingent consideration arrangement requires the Company to pay additional cash consideration to

MDE's former stakeholders four years after the closing of the acquisition if certain revenue targets are met. The fair value of the contingent consideration was estimated using a discounted cash flow model. The acquisition agreement limits the total payment to a maximum of \$12.5 million, to be determined based on actual future results.

On October 31, 2014, Beacon acquired the fiduciary account relationships of Suffolk County National Bank, a subsidiary of Suffolk Bancorp, in Suffolk County, New York.

On May 30, 2014, the Company completed its acquisition of Team Capital Bank ("Team Capital"), which after purchase accounting adjustments added \$964.0 million to total assets, \$631.2 million to loans, and \$769.9 million to deposits. Total consideration paid for Team Capital was \$115.1 million: \$31.6 million in cash and 4.9 million shares of common stock valued at \$83.5 million on the acquisition date. Team Capital was merged with and into the Company's subsidiary, The Provident Bank as of the close of business on the date of acquisition. The transaction was accounted for under the acquisition method of accounting. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based upon their estimated fair values, net of tax. The excess of consideration paid over the fair value of the net assets acquired has been recorded as goodwill.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition from Team Capital, net of cash consideration paid (in thousands):

	At May 30, 2014
Assets acquired:	
Cash and cash equivalents, net	\$ 68,650
Securities available for sale	157,635
Loans	631,209
Bank-owned life insurance	22,319
Banking premises and equipment	24,778
Accrued interest receivable	3,060
Goodwill	40,897
Other intangibles assets	9,868
Foreclosed assets, net	653
Other assets	4,905
Total assets acquired	963,974
Liabilities assumed:	
Deposits	769,936
Borrowed Funds	112,835
Other liabilities	(2,314)
Total liabilities assumed	880,457
Net assets acquired	\$ 83,517

Upon the completion and filing of the Team Capital short-period tax return for the period ended May 30, 2014, a net operating loss carryback claim was filed with the Internal Revenue Service to reclaim taxes previously paid by Team Capital in the prior two years. As a result of the claim process, the Company determined that the tax receivable established by Team Capital at the May 30, 2014 acquisition date was overstated by \$543,000. In May 2015, the Company decreased the tax receivable recorded at the date of acquisition by \$543,000, along with a corresponding increase to goodwill. The purchase accounting for the Team Capital transaction is complete, and is reflected in both the table above and the Company's Consolidated Financial Statements.

Fair Value Measurement of Assets Acquired and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and liabilities assumed in the Team Capital acquisition were as follows:

Securities Available for Sale

The estimated fair values of the investment securities classified as available for sale were calculated utilizing Level 1 and Level 2 inputs. Management reviewed the data and assumptions used by its third party provider in pricing the securities to ensure the highest level of significant inputs is derived from observable market data. These prices were validated against other pricing sources and broker-dealer indications.

Loans

The acquired loan portfolio was valued based on current guidance which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Level 3 inputs were utilized to value the portfolio and included the use of present value techniques employing cash flow estimates and the incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, Management utilized three separate fair value analyses which a market participant would employ in estimating the total fair value

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

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

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

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

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

Deposits and Core Deposit Premium

Core deposit premium represents the value assigned to demand, interest checking, money market and savings accounts acquired as part of an acquisition. The core deposit premium value represents the future economic benefit, including the present value of future tax benefits, of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost alternative funding sources and was valued utilizing Level 2 inputs.

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

Borrowed Funds

The fair value for borrowed funds was obtained from actual prepayment rates from the FHLB - Pittsburgh, a Level 2 input. These borrowings were redeemed after the acquisition date and the fair value adjustment was fully amortized in the quarter ended June 30, 2014.

(3) Restrictions on Cash and Due from Banks

Included in cash on hand and due from banks at December 31, 2015 and 2014 was \$24,288,000 and \$20,502,000, respectively, representing reserves required by banking regulations.

(4) Investment Securities Held to Maturity

Investment securities held to maturity at December 31, 2015 and 2014 are summarized as follows (in thousands):

	2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$4,096	9	(8	) 4,097
Mortgage-backed securities	1,597	61	—	1,658
State and municipal obligations	458,062	15,094	(495	) 472,661
Corporate obligations	9,929	11	(25	) 9,915
	\$473,684	15,175	(528	) 488,331

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$6,813	17	(20	) 6,810
Mortgage-backed securities	2,816	123	—	2,939
State and municipal obligations	449,410	13,814	(986	) 462,238
Corporate obligations	10,489	29	(32	) 10,486
	\$469,528	13,983	(1,038	) 482,473

The Company generally purchases securities for long-term investment purposes, and differences between carrying and fair values may fluctuate during the investment period. Investment securities held to maturity having a carrying value of \$378,538,000 and \$343,127,000 at December 31, 2015 and 2014, respectively, were pledged to secure other borrowings, securities sold under repurchase agreements and government deposits.

The amortized cost and fair value of investment securities held to maturity at December 31, 2015 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	2015	
	Amortized cost	Fair value
Due in one year or less	\$9,081	9,151
Due after one year through five years	52,625	53,554
Due after five years through ten years	218,488	227,203
Due after ten years	191,893	196,765
	\$472,087	486,673

Mortgage-backed securities totaling \$1.6 million at amortized cost and \$1.7 million at fair value are excluded from the table above as their expected lives are expected to be shorter than the contractual maturity date due to principal prepayments.

During 2015, the Company recognized gains of \$8,000 and no losses related to calls on certain securities in the held to maturity portfolio, with total proceeds from the calls totaling \$26,973,000. There were no sales of securities from the held to maturity portfolio for the year ended December 31, 2015.

In 2014, the Company recognized gains of \$23,000 and no losses related to calls on certain securities in the held to maturity portfolio, with total proceeds from the calls totaling \$15,156,000. In addition, for the year ended December 31, 2014, the Company recognized a gross loss of \$3,000, and no gross gains, related to the sales of certain securities, with the proceeds totaling \$524,000. The sales of these securities were in response to the credit deterioration of the issuers.

The following table represents the Company's disclosure on investment securities held to maturity with temporary impairment (in thousands):

	December 31, 2015 Unrealized Losses						
	Less than 12 months		12 months or longer		Total		
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	
Agency obligations	\$1,244	(6	) 278	(2	) 1,522	(8)
State and municipal obligations	24,266	(165	) 17,746	(330	) 42,012	(495)
Corporate obligations	5,840	(18	) 744	(7	) 6,584	(25)

\$31,350 (189) 18,768 (339) 50,118 (528)

74

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	December 31, 2014 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	\$3,735	(20)	—	—	3,735	(20)
State and municipal obligations	27,679	(217)	47,079	(769)	74,758	(986)
Corporate obligations	6,888	(32)	—	—	6,888	(32)
	\$38,302	(269)	47,079	(769)	85,381	(1,038)

Based on its detailed review of the securities portfolio, the Company believes that as of December 31, 2015, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The review of the portfolio for other-than-temporary impairment considered the percentage and length of time the fair value of an investment is below book value as well as general market conditions, changes in interest rates, credit risk, whether the Company has the intent to sell the securities and whether it is not more likely than not that the Company would be required to sell the securities before the anticipated recovery.

The number of securities in an unrealized loss position as of December 31, 2015 totaled 99, compared with 163 at December 31, 2014. All temporarily impaired investment securities were investment grade at December 31, 2015.

(5) Securities Available for Sale

Securities available for sale at December 31, 2015 and 2014 are summarized as follows (in thousands):

	2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury obligations	\$8,006	—	(2)	8,004
Agency obligations	82,396	82	(148)	82,330
Mortgage-backed securities	857,430	9,828	(3,397)	863,861
State and municipal obligations	4,193	115	—	4,308
Corporate obligations	5,516	6	(10)	5,512
Equity securities	397	122	—	519
	\$957,938	10,153	(3,557)	964,534
	2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury obligations	\$8,016	3	(3)	8,016
Agency obligations	94,871	268	(63)	95,076
Mortgage-backed securities	944,796	15,610	(3,149)	957,257
State and municipal obligations	6,855	147	—	7,002
Corporate obligations	6,526	9	(15)	6,520
Equity securities	397	127	—	524
	\$1,061,461	16,164	(3,230)	1,074,395

Securities available for sale having a carrying value of \$614,824,000 and \$585,928,000 at December 31, 2015 and 2014, respectively, are pledged to secure other borrowings and securities sold under repurchase agreements.

The amortized cost and fair value of securities available for sale at December 31, 2015, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early

call privileges of the issuer.

75

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	2015 Amortized cost	Fair value
Due in one year or less	\$27,044	27,058
Due after one year through five years	67,106	67,037
Due after five years through ten years	3,681	3,701
Due after ten years	2,280	2,358
	\$100,111	100,154

Mortgage-backed securities totaling \$857.4 million at amortized cost and \$863.9 million at fair value are excluded from the table above as their expected lives are expected to be shorter than the contractual maturity date due to principal prepayments. Also excluded from the table above are equity securities of \$397,000 at amortized cost and \$519,000 at fair value.

During 2015, proceeds from the sale of securities available for sale were \$14,005,000, resulting in gross gains of \$643,000 and no gross losses. Also, for the year ended December 31, 2015, proceeds from calls on securities available for sale totaled \$1,110,000, with gross gains of \$3,000 and no gross losses recognized.

For the 2014 period, proceeds from the sale of securities available for sale were \$24,509,000 resulting in gross gains of \$632,000 and gross losses of 404,000 losses. Also, for the year ended December 31, 2014, proceeds from calls on securities available for sale totaled \$740,000, with gross gains of \$2,000 and no gross losses recognized.

The Company estimates the loss projections for each non-agency mortgage-backed security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the year ended December 31, 2015.

The following table presents a roll-forward of the credit loss component of other-than-temporary impairment (“OTTI”) on debt securities for which a non-credit component of OTTI was recognized in other comprehensive income. OTTI recognized in earnings after that date for credit-impaired debt securities is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit impaired (subsequent credit impairment). Changes in the credit loss component of credit-impaired debt securities were as follows (in thousands):

	December 31,		
	2015	2014	2013
Beginning credit loss amount	\$—	1,674	1,240
Add: Initial OTTI credit losses	—	—	—
Subsequent OTTI credit losses	—	—	434
Less: Realized losses for securities sold	—	1,674	—
Securities intended or required to be sold	—	—	—
Increases in expected cash flows on debt securities	—	—	—
Ending credit loss amount	\$—	—	1,674

For the years ended December 31, 2015 and 2014, the Company did not incur a net other-than-temporary impairment charge on securities available for sale. In 2014, the Company realized a \$59,000 gain and a \$365,000 loss on the sale of previously impaired non-Agency mortgage-backed securities, respectively. The Company previously incurred cumulative credit losses of \$1.7 million on these securities. Prior to these charges, any impairment was considered temporary and was recorded as an unrealized loss on securities available for sale and reflected as a reduction of equity, net of tax, through accumulated other comprehensive income.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The following table represents the Company's disclosure on securities available for sale with temporary impairment (in thousands):

	December 31, 2015 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. Treasury obligations	\$8,004	(2)	—	—	8,004	(2)
Agency obligations	59,197	(148)	—	—	59,197	(148)
Mortgage-backed securities	327,263	(2,427)	47,911	(970)	375,174	(3,397)
Corporate obligations	500	—	992	(10)	1,492	(10)
	\$394,964	(2,577)	48,903	(980)	443,867	(3,557)
	December 31, 2014 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S Treasury obligations	\$5,937	(3)	—	—	5,937	(3)
Agency obligations	24,404	(40)	5,010	(23)	29,414	(63)
Mortgage-backed securities	55,488	(221)	206,669	(2,928)	262,157	(3,149)
Corporate obligations	3,466	(15)	—	—	3,466	(15)
	\$89,295	(279)	211,679	(2,951)	300,974	(3,230)

