PROVIDENT FINANCIAL SERVICES INC
Form 10-K
March 02, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2014
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 Incorporation or Organization)	(I.R.S. Employer 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 ý 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 ý
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 ý 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 ý 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. ý
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 ý 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 ý

As of February 2, 2015, there were 83,209,293 issued and 65,313,288 shares of the Registrant's Common Stock outstanding, including 405,563 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 29, 2014, as quoted by the NYSE, was approximately $996.2 million.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for the 2015 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.	Business	1
1A.	Risk Factors	32
1B.	Unresolved Staff Comments	37
2.	Properties	37
3.	Legal Proceedings	37
4.	Mine Safety Disclosures	37
PART II		
5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	38
6.	Selected Financial Data	40
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	42
7A.	Quantitative and Qualitative Disclosures About Market Risk	53
8.	Financial Statements and Supplementary Data	56
9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	111
9A.	Controls and Procedures	111
9B.	Other Information	112
PART III		
10.	Directors, Executive Officers and Corporate Governance	113
11.	Executive Compensation	113
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	113
13.	Certain Relationships and Related Transactions, and Director Independence	114
14.	Principal Accountant Fees and Services	114
PART IV		
15.	Exhibits and Financial Statement Schedules	114
	Signatures	117

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 o 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 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, 2014, the Company had total assets of $8.52 billion, loans of $6.09 billion, total deposits of $5.79 billion, and total stockholders’ equity of $1.14 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 $36.1 million and repurchased 264,118 shares of its common stock at a cost of $4.4 million in 2014. At December 31, 2014, 3.4 million shares were eligible for repurchase under the board approved stock repurchase program. The Company and the Bank were “well capitalized” at December 31, 2014 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 86 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 has diversified 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, 2014, non-performing assets were $59.0 million or 0.69% of total assets, compared to $82.2 million or 1.10% of total assets at December 31, 2013. The Bank's non-performing asset levels continued to decline from higher levels reported in prior years as local and nationial 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 all demand deposit accounts, and expanding customer relationships. Core deposit accounts totaled $4.97 billion at December 31, 2014, representing 85.7% of total deposits, compared with $4.40 billion, or 84.5% of total deposits at December 31, 2013. 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 $41.2 million for the year ended December 31, 2014, compared with $44.2 million for the year ended December 31, 2013, of which fee income was $31.3 million for the year ended December 31, 2014, compared with $34.0 million for the year ended December 31, 2013.

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. In addition, the Bank uses its investments in securities to manage interest rate risk. At December 31, 2014, 53.2% of the Bank's loan portfolio had a term to maturity of one year or less, or had adjustable interest rates. At December 31, 2014, the Bank's securities portfolio totaled $1.61 billion and had an expected average life of 4.22 years.

MARKET AREA

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2014, the Bank operated a network of 86 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 also maintains its administrative offices in Iselin, New Jersey and satellite loan production offices in Convent Station, Flemington, Paramus, Princeton and West Orange, New Jersey, as well as 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 and other 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 77.6% 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 remained elevated at 6.2% at December 31, 2014, although a decrease from 7.3% at December 31, 2013. The unemployment rate in Pennsylvania decreased to 4.8% at December 31, 2014, from 6.8% at December 31, 2013.

Within its primary market areas in New Jersey and Pennsylvania, the Bank had an approximate 2.22% and 1.26% share of bank deposits as of June 30, 2014, respectively, the latest date for which statistics are available. On a statewide basis, the Bank had an approximate 1.93% deposit share of the New Jersey market and an approximate 0.11% deposit share of the Pennsylvania market.

COMPETITION

The Bank faces intense competition in originating loans, 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,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Pe
	(Dollars in thousands)									
Residential mortgage loans	$1,252,526	20.79 %	$1,174,043	22.89 %	$1,265,015	26.17 %	$1,308,635	28.58 %	$1,386,326	31
Commercial mortgage loans	1,695,822	28.15	1,400,624	27.30	1,349,950	27.92	1,253,542	27.37	1,180,147	27
Multi-family mortgage loans	1,042,223	17.30	928,906	18.11	723,958	14.98	564,147	12.32	387,189	8.9
Construction loans	221,102	3.67	183,289	3.57	120,133	2.48	114,817	2.51	125,192	2.8
Total mortgage loans	4,211,673	69.91	3,686,862	71.87	3,459,056	71.55	3,241,141	70.78	3,078,854	70
Commercial loans	1,263,618	20.98	932,199	18.17	866,395	17.92	849,009	18.54	755,487	17
Consumer loans	611,596	10.15	577,602	11.26	579,166	11.98	560,970	12.25	569,597	13
Total gross loans	6,086,887	101.04	5,196,663	101.30	4,904,617	101.45	4,651,120	101.57	4,403,938	10
Premiums on purchased loans	5,307	0.09	4,202	0.08	4,964	0.10	5,823	0.13	6,771	0.1
Unearned discounts	(53)	—	(62)	—	(78)	—	(100)	—	(104)	—
Net deferred costs (fees)	(6,636)	(0.11)	(5,990)	(0.12)	(4,804)	(0.10)	(3,334)	(0.07)	(792)	(0.
Total loans	6,085,505	101.02	5,194,813	101.26	4,904,699	101.45	4,653,509	101.63	4,409,813	10
Allowance for loan losses	(61,734)	(1.02)	(64,664)	(1.26)	(70,348)	(1.45)	(74,351)	(1.62)	(68,722)	(1.
Total loans, net	$6,023,771	100.00 %	$5,130,149	100.00 %	$4,834,351	100.00 %	$4,579,158	100.00 %	$4,341,091	10

Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2014, 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.

	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	$1,596	$9,354	$42,482	$108,211	$492,365	$598,518	$1,252,526
Commercial mortgage loans	98,448	200,429	422,410	796,182	147,625	30,728	1,695,822
Multi-family mortgage loans	22,365	65,583	207,937	677,905	65,466	2,967	1,042,223
Construction loans	81,375	114,562	701	24,464	—	—	221,102
Total mortgage loans	203,784	389,928	673,530	1,606,762	705,456	632,213	4,211,673
Commercial loans	282,099	186,605	219,842	361,049	172,070	41,953	1,263,618
Consumer loans	26,983	9,638	28,694	90,213	374,595	81,473	611,596
Total gross loans	$512,866	$586,171	$922,066	$2,058,024	$1,252,121	$755,639	$6,086,887

Fixed- and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2014, the dollar amount of all fixed-rate and adjustable-rate loans due after December 31, 2015.

	Due After December 31, 2015		
	Fixed	Adjustable	Total
	(Dollars in thousands)		
Residential mortgage loans	$776,155	$474,775	$1,250,930
Commercial mortgage loans	765,775	831,599	1,597,374
Multi-family mortgage loans	536,312	483,546	1,019,858
Construction loans	25,397	114,330	139,727
Total mortgage loans	2,103,639	1,904,250	4,007,889
Commercial loans	394,077	587,442	981,519
Consumer loans	354,047	230,566	584,613
Total loans	$2,851,763	$2,722,258	$5,574,021

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. 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, 2014, $1.25 billion or 20.8% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 62.1% were fixed-rate and 37.9% 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 has offered adjustable-rate mortgage loans with a fixed-rate period of 1, 3, 5, 7 or 10 years prior to the first annual interest rate adjustment. In October 2009, the Bank discontinued the origination of one- and three-year adjustable rate mortgage loans. The standard adjustment formula is the one-year constant maturity Treasury rate plus 2 3/4%, 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 2014, $12.6 million or 16.7% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2014 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 $31.9 million. The Bank also offers

a special rate program for first-time homebuyers under which originations have totaled over $4.9 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 28.2% of the loan portfolio at December 31, 2014. 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 experts to inspect the property and ascertain any potential environmental risks.

The Bank requires a full independent appraisal for commercial real estate in accordance with regulatory guidelines. 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. In addition, financial statements are 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, 2014 was a $27.9 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, 2014.

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.

The Bank's largest multi-family loan as of December 31, 2014 was a $39.8 million loan secured by a first mortgage lien on a newly constructed 250-unit luxury multi-family apartment project located in Woolwich Township, Gloucester County, New Jersey. The project sponsors have extensive experience and a successful track record in the development and management of multi-family projects. The loan has a risk rating of "2" (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, 2014.

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 takes two forms: projects that are constructed for investment purposes (rental property) and projects for sale (single family/condominiums). 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, 2014 was a $55.0 million loan secured by a first lien on a 244,450 square foot multi-tenanted retail shopping center project that is under construction in Clark, Union County, New Jersey. The loan had an outstanding balance of $22.1 million at December 31, 2014. Construction of the project is approximately 48% complete. The project is 100% pre-leased. 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, 2014. The Bank sold a 50% participation interest in the construction loan to another financial institution, which reduced the Bank's committed exposure and outstanding balance to $27.5 million and $11.1 million, respectively.

Commercial Loans. The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 21.0% of the loan portfolio at December 31, 2014. 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 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, 2014 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, 2014, the line of credit did not have an outstanding balance.

Consumer Loans. The Bank offers a variety of consumer loans to individuals. Consumer loans represented 10.2% of the loan portfolio at December 31, 2014. Home equity loans and home equity lines of credit constituted 91.3% of the consumer loan

portfolio and indirect marine loans constituted 4.4% of the consumer loan portfolio as of December 31, 2014. The remainder of the consumer loan portfolio includes personal loans and unsecured lines of credit, direct auto loans and recreational vehicle loans, which represented 4.3% of the consumer loan portfolio. The Bank no longer purchases indirect auto, marine or 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 $500,000. 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, 2014, there was $291.9 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 $350,000. The approved home equity lines and utilization amounts as of December 31, 2014 were $529.1 million and $225.5 million, respectively, representing utilization of 42.6%.

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,		
	2014	2013	2012
	(Dollars in thousands)		
Originations:			
Residential mortgage	$72,418	$122,492	$184,327
Commercial mortgage	222,516	254,087	270,190
Multi-family mortgage	127,060	294,288	219,068
Construction	242,898	182,895	92,291
Commercial	972,866	711,248	658,228
Consumer	168,747	205,282	228,401
Subtotal of loans originated	1,806,505	1,770,292	1,652,505
Loans purchased	130,540	34,766	73,740
Total loans originated and purchased	1,937,045	1,805,058	1,726,245
Net loans acquired in acquisition	631,209	—	—
Loans sold or securitized	12,609	30,977	36,723
Repayments:			
Residential mortgage	151,004	228,195	270,251
Commercial mortgage	196,002	216,068	179,937
Multi-family mortgage	48,758	137,576	59,599
Construction	229,695	47,835	73,116
Commercial	851,682	635,764	622,851
Consumer	177,406	203,256	206,654
Total repayments	1,654,547	1,468,694	1,412,408
Total reductions	1,667,156	1,499,671	1,449,131

Other items, net[1]	(10,406)	(15,273)	(25,924)
Net increase	$890,692	$290,114	$251,190

(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 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 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. 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 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, 2014, the regulatory lending limit was $110.4 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, 2014, the Bank's largest group exposure with an individual borrower and its related entities was $71.3 million, consisting of two commercial permanent mortgage loans totaling $39.8 million on a 250-unit apartment project in Woolwich Township, Gloucester County, New Jersey with risk ratings of "2", a construction mortgage loan of $22.0 million secured by a first lien on a newly-constructed 204-unit apartment project in Monroe Township, Gloucester County, New Jersey with a risk rating of "3", a line of credit of $7.5 million ($1.9 million outstanding) secured by a 108-unit apartment project in Allentown, Pennsylvania with a risk rating of "2", and a line of credit of $2.0 million ($1.3 million outstanding) with a risk rating of "3". The borrower, headquartered in New Jersey, is an experienced real estate owner and developer in New Jersey and eastern Pennsylvania. 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 of loan origination. As of December 31, 2014, all of the loans in this lending relationship were performing in accordance with their respective

terms and conditions.

As of December 31, 2014, the Bank had $1.8 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, 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 TDRs 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.

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 weaknesses, are designated “special mention.”

General valuation allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. 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, 2014, 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, 2014, $110.4 million of loans were classified as “substandard,” which consisted of $53.8 million in commercial and multi-family mortgage loans, $32.8 million in commercial loans, $17.2 million in residential loans, $2.6 million in construction loans and $3.9 million in consumer loans. At that same date, loans classified as “doubtful” totaled $1.1 million, consisting of $1.1 million of commercial mortgage loans and $29,000 of commercial loans. There were no loans classified as “loss” at December 31, 2014. As of December 31, 2014, $71.7 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, 2014				At December 31, 2013				At December 31, 2012			
	60-89 Days		90 Days or More		60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
	(Dollars in thousands)											
Residential mortgage loans	27	$4,331	86	$17,222	23	$5,062	116	$23,011	43	$11,986	146	$29,293
Commercial mortgage loans	1	30	13	19,107	1	318	12	6,189	5	12,194	11	14,932
Multi-family mortgage loans	—	—	1	321	—	—	2	403	—	—	2	412
Construction loans	—	—	—	—	—	—	—	—	—	—	—	—
Total mortgage loans	28	4,361	100	36,650	24	5,380	130	29,603	48	24,180	159	44,637
Commercial loans	8	371	19	5,031	3	77	23	9,722	2	70	46	15,682
Consumer loans	28	2,509	42	3,724	23	2,194	49	3,819	33	1,808	65	5,666