The temporary loss position associated with debt securities is the result of changes in interest rates relative to the coupon of the individual security and changes in credit spreads. In addition, there remains a lack of liquidity in certain sectors of the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company does not have the intent to sell securities in a temporary loss position at December 31, 2015, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of securities in an unrealized loss position as of December 31, 2015 totaled 64, compared with 43 at December 31, 2014. There were three private label mortgage-backed securities in an unrealized loss position at December 31, 2015, with an amortized cost of \$773,000 and unrealized losses totaling \$5,000. All three private label mortgage-backed securities were investment grade at December 31, 2015.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(6) Loans Receivable and Allowance for Loan Losses

Loans receivable at December 31, 2015 and 2014 are summarized as follows (in thousands):

	2015	2014
Mortgage loans:		
Residential	\$1,254,036	1,251,445
Commercial	1,714,923	1,694,359
Multi-family	1,233,792	1,041,582
Construction	331,649	221,102
Total mortgage loans	4,534,400	4,208,488
Commercial loans	1,433,447	1,262,422
Consumer loans	566,175	611,467
Total gross loans	6,534,022	6,082,377
Purchased credit-impaired ("PCI") loans	3,435	4,510
Premiums on purchased loans	5,740	5,307
Unearned discounts	(41	) (53
Net deferred fees	(5,482	) (6,636
	\$6,537,674	6,085,505

Premiums and discounts on purchased loans are amortized over the lives of the loans as an adjustment to yield.

Required reductions due to loan prepayments are charged against interest income. For the years ended December 31, 2015, 2014 and 2013, \$1,100,000, \$694,000 and \$1,286,000, respectively, decreased interest income as a result of prepayments and normal amortization.

The following table summarizes the aging of loans receivable by portfolio segment and class of loans, excluding PCI loans (in thousands):

	At December 31, 2015				90 days or more past due and accruing	Total Past Due	Current	Total Loans Receivable
	30-59 Days	60-89 Days	Non-accrual					
Mortgage loans:								
Residential	\$8,983	5,434	12,031	—	26,448	1,227,588	1,254,036	
Commercial	1,732	543	1,263	—	3,538	1,711,385	1,714,923	
Multi-family	763	506	742	—	2,011	1,231,781	1,233,792	
Construction	—	—	2,351	—	2,351	329,298	331,649	
Total mortgage loans	11,478	6,483	16,387	—	34,348	4,500,052	4,534,400	
Commercial loans	632	801	23,875	165	25,473	1,407,974	1,433,447	
Consumer loans	3,603	1,194	4,109	—	8,906	557,269	566,175	
Total gross loans	\$15,713	8,478	44,371	165	68,727	6,465,295	6,534,022	

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	At December 31, 2014			90 days or more past due and accruing	Total Past Due	Current	Total Loans Receivable
	30-59 Days	60-89 Days	Non-accrual				
Mortgage loans:							
Residential	\$10,121	4,331	17,222	—	31,674	1,219,771	1,251,445
Commercial	146	30	20,026	—	20,202	1,674,157	1,694,359
Multi-family	—	—	321	—	321	1,041,261	1,041,582
Construction	—	—	—	—	—	221,102	221,102
Total mortgage loans	10,267	4,361	37,569	—	52,197	4,156,291	4,208,488
Commercial loans	1,000	371	12,342	—	13,713	1,248,709	1,262,422
Consumer loans	2,398	2,509	3,944	—	8,851	602,616	611,467
Total gross loans	\$13,665	7,241	53,855	—	74,761	6,007,616	6,082,377

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The principal amount of these nonaccrual loans was \$44.4 million and \$53.9 million at December 31, 2015 and 2014, respectively. At December 31, 2015, there was one commercial loan for \$165,000 which was ninety days or greater past due and still accruing interest. This loan was past maturity and well secured at December 31, 2015, which subsequent to the end of the year was refinanced by the Company. There were no loans ninety days or greater past due and still accruing interest in 2014.

If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by \$1,200,000, \$1,877,000 and \$1,913,000, for the years ended December 31, 2015, 2014 and 2013, respectively. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2015, 2014 and 2013 was not material for the periods presented.

The Company defines an impaired loan as a non-homogenous loan greater than \$1.0 million for which it is probable, based on current information, that the Bank will not collect all amounts due under the contractual terms of the loan agreement. Impaired loans also include all loans modified as troubled debt restructurings (“TDRs”). A loan is deemed to be a TDR when a loan modification resulting in a concession is made by the Bank in an effort to mitigate potential loss arising from a borrower’s financial difficulty. Smaller balance homogeneous loans including residential mortgages and other consumer loans are evaluated collectively for impairment and are excluded from the definition of impaired loans, unless modified as TDRs. The Company separately calculates the reserve for loan loss on impaired loans. The Company may recognize impairment of a loan based upon: (1) the present value of expected cash flows discounted at the effective interest rate; or (2) if a loan is collateral dependent, the fair value of collateral; or (3) the market price of the loan. Additionally, if impaired loans have risk characteristics in common, those loans may be aggregated and historical statistics may be used as a means of measuring those impaired loans.

The Company uses third-party appraisals to determine the fair value of the underlying collateral in its analysis of collateral dependent impaired loans. A third-party appraisal is generally ordered as soon as a loan is designated as a collateral dependent impaired loan and updated annually, or more frequently if required.

A specific allocation of the allowance for loan losses is established for each impaired loan with a carrying balance greater than the collateral’s fair value, less estimated costs to sell. Charge-offs are generally taken for the amount of the specific allocation when operations associated with the respective property cease and it is determined that collection of amounts due will be derived primarily from the disposition of the collateral. At each fiscal quarter end, if a loan is designated as a collateral dependent impaired loan and the third party appraisal has not yet been received, an evaluation of all available collateral is made using the best information available at the time, including rent rolls, borrower financial statements and tax returns, prior appraisals, management’s knowledge of the market and collateral,

and internally prepared collateral valuations based upon market assumptions regarding vacancy and capitalization rates, each as and where applicable. Once the appraisal is received and reviewed, the specific reserves are adjusted to reflect the appraised value. The Company believes there have been no significant time lapses as a result of this process.

At December 31, 2015, there were 148 impaired loans totaling \$50.9 million, of which 143 loans totaling \$43.9 million were TDRs. Included in this total were 122 TDRs related to 120 borrowers totaling \$26.0 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2015. At December 31, 2014, there were 147 impaired loans totaling \$85.4 million, of which 143 loans totaling \$81.7 million were TDRs. Included in this total were 123

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

TDRs related to 120 borrowers totaling \$54.8 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2014.

Loans receivable summarized by portfolio segment and impairment method, excluding PCI loans are as follows (in thousands):

	At December 31, 2015			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	\$26,743	21,756	2,368	50,867
Collectively evaluated for impairment	4,507,657	1,411,691	563,807	6,483,155
Total gross loans	\$4,534,400	1,433,447	566,175	6,534,022
	At December 31, 2014			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	\$66,548	16,463	2,384	85,395
Collectively evaluated for impairment	4,141,940	1,245,959	609,083	5,996,982
Total gross loans	\$4,208,488	1,262,422	611,467	6,082,377

The allowance for loan losses is summarized by portfolio segment and impairment classification, excluding PCI loans as follows (in thousands):

	At December 31, 2015					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated ⁽¹⁾	Total
Individually evaluated for impairment	\$2,086	91	94	2,271	—	2,271
Collectively evaluated for impairment	30,008	25,738	3,407	59,153	—	59,153
Total	\$32,094	25,829	3,501	61,424	—	61,424

⁽¹⁾ For the year ended December 31, 2015, the Company enhanced its allowance for loan losses process and allocated the previously unallocated allowance using both qualitative and quantitative factors.

	At December 31, 2014					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	\$4,696	2,318	113	7,127	—	7,127
Collectively evaluated for impairment	27,281	22,063	4,768	54,112	495	54,607
Total	\$31,977	24,381	4,881	61,239	495	61,734

Loan modifications to customers experiencing financial difficulties that are considered TDRs primarily involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications generally do not result in the forgiveness of principal or accrued interest. In addition, the Company attempts to obtain additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will

continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

80

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The following tables present the number of loans modified as TDRs during the years ended December 31, 2015 and 2014 and their balances immediately prior to the modification date and post-modification as of December 31, 2015 and 2014.

Troubled Debt Restructurings	Year Ended December 31, 2015		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(\$ in thousands)	
Mortgage loans:			
Residential	6	\$ 2,192	2,179
Construction	1	2,600	2,351
Total mortgage loans	7	4,792	4,530
Commercial loans	4	6,659	6,822
Consumer loans	2	123	112
Total restructured loans	13	\$ 11,574	11,464

Troubled Debt Restructurings	Year Ended December 31, 2014		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(\$ in thousands)	
Mortgage loans:			
Residential	14	\$ 3,034	2,725
Commercial	1	865	861
Total mortgage loans	15	3,899	3,586
Consumer loans	2	394	156
Total restructured loans	17	\$ 4,293	3,742

All TDRs are impaired loans, which are individually evaluated for impairment, as previously discussed. Estimated collateral values of collateral dependent impaired loans modified during the years ended December 31, 2015 and 2014 exceeded the carrying amounts of such loans. As a result, there were \$465,000 of charge-offs recorded on collateral dependent impaired loans for the year ended December 31, 2015. There were no charge-offs recorded on collateral dependent impaired loans for the year ended December 31, 2014. The allowance for loan losses associated with the TDRs presented in the preceding tables totaled \$99,000 and \$419,000 at December 31, 2015 and 2014, respectively and were included in the allowance for loan losses for loans individually evaluated for impairment.

The TDRs presented in the preceding tables had a weighted average modified interest rate of approximately 5.25% and 4.58%, compared to a yield of 5.71% and 5.69% prior to modification for the years ended December 31, 2015 and 2014, respectively.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The following table presents loans modified as TDRs within the previous 12 months from December 31, 2015 and 2014, and for which there was a payment default (90 days or more past due) during the years ended December 31, 2015 and 2014:

Troubled Debt Restructurings Subsequently Defaulted	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Number of Loans	Outstanding Recorded Investment (\$ in thousands)	Number of Loans	Outstanding Recorded Investment (\$ in thousands)
Mortgage loans:				
Construction	1	\$ 2,351	—	\$ —
Total mortgage loans	1	2,351	—	—
Commercial loans	4	6,822	—	—
Total restructured loans	5	\$ 9,173	—	\$ —

TDRs that subsequently default are considered collateral dependent impaired loans and are evaluated for impairment based on the estimated fair value of the underlying collateral less expected selling costs.

PCI loans are loans acquired at a discount primarily due to deteriorated credit quality. As part of the Team Capital acquisition, \$5.2 million of the loans purchased at May 30, 2014 were determined to be PCI loans. PCI loans are accounted for at fair value, based upon the present value of expected future cash flows, with no related allowance for loan losses.

The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected and the estimated fair value of the PCI loans acquired from Team Capital at May 30, 2014 (in thousands):

	May 30, 2014
Contractually required principal and interest	\$ 12,505
Contractual cash flows not expected to be collected (non-accretable discount)	(6,475)
Expected cash flows to be collected at acquisition	6,030
Interest component of expected cash flows (accretable yield)	(810)
Fair value of acquired loans	\$ 5,220

PCI loans totaled \$3.4 million at December 31, 2015, compared to \$4.5 million at December 31, 2014 and \$5.2 million at acquisition from Team Capital on May 30, 2014. The \$1.1 million and \$1.8 million decrease from December 31, 2014 and the May 31, 2014 acquisition date was largely due to the full repayment and greater than projected cash flows on certain PCI loans. This resulted in a \$230,000 and a \$348,000 increase in interest income for the years ended December 31, 2015 and 2014, respectively, due to the acceleration of accretable and non-accretable discount on these loans.

The following table summarizes the changes in the accretable yield for PCI loans for the years ended December 31, 2015 and 2014 (in thousands):

	Year ended December 31,	
	2015	2014
Beginning balance	\$ 695	\$ —
Acquisition	—	810
Accretion	(810)	(592)
Reclassification from non-accretable difference	791	477
Ending balance	\$ 676	\$ 695

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The activity in the allowance for loan losses for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Balance at beginning of period	\$61,734	64,664	70,348
Provision charged to operations	4,350	4,650	5,500
Recoveries of loans previously charged off	4,168	3,292	3,222
Loans charged off	(8,828	) (10,872	) (14,406
Balance at end of period	\$61,424	61,734	64,664

The activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2015 and 2014 are as follows (in thousands):

	For the Year Ended December 31, 2015					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Balance at beginning of period	\$31,977	24,381	4,881	61,239	495	61,734
Provision charged to operations	2,357	1,898	590	4,845	(495)	4,350
Recoveries of loans previously charged off	247	2,413	1,508	4,168	—	4,168
Loans charged off	(2,487)	(2,863)	(3,478)	(8,828)	—	(8,828)
Balance at end of period	\$32,094	25,829	3,501	61,424	—	61,424
	For the Year ended December 31, 2014					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Balance at beginning of period	\$34,144	24,107	4,929	63,180	1,484	64,664
Provision charged to operations	1,455	2,947	1,237	5,639	(989)	4,650
Recoveries of loans previously charged off	286	1,776	1,230	3,292	—	3,292
Loans charged off	(3,908)	(4,449)	(2,515)	(10,872)	—	(10,872)
Balance at end of period	\$31,977	24,381	4,881	61,239	495	61,734

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Impaired loans receivable by class, excluding PCI loans are summarized as follows (in thousands):

	At December 31, 2015					At December 31, 2014				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance										
Mortgage loans:										
Residential	\$12,144	8,799	—	9,079	451	\$14,942	10,629	—	11,138	357
Commercial	—	—	—	—	—	4,971	4,708	—	4,713	—
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	2,358	2,351	—	1,170	16	—	—	—	—	—
Total	14,502	11,150	—	10,249	467	19,913	15,337	—	15,851	357
Commercial loans	23,754	21,144	—	21,875	747	2,718	2,179	—	1,823	4
Consumer loans	1,560	1,082	—	1,121	48	1,250	830	—	870	28
Total loans	\$39,816	33,376	—	33,245	1,262	\$23,881	18,346	—	18,544	389
Loans with an allowance recorded										
Mortgage loans:										
Residential	\$14,997	14,353	1,901	14,500	505	\$15,523	14,906	2,367	15,106	555
Commercial	1,240	1,240	185	1,361	63	37,555	36,306	2,329	36,674	914
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Total	16,237	15,593	2,086	15,861	568	53,078	51,212	4,696	51,780	1,469
Commercial loans	612	612	91	807	52	15,990	14,283	2,318	15,967	390
Consumer loans	1,297	1,286	94	1,312	67	1,565	1,554	113	1,578	80
Total loans	\$18,146	17,491	2,271	17,980	687	\$70,633	67,049	7,127	69,325	1,939
Total										
Mortgage loans:										
Residential	\$27,141	23,152	1,901	23,579	956	\$30,465	25,535	2,367	26,244	912
Commercial	1,240	1,240	185	1,361	63	42,526	41,014	2,329	41,387	914
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	2,358	2,351	—	1,170	16	—	—	—	—	—
Total	30,739	26,743	2,086	26,110	1,035	72,991	66,549	4,696	67,631	1,826
Commercial loans	24,366	21,756	91	22,682	799	18,708	16,462	2,318	17,790	394
Consumer loans	2,857	2,368	94	2,433	115	2,815	2,384	113	2,448	108
Total loans	\$57,962	50,867	2,271	51,225	1,949	\$94,514	85,395	7,127	87,869	2,328

At December 31, 2015, impaired loans consisted of 148 residential, commercial and commercial mortgage loans totaling \$50,867,000, of which 26 loans totaling \$24,894,000 were included in nonaccrual loans. At December 31, 2014, impaired loans consisted of 147 residential, commercial and commercial mortgage loans totaling \$85,395,000, of which 24 loans totaling \$30,619,000 were included in nonaccrual loans. Specific allocations of the allowance for loan losses attributable to impaired loans totaled \$2,271,000 and \$7,127,000 at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, impaired loans for which there was no related allowance for loan losses totaled \$33,376,000 and \$18,346,000, respectively. The average balances of impaired loans during the years ended December 31, 2015 and 2014 were \$51,225,000 and \$87,869,000, respectively.

In the normal course of conducting its business, the Bank extends credit to meet the financing needs of its customers through commitments. Commitments and contingent liabilities, such as commitments to extend credit (including loan commitments of \$866,403,000 and \$908,581,000, at December 31, 2015 and 2014, respectively, and undisbursed home equity and personal credit lines of \$287,942,000 and \$300,029,000, at December 31, 2015 and 2014, respectively) exist, which are not reflected in the accompanying consolidated financial statements. These instruments involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. The Bank uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance sheet loans. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. The Bank grants residential real estate loans on single- and multi-family dwellings to borrowers primarily in New Jersey. Its borrowers' abilities to repay their obligations are dependent upon various factors, including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral, and priority of the Bank's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Bank's control; the Bank is therefore subject to risk of loss. The Bank believes that its lending policies and procedures adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks. Collateral and/or guarantees are required for virtually all loans.

The Company utilizes an internal nine-point risk rating system to summarize its loan portfolio into categories with similar risk characteristics. Loans deemed to be "acceptable quality" are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to be of "questionable quality" are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in his or her portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit Administration Department. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports by the independent third party are presented directly to the Audit Committee of the Board of Directors. Loans receivable by credit quality risk rating indicator, excluding PCI loans are as follows (in thousands):

At December 31, 2015

	Residential	Commercial mortgages	Multi-family	Construction	Total mortgages	Commercial loans	Consumer loans	Total loans
Special mention	\$5,434	29,363	1,080	—	35,877	76,464	1,194	113,535
Substandard	12,031	19,451	1,248	2,351	35,081	38,654	4,054	77,789
Doubtful	—	—	—	—	—	8	—	8
Loss	—	—	—	—	—	—	—	—
Total classified and criticized	17,465	48,814	2,328	2,351	70,958	115,126	5,248	191,332
Acceptable/watch	1,236,571	1,666,109	1,231,464	329,298	4,463,442	1,318,321	560,927	6,342,690
Total outstanding loans	\$1,254,036	1,714,923	1,233,792	331,649	4,534,400	1,433,447	566,175	6,534,022

At December 31, 2014

	Residential	Commercial mortgages	Multi-family	Construction	Total mortgages	Commercial loans	Consumer loans	Total loans
Special mention	\$4,331	18,414	851	—	23,596	45,599	2,509	71,704
Substandard	17,222	53,454	322	2,600	73,598	32,828	3,938	110,364
Doubtful	—	1,063	—	—	1,063	29	—	1,092
Loss	—	—	—	—	—	—	—	—
Total classified and criticized	21,553	72,931	1,173	2,600	98,257	78,456	6,447	183,160
Acceptable/watch	1,229,892	1,621,428	1,040,409	218,502	4,110,231	1,183,966	605,020	5,899,217
Total outstanding loans	\$1,251,445	1,694,359	1,041,582	221,102	4,208,488	1,262,422	611,467	6,082,377

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(7) Banking Premises and Equipment

A summary of banking premises and equipment at December 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Land	\$17,594	15,767
Banking premises	81,095	80,526
Furniture, fixtures and equipment	43,039	42,836
Leasehold improvements	36,753	33,819
Construction in progress	1,786	4,053
	180,267	177,001
Less accumulated depreciation and amortization	91,280	84,011
	\$88,987	92,990

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 amounted to \$9,648,000, \$8,264,000 and \$7,152,000, respectively.

(8) Intangible Assets

Intangible assets at December 31, 2015 and 2014 are summarized as follows (in thousands):

	2015	2014
Goodwill	\$411,624	392,757
Core deposit premiums	5,846	7,603
Customer relationship and other intangibles	7,866	2,987
Mortgage servicing rights	941	1,075
	\$426,277	404,422

Amortization expense of intangible assets for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	2015	2014	2013
Core deposit premiums	\$1,757	1,472	965
Customer relationship and other intangibles	2,136	1,106	335
Mortgage servicing rights	173	179	324
	\$4,066	2,757	1,624

Scheduled amortization of core deposit and customer relationship intangibles for each of the next five years is as follows (in thousands):

Year ended December 31,	Scheduled Amortization
2016	\$ 3,209
2017	2,550
2018	2,004
2019	1,709
2020	1,415

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(9) Deposits

Deposits at December 31, 2015 and 2014 are summarized as follows (in thousands):

	2015	Weighted average interest rate	2014	Weighted average interest rate	
Savings deposits	\$985,478	0.10	% \$995,347	0.10	%
Money market accounts	1,468,352	0.28	1,496,466	0.27	
NOW accounts	1,540,894	0.29	1,425,424	0.27	
Non-interest bearing deposits	1,189,542	—	1,049,597	—	
Certificates of deposit	739,721	0.71	825,689	0.89	
	\$5,923,987		\$5,792,523		

Scheduled maturities of certificates of deposit accounts at December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Within one year	\$499,221	568,462
One to three years	132,507	152,317
Three to five years	106,943	100,080
Five years and thereafter	1,050	4,830
	\$739,721	825,689

Interest expense on deposits for the years ended December 31, 2015, 2014 and 2013 is summarized as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Savings deposits	\$1,039	938	960
NOW and money market accounts	8,046	7,733	7,456
Certificates of deposits	5,436	6,661	9,615
	\$14,521	15,332	18,031

(10) Borrowed Funds

Borrowed funds at December 31, 2015 and 2014 are summarized as follows (in thousands):

	2015	2014
Securities sold under repurchase agreements	\$261,350	246,571
FHLB line of credit	96,000	73,000
FHLB advances	1,350,282	1,190,280
	\$1,707,632	1,509,851

FHLB advances are at fixed rates and mature between January 2016 and April 2022. These advances are secured by loans receivable and investment securities under a blanket collateral agreement.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Scheduled maturities of FHLB advances at December 31, 2015 are as follows (in thousands):

	2015
Due in one year or less	\$250,166
Due after one year through two years	277,318
Due after two years through three years	290,010
Due after three years through four years	314,334
Due after four years through five years	188,454
Thereafter	30,000
	\$1,350,282

Scheduled maturities of securities sold under repurchase agreements at December 31, 2015 are as follows (in thousands):

	2015
Due in one year or less	\$181,350
Due after one year through two years	25,000
Due after two years through three years	20,000
Due after three years through four years	35,000
Due after four years through five years	—
Thereafter	—
	\$261,350

The following tables set forth certain information as to Borrowed Funds for the years ended December 31, 2015 and 2014 (in thousands):

	Maximum balance	Average balance	Weighted average interest rate	
2015:				
Securities sold under repurchase agreements	\$346,361	273,934	1.49	%
FHLB line of credit	160,000	80,847	0.40	
FHLB advances	1,363,122	1,249,193	1.84	
2014:				
Securities sold under repurchase agreements	\$255,633	245,260	1.72	%
FHLB line of credit	180,000	104,121	0.37	
FHLB advances	1,190,280	989,245	2.08	

Securities sold under repurchase agreements include wholesale borrowing arrangements, as well as arrangements with deposit customers of the Bank to sweep funds into short-term borrowings. The Bank uses securities available for sale to pledge as collateral for the repurchase agreements.