Total loans	64	$7,241	161	$45,405	50	$7,651	202	$43,144	83	$26,058	270	$65,985

11

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, 2014, there were 20 TDRs totaling $26.9 million that were classified as non-accrual, compared to 27 non-accrual TDRs which totaled $31.2 million at December 31, 2013. 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,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Non-accruing loans:					
Residential mortgage loans	$17,222	$23,011	$29,293	$40,386	$41,247
Commercial mortgage loans	20,026	18,662	29,072	29,522	16,091
Multi-family mortgage loans	322	403	412	997	201
Construction loans	—	8,448	8,896	11,018	9,412
Commercial loans	12,342	22,228	25,467	32,093	23,505
Consumer loans	3,944	3,928	5,850	8,533	6,808
Total non-accruing loans	53,856	76,680	98,990	122,549	97,264
Accruing loans delinquent 90 days or more	—	—	—	—	—
Total non-performing loans	53,856	76,680	98,990	122,549	97,264
Foreclosed assets	5,098	5,486	12,473	12,802	2,858
Total non-performing assets	$58,954	$82,166	$111,463	$135,351	$100,122
Total non-performing assets as a percentage of total assets	0.69 %	1.10 %	1.53 %	1.91 %	1.47 %
Total non-performing loans to total loans	0.88 %	1.48 %	2.02 %	2.63 %	2.21 %

Non-performing commercial loans decreased $9.9 million, to $12.3 million at December 31, 2014, from $22.2 million at December 31, 2013. Non-performing commercial loans at December 31, 2014 consisted of 24 loans. The largest non-performing commercial loan relationship consisted of five loans to a power systems manufacturer with total outstanding balances of $7.1 million at December 31, 2014. Contractual payments on four of these loans, based upon modified terms, were current at December 31, 2014. One loan with a balance of $1.0 million matured on January 31, 2012 and is presently in default.

The Company had no non-performing construction loans at December 31, 2014, compared to $8.4 million at December 31, 2013. The decrease during the period was due to a single construction loan on a Class A office building which was upgraded to performing status based upon an increase in tenant occupancy.

Non-performing residential mortgage loans decreased $5.8 million to $17.2 million at December 31, 2014, from $23.0 million at December 31, 2013. Gross charge-offs of residential loans were $3.2 million for the year ended December 31, 2014.

Non-performing commercial mortgage loans increased $1.4 million to $20.0 million at December 31, 2014, from $18.7 million at December 31, 2013. At December 31, 2014, the Company held 16 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a $12.3 million loan secured by a first mortgage on a 200,000 square foot office/industrial building located in Eatontown, New Jersey, which had been negatively impacted by the loss of a major tenant that relied upon contracts with the Federal government. The loan was previously restructured and matured on June 1, 2014. The loan maturity was not extended and the loan is presently in default. There is no contractual commitment to advance additional funds to this borrower.

At December 31, 2014, the Company held $5.1 million of foreclosed assets, compared with $5.5 million at December 31, 2013. Foreclosed assets at December 31, 2014 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. Foreclosed assets consisted of $2.7 million of commercial real estate, $2.3 million of residential properties, and $60,000 of marine vessels at December 31, 2014.

Non-performing assets totaled $59.0 million, or 0.69% of total assets at December 31, 2014, compared to $82.2 million, or 1.10% of total assets at December 31, 2013. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $1.9 million during the year ended December 31, 2014. The amount of cash basis interest income that was recognized on impaired loans during the year ended December 31, 2014 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. The factors considered in assessing the adequacy of the allowance for loan losses include the following:

- results of the routine loan quality reviews performed by an independent third party;
- general economic and business conditions affecting key lending areas;
- credit quality trends (including trends in non-performing loans and anticipated trends based on market conditions);
- collateral values;
- loan volumes and concentrations;
- seasoning of the loan portfolio;
- specific industry conditions within portfolio segments;
- recent loss experience in particular segments of the loan portfolio; and
- duration of the current business cycle.

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 assigns general valuation allowance ("GVA") percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type, as well as qualitative and 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 risk selection and underwriting standards, changes in lending policies, procedures and practices;
- changes in the quality of the Bank's loan review system;
- experience, ability, and depth of lending management and other relevant staff;

13

- national and local economic trends and conditions;
- industry conditions;
- effects of changes in credit concentration; and
- changes in collateral values.

The appropriateness of these percentages is evaluated by management at least annually and monitored on a quarterly basis, with changes made when they are required. In the second quarter of 2014, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, certain GVA percentages applied to residential mortgage, commercial, multi-family and commercial mortgage loans were reduced to reflect the decrease in the historical loss experience and improvements in qualitative factors. In addition, GVA percentages for marine loans were increased due to historical loss experience.

During the fourth quarter of 2014, management made certain changes and enhancements to its process and controls over measuring the GVA portion of the allowance for loan losses. In connection with its periodic risk assessment and monitoring process, the Company re-evaluated a number of assumptions supporting the methodology including the look-back period used to evaluate the historical loss factors for its portfolios, as well as performing a study of its loss emergence period ("LEP") data. As a result of this review, management updated a number of assumptions, including lengthening its LEP given continued improvements in market conditions. Given these changes to the quantitative methodology, management reassessed its qualitative and environmental factors to align with the revised model assumptions. The result of these changes was to allocate a greater portion of the allowance to the quantitative component of the GVA and less to the qualitative component. The changes had no impact on the overall allowance.

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 has established an unallocated portion of the allowance for loan losses. The unallocated portion of the allowance for loan losses is warranted based on factors such as the geographic concentration of the loan portfolio, current economic conditions and imprecision related to collateral valuations.

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.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Balance at beginning of period	$64,664	$70,348	$74,351	$68,722	$60,744
Charge offs:					
Residential mortgage loans	3,184	3,900	4,622	5,229	1,996
Commercial mortgage loans	705	2,882	3,253	3,408	10,452
Multi-family mortgage loans	4	—	19	—	—
Construction loans	15	234	238	123	1,384
Commercial loans	4,449	3,686	12,259	8,634	11,196
Consumer loans	2,515	3,704	3,516	7,659	4,439
Total	10,872	14,406	23,907	25,053	29,467
Recoveries:					
Residential mortgage loans	73	160	105	197	359
Commercial mortgage loans	131	104	56	15	30
Multi-family mortgage loans	1	—	1	—	—
Construction loans	80	869	—	4	47
Commercial loans	1,776	1,075	2,771	1,018	727
Consumer loans	1,231	1,014	971	548	782
Total	3,292	3,222	3,904	1,782	1,945
Net charge-offs	7,580	11,184	20,003	23,271	27,522
Provision for loan losses	4,650	5,500	16,000	28,900	35,500
Balance at end of period	$61,734	$64,664	$70,348	$74,351	$68,722
Ratio of net charge-offs to average loans outstanding during the period	0.13 %	0.22 %	0.43 %	0.52 %	0.64 %
Allowance for loan losses to total loans	1.01 %	1.24 %	1.43 %	1.60 %	1.56 %
Allowance for loan losses to non-performing loans	114.63 %	84.33 %	71.07 %	60.67 %	70.66 %

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,									
	2014		2013		2012		2011		2010	
	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	$4,805	20.58 %	$5,500	22.60 %	$6,053	25.79 %	$5,873	28.14 %	$6,628	31.48 %
Commercial mortgage loans	16,645	27.86	16,404	26.96	21,639	27.52	22,308	26.95	20,441	26.80
Multi-family mortgage loans	6,258	17.12	5,933	17.87	7,163	14.76	6,933	12.13	4,065	8.79
Construction loans	4,269	3.62	6,307	3.52	3,107	2.45	4,329	2.47	7,282	2.84
Commercial loans	24,381	20.76	24,107	17.93	20,315	17.67	25,381	18.25	22,210	17.15
Consumer loans	4,881	10.06	4,929	11.12	5,224	11.81	5,515	12.06	5,616	12.94
Unallocated	495		1,484	—	6,847	—	4,012	—	2,480	—
Total	$61,734	100.00 %	$64,664	100.00 %	$70,348	100.00 %	$74,351	100.00 %	$68,722	100.00 %