(11) Benefit Plans

Pension and Post-retirement Benefits

The Bank has a noncontributory defined benefit pension plan covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The pension plan was frozen on April 1, 2003. All participants in the pension plan are 100% vested. The pension plan's assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial. Based on the measurement date of December 31, 2015, no contributions will be made to the pension plan in 2016.

In an effort to lower and reduce the volatility of its future pension costs, the Company offered a lump sum pension distribution option to its terminated vested employees in the quarter ended June 30, 2014. For the year ended

December 31, 2014, the Plan

88

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

paid \$4.3 million to those employees that elected to receive lump sum pension distributions and the Company realized an associated charge of \$1.3 million. This charge was a pro rata share of the unrecognized losses recorded in other comprehensive income.

In addition to pension benefits, certain healthcare and life insurance benefits are currently made available to certain of the Bank's retired employees. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee is fully eligible to receive the benefits. Effective January 1, 2003, eligibility for retiree health care benefits was frozen as to new entrants and benefits were eliminated for employees with less than ten years of service as of December 31, 2002. Effective January 1, 2007, eligibility for retiree life insurance benefits was frozen to new entrants and retiree life insurance benefits were eliminated for employees with less than ten years of service as of December 31, 2006.

The following table sets forth information regarding the pension plan and post-retirement healthcare and life insurance plans (in thousands):

	Pension			Post-retirement		
	2015	2014	2013	2015	2014	2013
Change in benefit obligation:						
Benefit obligation at beginning of year	\$28,921	28,605	32,189	28,333	22,086	25,116
Service cost	—	—	—	168	169	240
Interest cost	1,137	1,271	1,273	1,122	1,087	981
Actuarial loss (gain)	78	51	114	122	51	(210)
Benefits paid	(1,179)	(5,326)	(969)	(644)	(670)	(624)
Change in actuarial assumptions	(683)	4,320	(4,002)	(3,407)	5,610	(3,417)
Benefit obligation at end of year	\$28,274	28,921	28,605	25,694	28,333	22,086
Change in plan assets:						
Fair value of plan assets at beginning of year	\$42,744	45,202	40,072	—	—	—
Actual return on plan assets	(117)	2,868	6,099	—	—	—
Employer contributions	—	—	—	644	670	624
Benefits paid	(1,179)	(5,326)	(969)	(644)	(670)	(624)
Fair value of plan assets at end of year	\$41,448	42,744	45,202	—	—	—
Funded status at end of year	\$13,174	13,823	16,597	(25,694)	(28,333)	(22,086)

For the years ended December 31, 2015 and 2014, the Company, in the measurement of its pension plan and post-retirement obligations updated its mortality assumptions to the RP 2014 mortality table with the fully generational projection scale MP 2015 and MP 2014 issued by The Society of Actuaries ("SOA") in October 2015 and 2014, respectively. For the year ended December 31, 2014, the introduction of the updated mortality data resulted in an actuarial loss of \$1.5 million and \$3.0 million for the pension and post-retirement plans, respectively, and was reflected in other comprehensive income. The prepaid pension benefits of \$13.2 million and the unfunded post-retirement healthcare and life insurance benefits of \$25.7 million at December 31, 2015 are included in other assets and other liabilities, respectively, in the consolidated statement of financial condition.

The components of accumulated other comprehensive loss (gain) related to the pension plan and other post-retirement benefits, on a pre-tax basis, at December 31, 2015 and 2014 are summarized in the following table (in thousands):

	Pension		Post-retirement	
	2015	2014	2015	2014
Unrecognized prior service cost	\$—	—	—	(1)
Unrecognized net actuarial loss (gain)	12,155	10,887	(1,498)	1,788
Total accumulated other comprehensive loss (gain)	\$12,155	10,887	(1,498)	1,787

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Net periodic benefit cost (increase) for the years ending December 31, 2015, 2014 and 2013, included the following components (in thousands):

	Pension			Post-retirement		
	2015	2014	2013	2015	2014	2013
Service cost	\$—	—	—	168	169	240
Interest cost	1,137	1,271	1,273	1,122	1,087	981
Return on plan assets	(2,530)	(3,463)	(3,167)	—	—	—
Amortization of:						
Net gain (loss)	774	441	1,352	1	(204)	15
Lump sum pension distribution	—	1,336	—	—	—	—
Unrecognized prior service cost	—	—	—	(1)	(4)	(4)
Net periodic benefit (increase) cost	\$(619)	(415)	(542)	1,290	1,048	1,232

The weighted average actuarial assumptions used in the plan determinations at December 31, 2015, 2014 and 2013 were as follows:

	Pension			Post-retirement		
	2015	2014	2013	2015	2014	2013
Discount rate	4.50	% 4.00	% 5.00	% 4.50	% 4.00	% 5.00
Rate of compensation increase	—	—	—	—	—	—
Expected return on plan assets	6.00	8.00	8.00	—	—	—
Medical and life insurance benefits cost rate of increase	—	—	—	6.00	6.00	6.00

The Company provides its actuary with certain rate assumptions used in measuring the benefit obligation. The most significant of these is the discount rate used to calculate the period-end present value of the benefit obligations, and the expense to be included in the following year's financial statements. A lower discount rate will result in a higher benefit obligation and expense, while a higher discount rate will result in a lower benefit obligation and expense. The discount rate assumption was determined based on a cash flow-yield curve model specific to the Company's pension and post-retirement plans. The Company compares this rate to certain market indices, such as long-term treasury bonds, or the Citigroup pension liability indices, for reasonableness. A discount rate of 4.50% was selected for the December 31, 2015 measurement date.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A 1% change in the assumed health care cost trend rate would have had the following effects on post-retirement benefits at December 31, 2015 (in thousands):

Effect on total service cost and interest cost	1% increase	1% decrease
	\$270	(210)
Effect on post-retirement benefits obligation	\$4,460	(3,560)

Estimated future benefit payments, which reflect expected future service, as appropriate for the next five years, are as follows (in thousands):

	Pension	Post-retirement
2016	\$1,090,000	\$810,000
2017	1,137,000	843,000
2018	1,164,000	883,000
2019	1,189,000	924,000
2020	1,247,000	949,000

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The weighted-average asset allocation of pension plan assets at December 31, 2015 and 2014 were as follows:

Asset Category	2015	2014	
Domestic equities	36	% 41	%
Foreign equities	11	% 12	%
Fixed income	51	% 45	%
Real estate	2	% 2	%
Cash	0	% 0	%
Total	100	% 100	%

The Company's expected return on pension plan assets assumption is based on historical investment return experience and evaluation of input from the Investment Consultant and the Company's Benefits Committee which manages the pension plan's assets. The expected return on pension plan assets is also impacted by the target allocation of assets, which is based on the Company's goal of earning the highest rate of return while maintaining risk at acceptable levels. Management strives to have pension plan assets sufficiently diversified so that adverse or unexpected results from one security class will not have a significant detrimental impact on the entire portfolio. The target allocation of assets and acceptable ranges around the targets are as follows:

Asset Category	Target	Allowable Range
Domestic equities	44	% 35-55%
Foreign equities	14	% 5-25%
Fixed income	40	% 30-50%
Real estate	2	% 0-10%
Cash	0	% 0-35%
Total	100	%

The following tables present the assets that are measured at fair value on a recurring basis by level within the U.S. GAAP fair value hierarchy as reported on the statements of net assets available for Plan benefits at December 31, 2015 and 2014, respectively. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(in thousands)	Fair value measurements at December 31, 2015			
	Total	(Level 1)	(Level 2)	(Level 3)
Group annuity contracts	\$ 134	—	134	—
Mutual funds:				
Fixed income	12,378	12,378	—	—
International equity	4,455	4,455	—	—
Large U.S. equity	1,224	1,224	—	—
Small/Mid U.S. equity	791	791	—	—
Total mutual funds	18,848	18,848	—	—
Pooled separate accounts:				
Fixed income	8,653	—	8,653	—
Large U.S. equity	10,962	—	10,962	—
Small/Mid U.S. equity	2,851	—	2,851	—
Total pooled separate accounts	22,466	—	22,466	—
Total investments	\$41,448	18,848	22,600	—

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(in thousands)	Fair value measurements at December 31, 2014			
	Total	(Level 1)	(Level 2)	(Level 3)
Group annuity contracts	\$152	—	152	—
Mutual funds:				
Fixed income	—	—	—	—
International equity	5,370	5,370	—	—
Large U.S. equity	1,689	1,689	—	—
Small/Mid U.S. equity	1,309	1,309	—	—
Total mutual funds	8,368	8,368	—	—
Pooled separate accounts:				
Fixed income	19,789	—	19,789	—
Large U.S. equity	11,857	—	11,857	—
Small/Mid U.S. equity	2,578	—	2,578	—
Total pooled separate accounts	34,224	—	34,224	—
Total investments	\$42,744	8,368	34,376	—

The Company anticipates that the long-term asset allocation on average will approximate the targeted allocation. Actual asset allocations are the result of investment decisions by a third-party investment manager.

401(k) Plan

The Bank has a 401(k) plan covering substantially all employees of the Bank. For 2015, 2014 and 2013, the Bank matched 25% of the first 6% contributed by the participants. The contribution percentage is determined by the Board of Directors in its sole discretion. The Bank's aggregate contributions to the 401(k) Plan for 2015, 2014 and 2013 were \$770,000, \$674,000 and \$587,000, respectively.

Supplemental Executive Retirement Plan

The Bank maintains a non-qualified supplemental retirement plan for certain senior officers of the Bank. This plan was frozen as of April 1, 2003. The Supplemental Executive Retirement Plan, which is unfunded, provides benefits in excess of the benefits permitted to be paid by the pension plan under provisions of the tax law. Amounts expensed under this supplemental retirement plan amounted to \$93,000, \$102,000 and \$162,000 for the years 2015, 2014 and 2013, respectively. At December 31, 2015, and 2014, \$2,110,000 and \$2,166,000, respectively, were recorded in other liabilities on the consolidated statements of condition for this supplemental retirement plan. A decrease of \$82,000, a decrease of \$198,000, and an increase of \$56,000, net of tax, were recorded in other comprehensive income for 2015, 2014 and 2013, respectively, in connection with this supplemental retirement plan.

Retirement Plan for the Board of Directors of The Provident Bank

The Bank maintains a Retirement Plan for the Board of Directors of the Bank, a non-qualified plan that provides cash payments for up to 10 years to eligible retired board members based on age and length of service requirements. The maximum payment under this plan to a board member, who terminates service on or after the age of 72 with at least ten years of service on the board, is forty quarterly payments of \$1,250. The Bank may suspend payments under this plan if it does not meet Federal Deposit Insurance Corporation or New Jersey Department of Banking and Insurance minimum capital requirements. The Bank may terminate this plan at any time although such termination may not reduce or eliminate any benefit previously accrued to a board member without his or her consent. The plan was amended in December 2005 to terminate benefits under this plan for any directors who had less than ten years of service on the board of directors of the Bank as of December 31, 2006.

The plan further provides that, in the event of a change in control (as defined in the plan), the undistributed balance of a director's accrued benefit will be distributed to him or her within 60 days of the change in control. The Bank paid \$15,000 to former board members under this plan for each of the years ended December 31, 2015, 2014 and 2013. At December 31, 2015 and 2014, \$158,000 and \$169,000, respectively, were recorded in other liabilities on the consolidated statements of financial condition for this retirement plan. An increase of \$1,800, a decrease of \$7,400,

and an increase of \$6,000, net of tax, were recorded in other comprehensive income for 2015, 2014 and 2013, respectively, in connection with this plan.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Employee Stock Ownership Plan

The ESOP is a tax-qualified plan designed to invest primarily in the Company's common stock that provides employees with the opportunity to receive a funded retirement benefit from the Bank, based primarily on the value of the Company's common stock. The ESOP purchased 4,769,464 shares of the Company's common stock at an average price of \$17.09 per share with the proceeds of a loan from the Company to the ESOP. The outstanding loan principal at December 31, 2015, was \$49.9 million. Shares of the Company's common stock pledged as collateral for the loan are released from the pledge for allocation to participants as loan payments are made.

For the ESOP years ending December 31, 2015 and 2014, 209,631 shares and 201,512 shares were released, respectively. Unallocated ESOP shares held in suspense totaled 2,442,414 at December 31, 2015, and had a fair value of \$49.2 million. ESOP compensation expense for the years ended December 31, 2015, 2014 and 2013 was \$2,997,000, \$2,654,000 and \$2,559,000, respectively.

Non-Qualified Supplemental Defined Contribution Plan ("the Supplemental Employee Stock Ownership Plan")

Effective January 1, 2004, the Bank established a deferred compensation plan for executive management and key employees of the Bank, known as The Provident Bank Non-Qualified Supplemental Employee Stock Ownership Plan (the "Supplemental ESOP"). The Supplemental ESOP was amended and restated as the Non-Qualified Supplemental Defined Contribution Plan (the "Supplemental DC Plan"), effective January 1, 2010. The Supplemental DC Plan is a non-qualified plan that provides additional benefits to certain executives whose benefits under the 401(k) Plan and ESOP are limited by tax law limitations applicable to tax-qualified plans. The Supplemental DC Plan requires a contribution by the Bank for each participant who also participates in the 401(k) Plan and ESOP equal to the amount that would have been contributed under the terms of the of the 401(k) Plan and ESOP but for the tax law limitations, less the amount actually contributed under the 401(k) Plan and ESOP.

The Supplemental DC Plan provides for a phantom stock allocation for qualified contributions that may not be accrued in the qualified ESOP and for matching contributions that may not be accrued in the qualified 401(k) Plan due to tax law limitations. Under the Supplemental 401(k) provision, the estimated expense for the year ending December 31, 2015, 2014 and 2013 was \$11,500, \$10,500 and \$7,000, respectively, and included the matching contributions plus interest credited at an annual rate equal to the ten-year bond-equivalent yield on U.S. Treasury securities. Under the Supplemental ESOP provision, the estimated expense for the year ending December 31, 2015, 2014 and 2013 was \$54,000, \$48,000 and \$45,000, respectively. The phantom equity is treated as equity awards (expensed at the time of allocation) and not liability awards which would require periodic adjustment to market, as participants do not have an option to take their distribution in cash.

The Amended and Restated Long-Term Incentive Plan

Upon stockholders' approval of the Amended and Restated Long-Term Incentive Plan on April 4, 2014, shares available for stock awards and stock options under the 2008 Long-Term Equity Incentive Plan were reserved for issuance under the new Amended and Restated Long-Term Incentive Plan. No additional grants of stock awards and stock options will be made under the 2008 Long-Term Equity Incentive Plan. The new plan authorized the issuance of up to 3,686,510 shares of Company common stock with no more than 2,100,000 shares permitted to be issued as stock awards. Shares previously awarded under the 2008 plans that are subsequently forfeited or expire may also be issued under the new plan.

Stock Awards

As a general rule, restricted stock grants are held in escrow for the benefit of the award recipient until vested. Awards outstanding generally vest in three or five annual installments, commencing one year from the date of the award. Additionally, certain awards are two and three-year performance vesting awards, which may or may not vest depending upon the attainment of certain corporate financial targets. Expense attributable to stock awards amounted to \$4,625,000, \$6,359,000 and \$4,869,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

A summary status of the granted but unvested stock awards as of December 31, and changes during the year, is presented below:

93

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	Restricted Stock Awards		
	2015	2014	2013
Outstanding at beginning of year	846,462	782,213	846,883
Granted	339,936	426,726	386,669
Forfeited	(240,191)	(126,743)	(68,954)
Vested	(354,461)	(235,734)	(382,385)
Outstanding at the end of year	591,746	846,462	782,213

As of December 31, 2015, unrecognized compensation cost relating to unvested restricted stock totaled \$1.8 million.

This amount will be recognized over a remaining weighted average period of 2.1 years.

Stock Options

Each stock option granted entitles the holder to purchase one share of the Company's common stock at an exercise price not less than the fair value of a share of the Company's common stock at the date of grant. Options generally vest over a five-year period from the date of grant and expire no later than 10 years following the grant date. Additionally, certain options are three-year performance vesting options, which may or may not vest depending upon the attainment of certain corporate financial targets.

A summary of the status of the granted but unexercised stock options as of December 31, and changes during the year is presented below:

	2015		2014		2013	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding at beginning of year	1,284,321	\$15.32	1,233,742	\$15.24	4,152,016	\$17.50
Granted	65,972	16.38	171,935	16.44	85,250	15.23
Exercised	(201,320)	15.72	(9,678)	12.11	(28,464)	12.41
Forfeited	(62,287)	14.93	(4,178)	14.50	(53,444)	10.34
Expired	(2,000)	17.94	(107,500)	16.54	(2,921,616)	18.57
Outstanding at the end of year	1,084,686	\$15.32	1,284,321	\$15.32	1,233,742	\$15.24

The total fair value of options vesting during 2015, 2014 and 2013 was \$274,000, \$438,000 and \$696,000, respectively.

Compensation expense of approximately \$130,000, \$96,000 and \$21,000 is projected for 2016, 2017 and 2018, respectively, on stock options outstanding at December 31, 2015.

The following table summarizes information about stock options outstanding at December 31, 2015:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number of options outstanding	Average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$10.27-15.23	506,478	4.2 years	\$12.49	465,478	\$12.27
\$16.38-18.87	578,208	3.9 years	\$17.63	355,134	\$18.05

The stock options outstanding and stock options exercisable at December 31, 2015 have an aggregate intrinsic value of \$5,720,000 and \$4,703,000, respectively.

The expense related to stock options is based on the fair value of the options at the date of the grant and is recognized ratably over the vesting period of the options.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Compensation expense related to the Company's stock option plan totaled \$272,000, \$298,000 and \$297,000 for 2015, 2014 and 2013, respectively.

The estimated fair values were determined on the dates of grant using the Black-Scholes Option pricing model. The fair value of the Company's stock option awards are expensed on a straight-line basis over the vesting period of the stock option. The risk-free rate is based on the implied yield on a U.S. Treasury bond with a term approximating the expected term of the option. The expected volatility computation is based on historical volatility over a period approximating the expected term of the option. The dividend yield is based on the annual dividend payment per share, divided by the grant date stock price. The expected option term is a function of the option life and the vesting period. The fair value of the option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the year ended December 31,			
	2015	2014	2013	
Expected dividend yield	3.49	% 3.66	% 3.41	%
Expected volatility	21.29	% 20.04	% 33.38	%
Risk-free interest rate	1.58	% 0.96	% 0.88	%
Expected option life	8 years	6.5 years	8 years	

The weighted average fair value of options granted during 2015, 2014 and 2013 was \$2.52, \$1.64 and \$3.49 per option, respectively.

(12) Income Taxes

The current and deferred amounts of income tax expense (benefit) for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Current:			
Federal	\$33,778	27,577	27,667
State	2,337	542	2,168
Total current	36,115	28,119	29,835
Deferred:			
Federal	(525	) 1,678	4,210
State	851	1,988	1,321
Total deferred	326	3,666	5,531
	\$36,441	31,785	35,366

The Company recorded, in accumulated other comprehensive income, deferred tax (benefit) expense of (\$2,545,000), \$7,075,000 and (\$13,824,000) during 2015, 2014 and 2013, respectively, to reflect the tax effect of the unrealized gain on securities available for sale. The Company recorded, in accumulated other comprehensive income, a deferred tax expense (benefit) of \$866,000, (\$3,800,000) and \$4,968,000 in 2015, 2014 and 2013, respectively, related to the amortization of post-retirement benefit obligations.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

A reconciliation between the amount of reported total income tax expense and the amount computed by multiplying the applicable statutory income tax rate is as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Tax expense at statutory rate of 35%	\$42,057	36,896	37,065
Increase (decrease) in taxes resulting from:			
State tax, net of federal income tax benefit	2,072	1,621	2,268
Tax-exempt interest income	(5,520)	) (4,916	) (4,084
Bank-owned life insurance	(1,871	) (1,972	) (2,309
Non-qualified stock option expiration	—	—	2,746
Other, net	(297	) 156	(320
	\$36,441	31,785	35,366

The net deferred tax asset is included in other assets in the consolidated statements of financial condition. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Deferred tax assets:		
Allowance for loan losses	\$23,778	24,160
Post-retirement benefit	10,869	10,658
Deferred compensation	2,825	3,009
Intangibles	481	499
Purchase accounting adjustments	1,464	387
Depreciation	3,868	3,963
SERP	941	949
ESOP	3,254	3,264
Stock-based compensation	5,791	5,734
Non-accrual interest	4,915	5,202
State NOL	139	430
Federal NOL	1,058	1,376
Pension liability adjustments	4,311	5,178
Other	2,048	1,073
Total gross deferred tax assets	65,742	65,882
Valuation Reserve	—	(242
Deferred tax liabilities:		
Pension expense	10,124	9,925
Deferred loan costs	5,156	4,089
Investment securities, principally due to accretion of discounts	146	311
Originated mortgage servicing rights	347	395
Unrealized gain on securities	2,646	5,191
Total gross deferred tax liabilities	18,419	19,911
Net deferred tax asset	\$47,323	45,729

The 2014 deferred tax expense does not equal the change in net deferred tax assets as a result of deferred taxes recorded in connection with the Team Capital acquisition in the amount of \$486,000.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Retained earnings at December 31, 2015 includes approximately \$51,800,000 for which no provision for income tax has been made. This amount represents an allocation of income to bad debt deductions for tax purposes only. Events that would result in taxation of these reserves include the failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to stockholders. At December 31, 2015, the Company had an unrecognized tax liability of \$20,802,880 with respect to this reserve.