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. The Chief Executive Officer, Chief Financial Officer, Treasurer and Assistant Treasurer are 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, 2014, the Bank held $5.7 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		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Held to Maturity:						
Mortgage-backed securities	$2,816	$2,939	$5,273	$5,520	$11,123	$11,583
FHLB obligations	1,050	1,048	895	893	500	500
FHLMC obligations	1,700	1,696	1,900	1,876	1,300	1,305
FNMA obligations	3,413	3,414	3,909	3,883	2,905	2,934
FFCB obligations	650	652	819	818	—	—
State and municipal obligations	449,410	462,238	334,750	332,987	336,078	350,825
Corporate obligations	10,489	10,486	9,954	9,936	7,558	7,769
Total held-to-maturity	$469,528	$482,473	$357,500	$355,913	$359,464	$374,916
Available for Sale:						
U.S Treasury obligations	8,016	8,016	—	—	—	—
State and municipal obligations	6,855	7,002	8,739	8,758	9,933	10,316
Mortgage-backed securities	944,796	957,257	1,060,013	1,054,974	1,134,647	1,162,325
FHLMC obligations	32,360	32,351	47,713	47,709	38,812	39,026
FHLB obligations	—	—	12,163	12,178	13,196	13,234
FNMA obligations	16,398	16,472	33,347	33,529	38,435	38,757
FFCB obligations	46,113	46,253	—	—	—	—
Corporate obligations	6,526	6,520	—	—	—	—
Equity securities	397	524	357	446	307	344
Total available for sale	$1,061,461	$1,074,395	$1,162,332	$1,157,594	$1,235,330	$1,264,002
Average expected life of securities[1]	4.22 years		4.55 years		3.75 years	

(1) Average expected life is based on prepayment assumptions utilizing prevailing interest rates as of the reporting dates and does not include 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, 2014:		
FNMA	$486,992	$492,261
FHLMC	446,774	452,503

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, 2014. 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, 2014														
	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	$—	— %	$1,919	4.03 %	$897	5.26 %	$—	— %	$2,816	4.42 %					
Agency obligations	500	1.88	6,313	1.31	—	—	—	—	6,813	1.35					
Corporate obligations	1,006	2.25	9,483	1.95	—	—	—	—	10,489	1.98					
State and municipal obligations	7,433	2.84	36,294	3.73	175,546	2.99	230,137	2.77	449,410	2.93					
Total held to maturity	$8,939	2.72 %	$54,009	3.15 %	$176,443	3.00 %	$230,137	2.77 %	$469,528	2.90 %					
Available for sale:															
U.S. Treasury obligations	$—	— %	$8,016	1.06 %	$—	— %	$—	— %	$8,016	1.06 %					
State and municipal obligations	1,531	3.93 %	2,432	4.26	—	—	3,039	2.78	7,002	3.54					
Mortgage-backed securities	—	—	16,861	4.21	81,761	2.82	858,635	2.52	957,257	2.58					
Agency obligations	26,292	0.89	68,784	0.93	—	—	—	—	95,076	0.92					
Corporate obligations	1,008	0.43	2,497	0.83	3,015	2.99	—	—	6,520	—					
Total available for sale(2)	$28,831	1.04 %	$98,590	1.58 %	$84,776	2.83 %	$861,674	2.52 %	$1,073,871	2.40 %					

(1) Yields are not tax equivalent
(2) Totals exclude $524,000 of available for sale equity securities

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, FHLBNY 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 85.7% of total deposits at December 31, 2014 and 84.5% of total deposits at December 31, 2013. As of December 31, 2014 and December 31, 2013, time deposits maturing in less than one year amounted to $568.5 million and $530.0 million, respectively.

The following table indicates the amount of certificates of deposit by time remaining until maturity as of December 31, 2014.

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
	(Dollars in thousands)				
Certificates of deposit of $100,000 or more	$129,017	$62,641	$53,244	$97,170	$342,072
Certificates of deposit less than $100,000	126,763	104,733	92,064	160,057	483,617
Total certificates of deposit	$255,780	$167,374	$145,308	$257,227	$825,689

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

	Period to Maturity from December 31, 2014						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	2014	2013	2012
	(Dollars in thousands)								
Rate:									
0.00 to 0.99%	$466,630	$57,997	$12,029	$34	$ —	$ 255	$536,945	$524,311	$588,809
1.00 to 2.00%	4,003	22,718	43,672	39,340	60,706	4,571	175,010	120,750	124,088
2.01 to 3.00%	77,669	14,934	—	—	—	—	92,603	111,898	129,352
3.01 to 4.00%	19,895	—	—	—	—	4	19,899	45,845	68,660
4.01 to 5.00%	247	410	124	—	—	—	781	3,849	46,178
5.01 to 6.00%	11	8	394	—	—	—	413	31	321
6.01 to 7.00%	7	—	—	—	—	—	7	—	—
Over 7.01%	—	—	31	—	—	—	31	70	65
Total	$568,462	$96,067	$56,250	$39,374	$ 60,706	$ 4,830	$825,689	$806,754	$957,473

Borrowed Funds. At December 31, 2014, the Bank had $1.51 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.

	Year Ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Maximum Balance:			
FHLBNY advances	$1,190,280	$774,557	$518,215
FHLBNY line of credit	180,000	183,000	178,000
Securities sold under agreements to repurchase	255,633	294,035	357,164
Average Balance:			
FHLBNY advances	989,245	599,991	516,440
FHLBNY line of credit	104,121	48,784	29,004
Securities sold under agreements to repurchase	245,260	260,004	319,031
Weighted Average Interest Rate:			
FHLBNY advances	2.08 %	2.34 %	2.51 %
FHLBNY line of credit	0.37	0.38	0.39
Securities sold under agreements to repurchase	1.72	1.74	2.04

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

	At December 31,		
	2014	2013	2012
	(Dollars in thousands)		
FHLBNY advances	1,190,280	774,557	507,648
FHLBNY line of credit	73,000	183,000	—
Securities sold under repurchase agreements	246,571	246,322	295,616
Total borrowed funds	$1,509,851	$1,203,879	$803,264
Weighted average interest rate of FHLBNY advances	1.88 %	2.17 %	2.47 %
Weighted average interest rate of FHLBNY line of credit	0.32 %	0.40 %	— %
Weighted average interest rate of securities sold under agreements to repurchase	1.69 %	1.69 %	1.91 %

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 administrative 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 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 January 5, 2015, Beacon announced the signing of a definitive agreement to acquire the 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. The transaction is currently awaiting regulatory approval from the New Jersey Department of Banking and Insurance and the satisfaction of customary closing conditions.

21

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.

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.