At December 31, 2014, the Company had a valuation allowance of \$242,000 related to approximately \$648,000 of capital loss carryforwards. At December 31, 2015, the Company did not require a valuation allowance as the statute of limitation on these capital loss carryforwards expired. As a result of the Beacon acquisition in 2011, the Company acquired federal net operating loss carryforwards. There are approximately \$3,000,000 of NOL carryforwards available to offset future taxable income as of December 31, 2015. If not utilized, these carryforwards will expire in 2030. Also, the Company's New Jersey NOL carryforwards in the amount of \$1,000,000 which are scheduled to expire in 2033 and Pennsylvania NOL carryforwards in the amount of \$1,000,000, which are set to expire in 2016. The federal NOLs are subject to a combined annual Code Section 382 limitation in the amount of approximately \$900,000. Management has determined that it is more likely than not that it will realize the net deferred tax asset based upon the nature and timing of the items listed above. In order to fully realize the net deferred tax asset, the Company will need to generate future taxable income. Management has projected that the Company will generate sufficient taxable income to utilize the net deferred tax asset; however, there can be no assurance that such levels of taxable income will be generated.

The Company's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company did not have any liabilities for uncertain tax positions or any known unrecognized tax benefits at December 31, 2015 and 2014.

The Company and its subsidiaries file a consolidated U.S. Federal income tax return and each entity files a separate state income tax return. The Company's federal income tax returns are open for examination from 2012 and the state income tax returns are open for examination from 2011.

(13) Lease Commitments

The approximate future minimum rental commitments, exclusive of taxes and other related charges, for all significant non-cancellable operating leases at December 31, 2015, are summarized as follows (in thousands):

Year ending December 31,	
2016	\$6,838
2017	6,130
2018	5,663
2019	5,246
2020	4,821
Thereafter	8,842
	\$37,540

Rental expense was \$8,889,000, \$8,056,000 and \$6,850,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

(14) Commitments, Contingencies and Concentrations of Credit Risk

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated financial statements. In the opinion of management, the consolidated financial position of the Company will not be materially affected by the outcome of such commitments or contingent liabilities.

A substantial portion of the Bank's loans are one- to four-family residential first mortgage loans secured by real estate located in New Jersey. Accordingly, the collectability of a substantial portion of the Bank's loan portfolio and the

recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes in local real estate market conditions.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(15) Regulatory Capital Requirements

FDIC regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2015, the Bank is required to maintain: (1) a Tier 1 capital to total assets leverage ratio of 4.0%; (2) a common equity Tier 1 capital to risk-based assets ratio of 4.5%; (3) a Tier 1 capital to risk-based assets ratio of 6.0%; and (4) a total capital to risk-based assets ratio of 8.0%. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

Under its prompt corrective action regulations, the FDIC is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on an institution’s financial statements. The regulations establish a framework for the classification of savings institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally, an institution is considered well capitalized if it has: a leverage (Tier 1) capital ratio of at least 5.00%; a common equity Tier 1 risk-based capital ratio of 6.50%; a Tier 1 risk-based capital ratio of at least 8.00%; and a total risk-based capital ratio of at least 10.00%.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the FDIC about capital components, risk weightings and other factors. As of December 31, 2015 and 2014, the Bank exceeded all minimum capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank’s capital classification.

The Company is regulated as a bank holding company, and as such, is subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board (“FRB”). The FRB has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for the Bank. As of December 31, 2015 and 2014, the Company was “well capitalized” under FRB guidelines. Regulations of the FRB provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under the prompt corrective action provisions discussed above, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of such an undercapitalized bank. If the undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the FRB may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution without the prior approval of the FRB.

The following table shows the Company’s actual capital amounts and ratios as of December 31, 2015 and 2014, compared to the FRB minimum capital adequacy requirements and the FRB requirements for classification as a well-capitalized institution (dollars in thousands).

	Actual capital		FRB minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of December 31, 2015:							
Tier 1 leverage capital	\$779,139	9.25	% \$337,070	4.00	% \$421,337	5.00	%
Common equity Tier 1 risk-based capital	779,139	11.65	301,041	4.50	434,837	6.50	

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

Tier 1 risk-based capital	779,139	11.65	401,388	6.00	535,184	8.00
Total risk-based capital	840,563	12.56	535,184	8.00	668,981	10.00

98

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	Actual capital		FRB minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of December 31, 2014:							
Tier 1 leverage capital	\$740,958	9.21	% \$321,809	4.00	% \$402,262	5.00	%
Tier 1 risk-based capital	740,958	12.06	245,859	4.00	368,788	6.00	
Total risk-based capital	802,692	13.06	491,717	8.00	614,646	10.00	

The following table shows the Bank's actual capital amounts and ratios as of December 31, 2015 and 2014, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution (dollars in thousands).

	Actual capital		FDIC minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of December 31, 2015:							
Tier 1 leverage capital	\$709,690	8.42	% \$337,060	4.00	% \$421,325	5.00	%
Common equity Tier 1 risk-based capital	709,690	10.61	301,030	4.50	434,822	6.50	
Tier 1 risk-based capital	709,690	10.61	401,374	6.00	535,165	8.00	
Total risk-based capital	771,268	11.53	535,165	8.00	668,956	10.00	

	Actual capital		FDIC minimum capital adequacy requirements		To be well-capitalized under prompt corrective action provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of December 31, 2014:							
Tier 1 leverage capital	\$674,483	8.38	% \$321,805	4.00	% \$402,257	5.00	%
Tier 1 risk-based capital	674,483	10.97	245,853	4.00	368,779	6.00	
Total risk-based capital	736,217	11.98	491,705	8.00	614,631	10.00	

(16) Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. Where quoted market values in an active market are not readily available, the Company utilizes various valuation techniques to estimate fair value.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, in many instances fair value estimates may not be substantiated by comparison to independent markets and may not be realized in an immediate sale of the financial instrument.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The valuation techniques are based upon the unpaid principal balance only, and exclude any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Assets Measured at Fair Value on a Recurring Basis

The valuation techniques described below were used to measure fair value of financial instruments in the table below on a recurring basis as of December 31, 2015 and December 31, 2014.

Securities Available for Sale

For securities available for sale, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or to comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also may hold equity securities and debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

Derivatives

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Currently, none of the Company's derivatives are designated in qualifying hedging relationships. The existing interest rate derivatives result from a service provided to certain qualifying borrowers in a loan related transaction and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. As such, all changes in fair value of the Company's derivatives are recognized directly in earnings. The Company also uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges, and which satisfy hedge accounting requirements, involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying notional amount. These derivatives were used to hedge the

variable cash outflows associated with FHLB NY borrowings. The effective portion of changes in the fair value of these derivatives are recorded in accumulated other comprehensive income, and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of these derivatives are recognized directly in earnings.

The fair value of the Company's derivatives are determined using discounted cash flow analysis using observable market-based inputs, which are considered Level 2 inputs.

100

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Assets Measured at Fair Value on a Non-Recurring Basis

The valuation techniques described below were used to estimate fair value of financial instruments measured on a non-recurring basis as of December 31, 2015 and 2014.

Collateral Dependent Impaired Loans

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraisers' market knowledge and experience, as well as adjustments for estimated costs to sell of up to 6%. The Company classifies these loans as Level 3 within the fair value hierarchy.

Foreclosed Assets

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell of up to 6%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case basis, to comparable assets based on the appraisers' market knowledge and experience, and are classified as Level 3. When an asset is acquired, the excess of the loan balance over fair value, less estimated costs to sell, is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

There were no changes to the valuation techniques for fair value measurements during the years ended December 31, 2015 and 2014.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy (in thousands).

	December 31, 2015	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Securities available for sale:				
U.S. Treasury obligations	\$8,004	8,004	—	—
Agency obligations	82,330	82,330	—	—
Mortgage-backed securities	863,861	—	863,861	—
State and municipal obligations	4,308	—	4,308	—
Corporate obligations	5,512	—	5,512	—
Equities	519	519	—	—
Total securities available for sale	964,534	90,853	873,681	—
Derivative assets	6,854	—	6,854	—
	\$971,388	90,853	880,535	—
Derivative liabilities	\$6,745	—	6,745	—
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	\$9,481	—	—	9,481
Foreclosed assets	10,546	—	—	10,546
	\$20,027	—	—	20,027

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	December 31, 2014	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Securities available for sale:				
U.S. Treasury obligations	\$8,016	8,016	—	—
Agency obligations	95,076	95,076	—	—
Mortgage-backed securities	957,257	—	957,257	—
State and municipal obligations	7,002	—	7,002	—
Corporate obligations	6,520	—	6,520	—
Equities	524	524	—	—
Total securities available for sale	1,074,395	103,616	970,779	—
Derivative assets	2,046	—	2,046	—
	\$1,076,441	103,616	972,825	—
Derivative liabilities	\$2,052	—	2,052	—
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	\$23,086	—	—	23,086
Foreclosed assets	5,098	—	—	5,098
	\$28,184	—	—	28,184

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2015 and 2014.

Other Fair Value Disclosures

The Company is required to disclose estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. The following is a description of valuation methodologies used for those assets and liabilities.

Cash and Cash Equivalents

For cash and due from banks, federal funds sold and short-term investments, the carrying amount approximates fair value.

Investment Securities Held to Maturity

For investment securities held to maturity, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair

value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also holds debt instruments issued by the U.S. government and U.S. government agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 within the fair value hierarchy.

103

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

FHLB NY Stock

The carrying value of FHLB NY stock was its cost. The fair value of FHLB NY stock is based on redemption at par value. The Company classifies the estimated fair value as Level 1 within the fair value hierarchy.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, residential mortgage, commercial, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories. The fair value of performing loans was estimated using a combination of techniques, including a discounted cash flow model that utilizes a discount rate that reflects the Company's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Company classifies the estimated fair value of its loan portfolio as Level 3.

The fair value for significant non-performing loans was based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. The Company classifies the estimated fair value of its non-performing loan portfolio as Level 3.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits and savings deposits, was equal to the amount payable on demand and classified as Level 1. The estimated fair value of certificates of deposit was based on the discounted value of contractual cash flows. The discount rate was estimated using the Company's current rates offered for deposits with similar remaining maturities. The Company classifies the estimated fair value of its certificates of deposit portfolio as Level 2.

Borrowed Funds

The fair value of borrowed funds was estimated by discounting future cash flows using rates available for debt with similar terms and maturities and was classified by the Company as Level 2 within the fair value hierarchy.

Commitments to Extend Credit and Letters of Credit

The fair value of commitments to extend credit and letters of credit was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value estimates of commitments to extend credit and letters of credit are deemed immaterial.

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 no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. 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 on- and off-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 goodwill and other intangibles, deferred tax assets and premises and equipment. 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.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The following tables present the Company's financial instruments at their carrying and fair values as of December 31, 2015 and December 31, 2014. Fair values are presented by level within the fair value hierarchy.