TPB Realty, LLC, is a wholly owned subsidiary of the Bank formed to invest in real estate development joint ventures principally targeted at meeting the housing needs of low- and moderate-income communities in the Bank's market. At December 31, 2014, TPB Realty, LLC had total assets of $2.9 million.

Bergen Avenue Realty, LLC, is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure. At December 31, 2014, Bergen Avenue Realty, LLC had total assets of $2.5 million.

Bergen Delaware Realty, LLC, is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure. At December 31, 2014, Bergen Delaware Realty, LLC had total assets of $500,000.

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 to acquire and conduct the business of The MDE Group, Inc. and Acertus Capital Management, LLC following consummation of the acquisition.

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, 2014, the Company had 912 full-time and 109 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 of less than $10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their principal regulator, although the Consumer Financial Protection Bureau will have 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, 2014, 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. FDIC regulations require banks to maintain minimum levels of capital. The FDIC regulations define two tiers, or classes, of capital.

Tier 1 capital is comprised of:

- common stockholders' equity, less net unrealized holding losses on available for sale equity securities with readily determinable fair values;
- non-cumulative perpetual preferred stock, including any related surplus; and
- minority interests in consolidated subsidiaries minus all intangible assets, other than qualifying servicing rights and any net unrealized loss on marketable equity securities.

Tier 2 capital is comprised of:

- cumulative perpetual preferred stock;
- certain perpetual preferred stock for which the dividend rate may be reset periodically;
- hybrid capital instruments, including mandatorily convertible securities;
- term subordinated debt;
- intermediate term preferred stock;
- allowance for loan losses; and
- up to 45% of pre-tax net unrealized holding gains on available for sale equity securities with readily determinable fair values.

The allowance for loan losses may be includible in Tier 2 capital up to a maximum of 1.25% of risk-weighted assets. Overall, the amount of Tier 2 capital that may be included in total capital cannot exceed 100% of Tier 1 capital. The FDIC regulations establish a minimum leverage capital requirement for banks in the strongest financial and managerial condition, with a rating of 1 (the highest examination rating of the FDIC for banks) under the Uniform Financial Institutions Rating System that are not anticipating or experiencing significant growth, of not less than a ratio of 3.0% of Tier 1 capital to total assets. For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the bank.

The FDIC regulations also establish a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital, which is defined as the sum of Tier 1 capital and Tier 2 capital, to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of a bank's risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 200%, based on the risks the FDIC believes are inherent in the type of asset or item.

The federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of a bank's exposure to declines in the economic value of a bank's capital due to changes in interest rates when assessing such bank's capital adequacy. Under such a risk assessment, examiners will evaluate a bank's capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors. According to the agencies, applicable considerations include:

- the quality of a bank's interest rate risk management process;
- the overall financial condition of the bank; and
- the level of other risks at the bank for which capital is needed.

Institutions with significant interest rate risk may be required to maintain additional capital.

The following table shows the Bank's leverage ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio, at December 31, 2014

	As of December 31, 2014				
	Capital	Percent of Assets[1]		Capital Requirements[1]	
	(Dollars in thousands)				
Regulatory Tier 1 leverage capital	$674,483	8.38	%	4.00	%
Tier 1 risk-based capital	674,483	10.97		4.00	
Total risk-based capital	736,217	11.98		8.00	

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

As of December 31, 2014, the Bank was considered "well capitalized" under FDIC guidelines.

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revises their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), adopts a uniform minimum leverage capital ratio of 4%, increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule is effective January 1, 2015. The "capital conservation buffer" will be phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

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. The Bank, as a member of the FHLB of New York, 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 stock, although no assurance can be given that these dividends will continue to be paid. For the year ended December 31, 2014, dividends paid by the FHLB to the Bank totaled $1.7 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 the 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 establishes 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 August 2011.

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 6%; 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 4%; and
- its ratio of Tier 1 capital to total assets is at least 4% (3% if the bank receives the highest rating under the Uniform Financial Institutions Rating System) 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 4%; and
- its leverage ratio is less than 4% (or less than 3% if the institution receives the highest rating under the Uniform Financial Institutions Rating System).

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 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 adjusts the prompt action categories accordingly. Under the revised prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as "well capitalized": (1) a common equity Tier 1 risk-based capital ratio of 6.5% (new standard); (2) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (3) a total risk-based capital ratio of 10% (unchanged from current rules) and (4) a Tier 1 leverage ratio of 5% (unchanged from the current rules).

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 that are 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 to a savings bank of its directors and executive officers and of 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 $14.5 million and up to $103.6 million, and 10% against that portion of total transaction accounts in excess of up to $103.6 million. The first $14.5 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 conducted seminars and published materials targeted to various aspects of internet banking, and have indicated their intention to re-evaluate their regulations to ensure that they encourage banks' efficiency and competitiveness consistent with safe and sound banking practices. 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 Dodd-Frank Wall Street Reform and Consumer Protection Act.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted. This law has significantly changed the current bank regulatory structure and is affecting the lending, deposit, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and the full impact of the Dodd-Frank Act may not be known for some time.

A provision of the Dodd-Frank Act that became effective on July 1, 2011, repealed the federal prohibitions on paying interest on demand deposits, thus permitting depository institutions to pay interest on business transaction and other accounts. The legislation also provided for originators of certain securitized loans to retain a percentage of the risk for transferred credits, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contained a number of reforms related to mortgage origination.

The Dodd-Frank Act required publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act contained the so-called "Volcker Rule," which generally prohibits banking organizations from engaging in proprietary trading and from investing in, sponsoring or having certain relationships with hedge or private equity funds ("covered funds"). On December 13, 2013, federal agencies issued a final rule implementing the Volcker Rule which, among other things, requires banking organizations to restructure and limit certain of their investments in and relationships with covered funds. The final rule unexpectedly included within the interests subject to its restrictions collateralized debt obligations backed by trust-preferred securities ("TRUPs CDOs"). Many banking organizations had purchased such instruments because of their favorable tax, accounting and regulatory treatment and would have been subject to unexpected write-downs. In response to concerns expressed by community banking organizations, the federal agencies subsequently issued an interim final rule which grandfathers TRUPS CDOs issued before May 19, 2010 if (i) acquired by a banking organization on or before December 10, 2013 and (ii) the organization reasonably believed the proceeds from the TRUPS CDOs were invested primarily in any trust preferred

security or subordinated debt instrument issued by a depository institution holding company with less than $15 billion in assets or by a mutual holding company. Neither the Company nor the Bank have investments in covered funds or TRUPS CDOs.

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 structured similarly, but not identically, to those of the FDIC for the Bank. As of December 31, 2014, the Company's total capital and Tier 1 capital ratios exceed these minimum capital requirements.

The following table shows the Company's Tier 1 leverage ratio, Tier 1 risk-based capital ratio and the Total risk-based capital ratio as of December 31, 2014

	As of December 31, 2014				
	Capital	Percent of Assets[1]		Capital Requirements[1]	
	(Dollars in thousands)				
Regulatory Tier 1 leverage capital	$740,958	9.21	%	4.00	%
Tier 1 risk-based capital	740,958	12.06		4.00	
Total risk-based capital	802,692	13.06		8.00	

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

As of December 31, 2014, the Company was "well capitalized" under Federal Reserve Board guidelines.

The Dodd-Frank Act directs 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 implements the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks apply to bank holding companies (with greater than $500 million 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.

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. 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:

- 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

Following the acquisition of the MDE Group, Inc. and Acertus Capital Management, LLC, each of Beacon Investment Advisory Services, Inc. and Acertus Capital Management, LLC will be investment advisers registered with the Securities and Exchange Commission. As such, they will be required to make certain filings with and be 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, 2014 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, 2014, the Bank had an unrecognized tax liability of $21.2 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, 2014, the Company had approximately $3,900,000 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. Due to the acquisition of Team Capital in the current year, 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.

Historically low interest rates may adversely affect our net interest income and profitability.

The Federal Reserve Board continues to maintain interest rates at historically low levels through its targeted federal funds rate and until recently, the purchase of mortgage-backed securities. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which has resulted in increases in net interest income in the short term. Our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest-earning assets may continue to decrease. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may decrease, which may have an adverse affect on our profitability. In the event the Federal Reserve Board changes its current stance by increasing short-term rates and long-term rates remain low, we may experience a flattening or inverted yield curve that would negatively impact our net interest margin and earnings.

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. 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. 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 4.0% or $9.8 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, 2014, our available for sale securities portfolio totaled $1.07 billion. 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 commitments to borrowers, loan originations, 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. 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 continued 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 and elevated unemployment levels 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, the protracted foreclosure process or elevated unemployment levels 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.

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 small- to medium-sized 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 processers, 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 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. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and suffer damage to our reputation.

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, 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.

The Dodd-Frank Act, among other things, created the Consumer Financial Protection Bureau, tightened capital standards and resulted in new laws and regulations that are expected to increase our costs of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) has significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies were given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impacts of the Dodd-Frank Act are still not known. However, we expect the legislation and implementing regulations may materially increase our operating and compliance costs.

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 additional requirements.

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

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk-based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, and directs the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives. The final rules implementing these requirements, will increase the regulatory capital requirements applicable to the Bank. These final rules became effective on January 1, 2015, with certain aspects of the final rules being phased in through 2019.

Our risk management program may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management program is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use a broad and diversified set of risk monitoring, modeling and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

We may fail to realize the anticipated benefits of a recently announced wealth management acquisition.

On January 5, 2015, we announced the proposed acquisition of The MDE Group, Inc. and Acertus Capital Management, LLC by Beacon Trust Company, our wholly owned subsidiary. The proposed acquisition remains subject to regulatory approvals. We anticipate completing the acquisition in the second quarter of 2015. The success of the proposed acquisition will depend on, among other things, our ability to combine the businesses of MDE/Acertus and Beacon Trust in a manner that does not materially disrupt the customer relationships of either company. If we are unable to successfully achieve this objective, the anticipated benefits of the proposed acquisition may not be realized fully or at all, or may take longer to realize than expected.

MDE/Acertus and Beacon Trust have operated and, until completion of the acquisition, will continue to operate, independently. It is possible that the integration process related to the proposed acquisition may result in the loss of key personnel, the disruption of our existing or the acquired business or inconsistencies in standards, controls, procedures and policies that may adversely impact its ability to maintain relationships with customers and employees, or to achieve the anticipated benefits of the proposed acquisition.

A general economic slowdown 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 and the departure of clients to seeking alternative investment opportunities with other wealth managers.

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, severe weather 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. Additionally, severe weather-related events have adversely impacted customers in our market area, especially those in areas located near coastal waters and flood prone areas. 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, 2014, goodwill totaling $392.8 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, 2014, the Bank conducted business through 86 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 $93.0 million at December 31, 2014.

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 2, 2015, there were 83,209,285 shares of the Company's common stock issued and 65,313,288 shares outstanding, and approximately 5,520 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.

	2014			2013		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$19.11	$16.38	$0.15	$15.10	$14.24	$0.13
Second Quarter	18.65	16.48	0.15	15.57	14.21	0.14
Third Quarter	17.50	16.37	0.15	17.83	15.60	0.14
Fourth Quarter	18.27	16.21	0.15	19.75	16.01	0.15

On January 29, 2015, the Board of Directors declared a quarterly cash dividend of $0.16 per common share, which was paid on February 27, 2015, to common stockholders of record as of the close of business on February 13, 2015.

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.

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, 2009 through December 31, 2014, (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, 2009.

PROVIDENT FINANCIAL SERVICES, INC.

	Period Ending					
Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Provident Financial Services, Inc.	100.00	147.35	135.06	158.07	211.68	204.91
Russell 2000	100.00	126.86	121.56	141.43	196.34	205.95
SNL Thrift	100.00	104.49	87.90	106.91	137.20	147.56

The following table reports information regarding purchases of the Company's common stock during the fourth quarter of 2014 and 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, 2014 through October 31, 2014	181	18.23	181	3,450,755
November 1, 2014 through November 30, 2014	862	$18.04	862	3,449,893
December 1, 2014 through December 31, 2014	—	—	—	3,449,893
Total	1,043	$18.07	1,043	

(1) 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 were repurchased pursuant to the seventh general repurchase program.

(2) 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, 2014 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,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Selected Financial Condition Data:					
Total assets	$8,523,377	$7,487,328	$7,283,695	$7,097,403	$6,824,528
Loans, net[1]	6,023,771	5,130,149	4,834,351	4,579,158	4,341,091
Investment securities held to maturity	469,528	357,500	359,464	348,318	346,022
Securities available for sale	1,074,395	1,157,594	1,264,002	1,376,119	1,378,927
Deposits	5,792,523	5,202,471	5,428,271	5,156,597	4,877,734
Borrowed funds	1,509,851	1,203,879	803,264	920,180	969,683
Stockholders' equity	1,144,099	1,010,753	981,246	952,477	921,687

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Selected Operations Data:					
Interest income	$279,361	$252,777	$262,259	$275,719	$286,534
Interest expense	40,472	36,767	44,922	59,729	77,569
Net interest income	238,889	216,010	217,337	215,990	208,965
Provision for loan losses	4,650	5,500	16,000	28,900	35,500
Net interest income after provision for loan losses	234,239	210,510	201,337	187,090	173,465
Non-interest income	41,168	44,153	43,613	32,542	31,552
Non-interest expense	169,991	148,763	148,828	142,446	138,748
Income before income tax expense	105,416	105,900	96,122	77,186	66,269
Income tax expense	31,785	35,366	28,855	19,842	16,564
Net income	$73,631	$70,534	$67,267	$57,344	$49,705
Earnings per share:					
Basic earnings per share	$1.22	$1.23	$1.18	$1.01	$0.88
Diluted earnings per share	$1.22	$1.23	$1.18	$1.01	$0.88