(Dollars in thousands)	Carrying value	Fair value	Fair Value Measurements at December 31, 2015 Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 102,226	102,226	102,226	—	—
Securities available for sale:					
U.S. Treasury obligations	8,004	8,004	8,004	—	—
Agency obligations	82,330	82,330	82,330	—	—
Mortgage-backed securities	863,861	863,861	—	863,861	—
State and municipal obligations	4,308	4,308	—	4,308	—
Corporate obligations	5,512	5,512	—	5,512	—
Equity securities	519	519	519	—	—
Total securities available for sale	\$ 964,534	964,534	90,853	873,681	—
Investment securities held to maturity:					
Agency obligations	\$ 4,096	4,097	4,097	—	—
Mortgage-backed securities	1,597	1,658	—	1,658	—
State and municipal obligations	458,062	472,661	—	472,661	—
Corporate obligations	9,929	9,915	—	9,915	—
Total securities held to maturity	\$ 473,684	488,331	4,097	484,234	—
FHLB NY stock	78,181	78,181	78,181	—	—
Loans, net of allowance for loan losses	6,476,250	6,509,502	—	—	6,509,502
Derivative assets	6,854	6,854	—	6,854	—
Financial liabilities:					
Deposits other than certificates of deposits	\$ 5,184,266	5,184,266	5,184,266	—	—
Certificates of deposit	739,721	742,020	—	742,020	—
Total deposits	\$ 5,923,987	5,926,286	5,184,266	742,020	—
Borrowings	1,707,632	1,726,726	—	1,726,726	—
Derivative liabilities	6,745	6,745	—	6,745	—

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(Dollars in thousands)	Carrying value	Fair Value Measurements at December 31, 2014 Using:			
		Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	\$ 103,762	103,762	103,762	—	—
Securities available for sale:					
U.S. Treasury obligations	8,016	8,016	8,016	—	—
Agency obligations	95,076	95,076	95,076	—	—
Mortgage-backed securities	957,257	957,257	—	957,257	—
State and municipal obligations	7,002	7,002	—	7,002	—
Corporate obligations	6,520	6,520	—	6,520	—
Equity securities	524	524	524	—	—
Total securities available for sale	\$ 1,074,395	1,074,395	103,616	970,779	—
Investment securities held to maturity:					
Agency obligations	\$ 6,813	6,810	6,810	—	—
Mortgage-backed securities	2,816	2,939	—	2,939	—
State and municipal obligations	449,410	462,238	—	462,238	—
Corporate obligations	10,489	10,486	—	10,486	—
Total securities held to maturity	\$ 469,528	482,473	6,810	475,663	—
FHLBNY stock	69,789	69,789	69,789	—	—
Loans, net of allowance for loan losses	6,023,771	6,104,558	—	—	6,104,558
Derivative assets	2,046	2,046	—	2,046	—
Financial liabilities:					
Deposits other than certificates of deposits	\$ 4,966,834	4,966,834	4,966,834	—	—
Certificates of deposit	825,689	830,233	—	830,233	—
Total deposits	\$ 5,792,523	5,797,067	4,966,834	830,233	—
Borrowings	1,509,851	1,516,966	—	1,516,966	—
Derivative liabilities	2,052	2,052	—	2,052	—

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(17) Selected Quarterly Financial Data (Unaudited)

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2015 and 2014.

	2015 Quarters Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	\$72,231	72,188	73,013	74,349
Interest expense	10,303	10,514	10,466	10,618
Net interest income	61,928	61,674	62,547	63,731
Provision for loan losses	600	1,100	1,400	1,250
Net interest income after provision for loan losses	61,328	60,574	61,147	62,481
Non-interest income	10,303	16,942	12,110	15,867
Non-interest expense	43,437	46,119	43,614	47,419
Income before income tax expense	28,194	31,397	29,643	30,929
Income tax expense	8,392	9,601	9,034	9,414
Net income	\$19,802	21,796	20,609	21,515
Basic earnings per share	\$0.32	0.35	0.33	0.34
Diluted earnings per share	\$0.32	0.35	0.33	0.34

	2014 Quarters Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	\$64,523	67,386	73,652	73,800
Interest expense	9,322	9,985	10,683	10,482
Net interest income	55,201	57,401	62,969	63,318
Provision for loan losses	400	1,500	1,500	1,250
Net interest income after provision for loan losses	54,801	55,901	61,469	62,068
Non-interest income	8,116	10,327	11,309	11,416
Non-interest expense	38,190	43,671	45,833	42,297
Income before income tax expense	24,727	22,557	26,945	31,187
Income tax expense	7,698	6,206	7,913	9,968
Net income	\$17,029	16,351	19,032	21,219
Basic earnings per share	\$0.30	0.28	0.30	0.34
Diluted earnings per share	\$0.30	0.28	0.30	0.34

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(18) Earnings Per Share

The following is a reconciliation of the outstanding shares used in the basic and diluted earnings per share calculations.

(Dollars in thousands, except per share data)

	For the Year Ended December 31,		
	2015	2014	2013
Net income	\$83,722	73,631	70,534
Basic weighted average common shares outstanding	62,945,669	60,388,398	57,236,909
Plus:			
Dilutive shares	169,049	173,672	124,534
Diluted weighted average common shares outstanding	63,114,718	60,562,070	57,361,443
Earnings per share:			
Basic	\$1.33	1.22	1.23
Diluted	\$1.33	1.22	1.23

Anti-dilutive stock options and awards totaling 469,018 shares, 988,931 shares and 659,531 shares at December 31, 2015, 2014 and 2013, respectively, were excluded from the earnings per share calculations.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(19) Parent-only Financial Information

The condensed financial statements of Provident Financial Services, Inc. (parent company only) are presented below:

Condensed Statements of Financial Condition

(Dollars in Thousands)

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	\$22,280	10,475
Securities available for sale, at fair value	519	524
Investment in subsidiary	1,126,616	1,077,624
Due from subsidiary—SAP	(2,539	) 2,794
ESOP loan	49,872	53,438
Other assets	52	34
Total assets	\$1,196,800	1,144,889
Liabilities and Stockholders' Equity		
Other liabilities	735	790
Total stockholders' equity	1,196,065	1,144,099
Total liabilities and stockholders' equity	\$1,196,800	1,144,889

Condensed Statements of Operations

(Dollars in Thousands)

	For the Years Ended December 31,		
	2015	2014	2013
Dividends from subsidiary	\$41,285	36,118	32,320
Interest income	2,153	2,276	2,390
Investment gain	12	11	9
Total income	43,450	38,405	34,719
Non-interest expense	812	814	891
Total expense	812	814	891
Income before income tax expense	42,638	37,591	33,828
Income tax expense	505	551	563
Income before undistributed net income of subsidiary	42,133	37,040	33,265
Equity in undistributed net income of subsidiary (dividends in excess of earnings)	41,589	36,591	37,269
Net income	\$83,722	73,631	70,534

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Condensed Statements of Cash Flows

(Dollars in Thousands)

	For the Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$83,722	73,631	70,534
Adjustments to reconcile net income to net cash provided by operating activities			
Dividends in excess of earnings (equity in undistributed net income) of subsidiary	(41,589	) (36,591	) (37,269
ESOP allocation	2,997	2,654	2,559
SAP allocation	4,625	6,359	4,869
Stock option allocation	272	298	297
Decrease in due from subsidiary—SAP	5,333	3,475	5,814
(Decrease) increase in other assets	(8,406	) 15,454	(6,912
Decrease in other liabilities	(55	) (259	) (172
Net cash provided by operating activities	46,899	65,021	39,720
Cash flows from investing activities:			
Cash consideration paid for business acquisition	—	(31,562) —
Net decrease in ESOP loan	3,566	3,278	3,034
Net cash provided by (used in) investing activities	3,566	(28,284	) 3,034
Cash flows from financing activities:			
Purchases of treasury stock	(1,988	) (4,420	) (5,899
Cash dividends paid	(41,285	) (36,118	) (32,320
Shares issued dividend reinvestment plan	1,447	1,336	1,186
Stock options exercised	3,166	144	412
Net cash used in financing activities	(38,660	) (39,058	) (36,621
Net increase (decrease) in cash and cash equivalents	11,805	(2,321	) 6,133
Cash and cash equivalents at beginning of period	10,475	12,796	6,663
Cash and cash equivalents at end of period	\$22,280	10,475	12,796

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

(20) Other Comprehensive (Loss) Income

The following table presents the components of other comprehensive (loss) income both gross and net of tax, for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	For the Years Ended December 31,								
	2015			2014			2013		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Components of Other Comprehensive (Loss) Income:									
Unrealized gains and losses on securities available for sale:									
Net (losses) gains arising during the period	\$(5,683)	2,282	(3,401)	17,868	(7,176)	10,692	(32,845)	13,417	(19,428)
Reclassification adjustment for gains included in net income	(654)	263	(391)	(251)	101	(150)	(996)	407	(589)
Total	(6,337)	2,545	(3,792)	17,617	(7,075)	10,542	(33,841)	13,824	(20,017)
Other-than-temporary impairment on debt securities available for sale:									
Other-than-temporary impairment losses on securities	—	—	—	—	—	—	—	—	—
Reclassification adjustment for impairment losses included in net income	—	—	—	—	—	—	434	(177)	257
Total	—	—	—	—	—	—	434	(177)	257
Unrealized (losses) on derivatives (cash flow hedges)	(122)	49	(73)	—	—	—	—	—	—
Amortization related to post retirement obligations	2,156	(866)	1,290	(9,462)	3,800	(5,662)	12,161	(4,968)	7,193
Total other comprehensive (loss) income	\$(4,303)	1,728	(2,575)	8,155	(3,275)	4,880	(21,246)	8,679	(12,567)

The following table presents the changes in the components of accumulated other comprehensive income, net of tax, for the years ended December 31, 2015 and 2014 (in thousands):

Changes in Accumulated Other Comprehensive Income by Component, net of tax	
For the Years Ended December 31,	
2015	2014

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

	Unrealized Gains on Securities Available for Sale	Post-Retirement Obligations	Unrealized gains (losses) on Derivatives (cash flow hedges)	Accumulated Other Comprehensive Income	Unrealized Gains on Securities Available for Sale	Post-Retirement Obligations	Accumulated Other Comprehensive Income
Balance at the beginning of the period,	\$ 7,743	(7,714)	—	29	(2,799)	(2,052)	(4,851)
Current period change in other comprehensive income (loss)	(3,792)	1,290	(73)	(2,575)	10,542	(5,662)	4,880
Balance at the end of the period	\$ 3,951	(6,424)	(73)	(2,546)	7,743	(7,714)	29

111

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

The following table summarizes the reclassifications out of accumulated other comprehensive income for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Reclassifications Out of Accumulated Other Comprehensive Income			Affected line item in the Consolidated Statement of Income
	Amount reclassified from AOCI for the years ended December 31,			
	2015	2014	2013	
Details of AOCI:				
Securities available for sale:				
Realized net gains on the sale of securities available for sale	\$ 654	251	996	Net gain on securities transactions
	(263	) (101	) (407	) Income tax expense
	391	150	589	Net of tax
Realized other-than-temporary impairment losses securities available for sale				
	—	—	(434	) Net impairment losses on securities recognized in earnings
	—	—	177	Income tax expense
	—	—	(257	) Net of tax
Post-retirement obligations:				
Amortization of actuarial losses	774	237	1,367	Compensation and employee benefits ⁽¹⁾
	(311	) (95	) (558	) Income tax expense
	463	142	809	Net of tax
Realized loss related to lump sum pension settlement				
	—	(1,336	) —	Compensation and employee benefits ⁽¹⁾
	—	546	—	Income tax expense
	—	(790	) —	Net of tax
Total reclassifications	\$ 854	(498	) 1,141	Net of tax

(1) This item is included in the computation of net periodic benefit cost. See Note 11. Benefit Plans

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Note 21. Derivative and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities.

Non-designated Hedges. Derivatives not designated in qualifying hedging relationships are not speculative and result from a service the Company provides to certain qualifying commercial borrowers in a loan related transaction and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. For the years ended December 31, 2015 and December 31, 2014, the Company had 23 and 9 interest rate swaps with an aggregate notional amount of \$391.4 million and \$94.9 million related to this program.