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

	At or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
Selected Financial and Other Data[1]					
Performance Ratios:					
Return on average assets	0.92 %	0.97 %	0.94 %	0.83 %	0.73 %
Return on average equity	6.75	7.08	6.88	6.09	5.46
Average net interest rate spread	3.18	3.19	3.25	3.33	3.27
Net interest margin[2]	3.30	3.31	3.38	3.49	3.45
Average interest-earning assets to average interest-bearing liabilities	1.22	1.22	1.19	1.16	1.14
Non-interest income to average total assets	0.51	0.61	0.61	0.47	0.47
Non-interest expenses to average total assets	2.11	2.05	2.08	2.07	2.05
Efficiency ratio[3]	60.70	57.18	57.03	57.31	57.69
Asset Quality Ratios:					
Non-performing loans to total loans	0.88 %	1.48 %	2.02 %	2.63 %	2.21 %
Non-performing assets to total assets	0.69	1.10	1.53	1.91	1.47
Allowance for loan losses to non-performing loans	114.63	84.32	71.07	60.67	70.66
Allowance for loan losses to total loans	1.01	1.24	1.43	1.60	1.56
Capital Ratios:					
Leverage capital[4]	9.21 %	9.42 %	8.93 %	8.74 %	8.57 %
Total risk based capital[4]	12.06	12.89	12.68	12.80	13.00
Average equity to average assets	13.06	14.14	13.93	14.05	14.26
Other Data:					
Number of full-service offices	86	77	78	82	81
Full time equivalent employees	967	886	884	906	899

(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.

(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:	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Net interest income	$238,889	$216,010	$217,337	$215,990	$208,965
Non-interest income	41,168	44,153	43,613	32,542	31,552
Total income	$280,057	$260,163	$260,950	$248,532	$240,517
Non-interest expense	$169,991	$148,763	$148,828	$142,446	$138,748
Expense/income	60.70 %	57.18 %	57.03 %	57.31 %	57.69 %

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 86 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, 2014, these commercial loan types accounted for 69.4% of the loan portfolio and retail loans accounted for 30.6%. The Company intends to continue to diversify the loan portfolio and 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 all savings and demand deposit accounts, are generally a stable, relatively inexpensive source of funds. At December 31, 2014, core deposits were 85.7% 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, 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 October 31, 2014, Beacon acquired the fiduciary account relationships of a bank in Suffolk County, New York.

On January 5, 2015, Beacon announced the signing of a definitive agreement to acquire the 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. The transaction is currently awaiting regulatory approval from the New Jersey Department of Banking and Insurance and the satisfaction of customary closing conditions.

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 ratings.

Management assigns general valuation allowance ("GVA") percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type and other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries, loan volume, as well as the national and local economic trends and conditions. The appropriateness of these percentages is evaluated by management at least annually and monitored on a quarterly basis, with changes made when they are required. In the second quarter of 2014, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, certain GVA percentages applied to residential mortgage, commercial, multi-family and commercial mortgage loans were reduced to reflect the decrease in the historical

loss experience and improvements in qualitative factors. In addition, GVA percentages for marine loans were increased due to historical loss experience.

During the fourth quarter of 2014, management made certain changes and enhancements to its process and controls over measuring the GVA portion of the allowance for loan losses. In connection with its periodic risk assessment and monitoring process, the Company re-evaluated a number of assumptions supporting the methodology including the look-back period used to evaluate the historical loss factors for its portfolios, as well as performing a study of its loss emergence period ("LEP") data. As a result of this review, management updated a number of assumptions, including lengthening its LEP given continued improvements in market conditions. Given these changes to the quantitative methodology, management reassessed its qualitative and environmental factors to align with the revised model assumptions. The result of these changes was to allocate a greater portion of the allowance to the quantitative component of the GVA and less to the qualitative component. The changes had no impact on the overall allowance.

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 current 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 their 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. The Company 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 completed its annual goodwill impairment test as of September 30, 2014. 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, goodwill was not impaired and no further quantitative analysis (Step 1) was warranted. 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'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 5 to the audited 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. 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. In this evaluation, 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. 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. Turmoil in the credit markets resulted in 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 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 this evaluation, no other-than-temporary securities impairment loss was incurred in 2014 and 2012, while in 2013, the Company recognized an other-than-temporary securities impairment loss 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 carryback 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. At December 31, 2014, the Company maintained a valuation allowance of $242,000, related to unused capital loss carryforwards.

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, 2014, 2013 and 2012. 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,								
	2014			2013			2012		
	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	$21,548	$53	0.25 %	$15,240	$38	0.25 %	$32,200	$81	0.25 %
Federal funds sold and short-term investments	1,398	—	0.02	1,560	1	0.04	1,439	1	0.09
Investment securities[1]	420,161	12,263	2.91	353,639	10,987	3.11	351,981	11,808	3.35
Securities available for sale	1,131,496	23,998	2.12	1,188,253	23,567	1.98	1,348,376	27,327	2.03
Federal Home Loan Bank Stock	63,697	2,477	3.89	44,127	1,683	3.81	39,137	1,814	4.63
Net loans[2]	5,599,586	240,570	4.30	4,922,245	216,501	4.40	4,658,422	221,228	4.75
Total interest-earning assets	7,237,886	279,361	3.86	6,525,064	252,777	3.87	6,431,555	262,259	4.08
Non-interest earning assets	806,296			739,168			739,386		
Total assets	$8,044,182			$7,264,232			$7,170,941		
Interest-bearing liabilities:									
Savings deposits	$2,812,451	7,733	0.27 %	$928,245	960	0.10 %	$901,398	1,449	0.16 %
Demand deposits	963,807	938	0.10	2,652,419	7,456	0.28	2,581,802	10,292	0.40
Time deposits	818,753	6,661	0.81	878,413	9,615	1.09	1,041,533	13,607	1.31
Borrowed funds	1,338,463	25,140	1.88	908,778	18,736	2.06	864,728	19,574	2.26
Total interest-bearing liabilities	5,933,474	40,472	0.68	5,367,855	36,767	0.68	5,389,461	44,922	0.83
Non-interest bearing liabilities	1,019,328			900,364			803,722		
Total liabilities	6,952,802			6,268,219			6,193,183		
Stockholders' equity	1,091,380			996,013			977,758		
Total liabilities and equity	$8,044,182			$7,264,232			$7,170,941		
Net interest income		$238,889			$216,010			$217,337	
Net interest rate spread			3.18 %			3.19 %			3.25 %
Net interest earning assets	$1,304,412			$1,157,209			$1,042,094		
			3.30 %			3.31 %			3.38 %

Net interest margin[3]			
Ratio of interest-earning assets to total interest-bearing liabilities	1.22x	1.22x	1.19x

(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,					
	2014 vs. 2013 Increase/(Decrease) Due to		Total Increase/ (Decrease)	2013 vs. 2012 Increase/(Decrease) Due to		Total Increase/ (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Deposits, Federal funds sold and short-term investments	$14	$—	$14	$(43)	$—	$(43)
Investment securities	1,972	(696)	1,276	55	(876)	(821)
Securities available for sale	(1,157)	1,588	431	(3,186)	(574)	(3,760)
Federal Home Loan Bank Stock	760	34	794	214	(345)	(131)
Loans	29,200	(5,131)	24,069	12,127	(16,854)	(4,727)
Total interest-earning assets	30,789	(4,205)	26,584	9,167	(18,649)	(9,482)
Interest-bearing liabilities:						
Savings deposits	36	(58)	(22)	42	(531)	(489)
Demand deposits	442	(165)	277	274	(3,110)	(2,836)
Time deposits	(618)	(2,336)	(2,954)	(1,962)	(2,030)	(3,992)
Borrowed funds	8,196	(1,792)	6,404	965	(1,803)	(838)
Total interest-bearing liabilities	8,056	(4,351)	3,705	(681)	(7,474)	(8,155)
Net interest income	$22,733	$146	$22,879	$9,848	$(11,175)	$(1,327)