Cash flow Hedges of Interest Rate Risk. The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the year ended December 31, 2015, such derivatives were used to hedge the variable cash outflows associated with Federal Home Loan Bank borrowings. The ineffective portion of the change in fair value of the derivatives are recognized directly in earnings. The Company implemented this program during the quarter ended September 30, 2015. During the year ended December 31, 2015, the Company's did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the next twelve months, the Company estimates that \$297,000 will be reclassified as an increase to interest expense. As of December 31, 2015, the Company had one outstanding interest rate derivative with a notional amount of \$40 million that was designated as a cash flow hedge of interest rate risk.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition as of December 31, 2015 and 2014 (in thousands):

	As of December 31, 2015:			
	Asset Derivatives		Liability Derivatives	
	Consolidated	Fair	Consolidated	Fair
	Statements of	Value	Statements of	Value
	Financial		Financial	
	Condition		Condition	
Derivatives not designated as a hedging instruments:				
Interest rate products	Other assets	\$6,849	Other liabilities	\$6,623
Credit contracts	Other assets	5		—
Total derivatives not designated as hedging instruments		\$6,854		\$6,623

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

Derivatives designated as a hedging instrument:

Interest rate products	Other assets	\$—	Other liabilities	\$ 122
Total derivatives designated as hedging instruments		\$—		\$ 122

113

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

	As of December 31, 2014:				
	Asset Derivatives Consolidated Statements of Financial Condition		Fair Value	Liability Derivatives Consolidated Statements of Financial Condition	Fair Value
Derivatives not designated as a hedging instruments:					
Interest rate products	Other assets	\$2,040	Other liabilities	\$2,052	
Credit contracts	Other assets	6		—	
Total derivatives not designated as hedging instruments		\$2,046		\$2,052	

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the year ended December 31, 2015 and 2014 (in thousands).

	Consolidated Statements of Income	Gain (loss) recognized in Income on derivatives For the Year Ended December 31,	
		2015	2014
Derivatives not designated as a hedging instruments:			
Interest rate products	Other income	\$238	\$(3)
Credit contracts	Other income	(1)	6
Total derivatives not designated as hedging instruments		\$237	\$3
Derivatives designated as a hedging instruments:			
Interest rate products	Other income	(122)	—
Total derivatives designated as a hedging instruments		\$(122)	\$—

The Company has agreements with certain of its derivative counterparties that contain a provision that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with certain of its derivative counterparties that contain a provision that if the Company fails to maintain its status as a well / adequate capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of December 31, 2015, the termination value of derivatives in a net liability position, which includes accrued interest, was \$6.8 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties, and has posted collateral of \$7.8 million against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2015, it could have been required to settle its obligations under the agreements at the termination value.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Christopher Martin, the Company's Principal Executive Officer, and Thomas M. Lyons, the Company's Principal Accounting Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures

(as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2015. Based upon their evaluation, they each found that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The management of Provident Financial Services, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

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

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework ("COSO") (2013). Based on the assessment management believes that, as of December 31, 2015, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. This report appears on page 57.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item regarding directors, executive officers and corporate governance is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 28, 2016.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 28, 2016.

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

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 28, 2016.

Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information as of December 31, 2015 regarding equity compensation plans categorized by those plans that have been approved by stockholders and those plans that have not been approved by stockholders.

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights(1)	Weighted Average Exercise Price(2)	Number of Securities Remaining Available For Issuance Under Plan (3)
Equity compensation plans approved by stockholders	1,084,686	\$ 15.32	3,459,865
Total	1,084,686	\$ 15.32	3,459,865

(1) Consists of outstanding stock options to purchase 1,084,686 shares of common stock granted under the Company's stock-based compensation plans.

The weighted average exercise price reflects an exercise price of \$18.55 for 42,000 stock options, \$18.48 for 60,000 stock options and \$18.87 for 20,000 stock options granted in 2006; an exercise price of \$17.94 for 177,801 stock options, \$17.45 for 45,000 stock options and \$15.14 for 5,000 stock options granted in 2007; an exercise price of \$12.54 for 107,960 stock options granted in 2008; an exercise price of \$10.27 for 15,000 stock options and an exercise price of \$10.40 for 68,522 stock options granted in 2009; an exercise price of \$10.34 for 127,708 stock options granted in 2010; an exercise price of \$14.50 for 64,622 stock options granted in 2011; an exercise price of \$14.88 for 47,542 stock options and an exercise price of \$14.68 for 10,000 stock options granted in 2012; an exercise price of \$15.23 for 60,126 stock options granted in 2013; an exercise price of \$16.38 for 167,436 stock options granted in 2014; and an exercise price of \$18.34 for 65,970 stock options granted in 2015 under the Company's stock-based compensation plans.

(2) Represents the number of available shares that may be granted as stock options and other stock awards under the Company's stock-based compensation plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 28, 2016.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 28, 2016.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The exhibits and financial statement schedules filed as a part of this Form 10-K are as follows:

(a)(1) Financial Statements

<u>Report of Independent Registered Public Accounting Firm</u>	<u>56</u>
<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u>	<u>57</u>
<u>Consolidated Statements of Financial Condition, December 31, 2015 and 2014</u>	<u>58</u>
<u>Consolidated Statements of Income, Years Ended December 31, 2015, 2014 and 2013</u>	<u>59</u>
<u>Consolidated Statements of Comprehensive Income, Years Ended December 31, 2015, 2014 and 2013</u>	<u>60</u>
<u>Consolidated Statements of Changes in Stockholders' Equity, Years Ended December 31, 2015, 2014 and 2013</u>	<u>61</u>
<u>Consolidated Statements of Cash Flows, Years Ended December 31, 2015, 2014 and 2013</u>	<u>64</u>
<u>Notes to Consolidated Financial Statements.</u>	<u>65</u>

(a)(2) Financial Statement Schedules

No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

(a)(3) Exhibits

- 3.1 Certificate of Incorporation of Provident Financial Services, Inc. (Filed as an exhibit to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
- 3.2 Amended and Restated Bylaws of Provident Financial Services, Inc. (Filed as an exhibit to the Company's December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
- 4.1 Form of Common Stock Certificate of Provident Financial Services, Inc. (Filed as an exhibit to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
- 10.1 Employment Agreement by and between Provident Financial Services, Inc and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company's September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/ File No. 001-31566.)
- 10.2 Change in Control Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated as of December 16, 2015.
- 10.3 Form of Three-Year Change in Control Agreement between Provident Financial Services, Inc. and each of Messrs. Blum, Kuntz, Lyons and Nesci dated as of December 16, 2015.
- 10.4 Form of Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain senior officers.
- 10.5 Form of One-Year Change in Control Agreement between Provident Financial Services, Inc. and certain senior officers.
- 10.6 Supplemental Executive Retirement Plan of The Provident Bank. (Filed as Exhibit 10.5 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

Commission on March 2, 2009/File No. 001-31566.)

10.7 Retirement Plan for the Board of Managers of The Provident Bank. (Filed as Exhibit 10.7 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009 /File No. 001-31566.)

10.8 Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan. (Filed as Exhibit 10.9 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)

117

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-K

- 10.9 First Savings Bank Directors' Deferred Fee Plan, as amended. (Filed as Exhibit 10.10 to the Company's September 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
- 10.10 The Provident Bank Non-Qualified Supplemental Defined Contribution Plan. (Filed as an exhibit to the Company's May 27, 2010 Current Report on Form 8-K filed with the Securities and Exchange Commission on June 3, 2010/File No. 001-31566.)
- 10.11 Provident Financial Services, Inc. Amended and Restated the Long-Term Equity Incentive Plan. (Filed as an appendix to the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 14, 2014/File No. 001-31566).
- 10.12 Omnibus Incentive Compensation Plan. (Filed as Exhibit 10.19 to the Company's December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
- 10.13 Provident Financial Services, Inc. Executive Annual Incentive Plan (filed as an appendix to the Company's Proxy Statement for the Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 13, 2015/File No. 001-31566)
- 21 Subsidiaries of the Registrant.
- 23 Consent of KPMG LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company's Annual Report to Stockholders on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder's Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- (b) The exhibits listed under (3) (a) above are filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROVIDENT FINANCIAL SERVICES, INC.

Date: February 29, 2016

By: /s/ CHRISTOPHER MARTIN
Christopher Martin
Chairman, President and Chief Executive Officer

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

By: /s/ CHRISTOPHER MARTIN
Christopher Martin,
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

By: /s/ THOMAS M. LYONS
Thomas M. Lyons,
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: February 29, 2016

Date: February 29, 2016

By: /s/ FRANK S. MUZIO
Frank S. Muzio,
Senior Vice President and Chief Accounting
Officer (Principal Accounting Officer)

Date: February 29, 2016

By: /s/ THOMAS W. BERRY
Thomas W. Berry,
Director

By: /s/ LAURA L. BROOKS
Laura L. Brooks,
Director

Date: February 29, 2016

Date: February 29, 2016

By: /s/ FRANK L. FEKETE
Frank L. Fekete,
Director

By: /s/ TERENCE GALLAGHER
Terence Gallagher,
Director

Date: February 29, 2016

Date: February 29, 2016

By: /s/ MATTHEW K. HARDING
Matthew K. Harding,
Director

By: /s/ THOMAS B. HOGAN JR.
Thomas B. Hogan Jr.,
Director

Date: February 29, 2016

Date: February 29, 2016

By: /s/ CARLOS HERNANDEZ
Carlos Hernandez,
Director

By: /s/ EDWARD O'DONNELL
Edward O'Donnell,
Director

Date: February 29, 2016

Date: February 29, 2016

By: /s/ JOHN PUGLIESE
John Pugliese,
Director

Date: February 29, 2016

EXHIBIT INDEX

- 3.1 Certificate of Incorporation of Provident Financial Services, Inc. (Filed as an exhibit to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
- 3.2 Amended and Restated Bylaws of Provident Financial Services, Inc. (Filed as an exhibit to the Company's December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
- 4.1 Form of Common Stock Certificate of Provident Financial Services, Inc. (Filed as an exhibit to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
- 10.1 Employment Agreement by and between Provident Financial Services, Inc and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company's September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/ File No. 001-31566.)
- 10.2 Change in Control Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated as of December 16, 2015.
- 10.3 Form of Three-Year Change in Control Agreement between Provident Financial Services, Inc. and each of Messrs. Blum, Kuntz, Lyons and Nesci dated as of December 16, 2015.
- 10.4 Form of Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain senior officers.
- 10.5 Form of One-Year Change in Control Agreement between Provident Financial Services, Inc. and certain senior officers.
- 10.6 Supplemental Executive Retirement Plan of The Provident Bank. (Filed as Exhibit 10.5 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
- 10.7 Retirement Plan for the Board of Managers of The Provident Bank. (Filed as Exhibit 10.7 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009 /File No. 001-31566.)
- 10.8 Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan. (Filed as Exhibit 10.9 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
- 10.9 First Savings Bank Directors' Deferred Fee Plan, as amended. (Filed as Exhibit 10.10 to the Company's September 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
- 10.10 The Provident Bank Non-Qualified Supplemental Defined Contribution Plan. (Filed as an exhibit to the Company's May 27, 2010 Current Report on Form 8-K filed with the Securities and Exchange Commission on June 3, 2010/File No. 001-31566.)

- 10.11 Provident Financial Services, Inc. Amended and Restated the Long-Term Equity Incentive Plan. (Filed as an appendix to the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 14, 2014/File No. 001-31566).
- 10.12 Omnibus Incentive Compensation Plan. (Filed as Exhibit 10.19 to the Company's December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
- 10.13 Provident Financial Services, Inc. Executive Annual Incentive Plan (filed as an appendix to the Company's Proxy Statement for the Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 13, 2015/File No. 001-31566)
- 21 Subsidiaries of the Registrant.
- 23 Consent of KPMG LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

120

101 The following materials from the Company's Annual Report to Stockholders on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholder's Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

121