Comparison of Financial Condition at December 31, 2014 and December 31, 2013

Total assets increased $1.04 billion, or 13.8%, to $8.52 billion at December 31, 2014, from $7.49 billion at December 31, 2013, primarily due to the addition of $964.0 million of total assets from the Team Capital acquisition. Total loans increased $890.7 million, or 17.1%, to $6.09 billion at December 31, 2014, from $5.19 billion at December 31, 2013, which included $631.4 million of loans acquired from Team Capital. For the year ended December 31, 2014, loan originations totaling $1.79 billion and loan purchases of $130.5 million were partially offset by repayments of $1.67 billion and loan sales of $12.6 million. Commercial loans increased $331.4 million to $1.26 billion at December 31, 2014, compared to $932.2 million at December 31, 2013, commercial real estate loans increased $295.2 million to $1.70 billion at December 31, 2014, compared to $1.40 billion at December 31, 2013, multi-family loans increased $113.3 million to $1.04 billion at December 31, 2014, compared to $928.9 million at December 31, 2013, residential mortgage loans increased $78.5 million to $1.25 billion at December 31, 2014, compared to $1.17 billion at December 31, 2013, construction loans increased $37.8 million to $221.1 million at December 31, 2014, compared to $183.3 million at December 31, 2013 and consumer loans increased $34.0 million to $611.6 million at December 31, 2014, compared to $577.6 million at December 31, 2013.

Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled $4.22 billion, accounting for 69.4% of the loan portfolio at December 31, 2014, compared to $3.45 billion, or 66.3% of the loan portfolio at December 31, 2013. 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 $1.86 billion and accounted for 30.6% of the loan portfolio at December 31, 2014, compared to $1.75 billion, or 33.7%, of the loan portfolio at December 31, 2013. 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, 2014 was $6.8 million. Of this total, 5 loans totaling $885,000 were 90 days or more delinquent. General valuation reserves of 5.5%, or $49,000, were allocated to these loans at December 31, 2014.

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 $95.4 million and $46.6 million, respectively, at December 31, 2014. At December 31, 2014, no SNC relationships were classified as substandard.

The Company had outstanding junior lien mortgages totaling $266.8 million at December 31, 2014. Of this total, 25 loans totaling $2.0 million were 90 days or more delinquent. General valuation reserves of 10%, or $203,000, were allocated to these loans at December 31, 2014.

At December 31, 2014, the Company had outstanding indirect marine loans totaling $26.9 million. Of this total, 2 loans totaling $419,000 were 90 days or more delinquent. General valuation reserves of 72%, or $302,000, were allocated to these loans at December 31, 2014. Marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The allowance for loan losses decreased $2.9 million to $61.7 million at December 31, 2014, as a result of net charge-offs of $7.6 million, partially offset by provisions for loan losses of $4.7 million during 2014. The reduction in the allowance for loan losses was a function of an improvement in the weighted average risk rating of the loan portfolio, a decline in delinquencies, non-performing loan resolutions and reduced non-performing loan formation resulting in continued net outflows. Total non-performing loans at December 31, 2014 were $53.9 million, or 0.88% of total loans, compared with $76.7 million, or 1.48% of total loans at December 31, 2013. At December 31, 2014, impaired loans totaled $85.4 million with related specific reserves of $7.1 million, compared with impaired loans totaling $106.4 million with related specific reserves of $10.2 million at December 31, 2013. Within total impaired loans, there were $20.9 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, 2014, the Company’s allowance for loan losses was 1.01% of total loans, compared with 1.24% of total loans at December 31, 2013. The decline in the loan coverage ratio from December 31, 2013, was largely attributable to the recording of Team Capital loans at fair value at the date of acquisition, with no corresponding allowance.

Non-performing commercial loans decreased $9.9 million, to $12.3 million at December 31, 2014, from $22.2 million at December 31, 2013. Non-performing commercial loans at December 31, 2014 consisted of 24 loans. The largest non-performing commercial loan relationship consisted of five loans to a power systems manufacturer with total outstanding balances of $7.1 million at December 31, 2014. Contractual payments on four of these loans, based upon modified terms, were current at December 31, 2014. One loan with a balance of $1.0 million matured on January 31, 2012 and is presently in default.

The Company had no non-performing construction loans at December 31, 2014, compared to $8.4 million at December 31, 2013. The decline during the year was due to a single construction loan on a Class A office building which was upgraded to performing status based upon an increase in tenant occupancy.

Non-performing residential mortgage loans decreased $5.8 million to $17.2 million at December 31, 2014, from $23.0 million at December 31, 2013. Gross charge-offs of residential loans were $3.2 million for the year ended December 31, 2014.

Non-performing commercial mortgage loans increased $1.4 million to $20.0 million at December 31, 2014, from $18.7 million at December 31, 2013. At December 31, 2014, the Company held 16 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a $12.3 million loan secured by a first mortgage on a 200,000 square foot office/industrial building located in Eatontown, New Jersey, which has been negatively impacted by the loss of a major tenant that relied upon contracts with the Federal government. The loan was previously restructured and matured on June 1, 2014. The loan maturity was not extended and the loan is presently in default. There is no contractual commitment to advance additional funds to this borrower.

At December 31, 2014, the Company held $5.1 million of foreclosed assets, compared with $5.5 million at December 31, 2013. Foreclosed assets at December 31, 2014 are carried at fair value based on recent appraisals and

valuation estimates, less estimated selling costs. Foreclosed assets consisted primarily of $2.3 million of residential properties, $2.7 million of commercial real estate and $60,000 of marine vessels at December 31, 2014.

Non-performing assets totaled $59.0 million, or 0.69% of total assets at December 31, 2014, compared to $82.2 million, or 1.10% of total assets at December 31, 2013. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $1.9 million during the year ended December 31, 2014. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2014 and 2013 was not material.

Total deposits increased $590.1 million, or 11.3%, during the year ended December 31, 2014 to $5.79 billion from $5.20 billion at December 31, 2013. The increase in total deposits was primarily due to $769.9 million of deposits acquired from Team

Capital, partially offset by a decrease in retail time deposits. Core deposits, consisting of savings and all demand deposit accounts, increased $571.1 million, or 13.0%, to $4.97 billion at December 31, 2014. Within the core deposit category, non-interest bearing demand deposits increased $184.4 million to $1.05 billion at December 31, 2014. The Company continued to develop core deposit relationships, while strategically permitting the run-off of higher-costing retail time deposits. Core deposits represented 85.7% of total deposits at December 31, 2014, compared to 84.5% at December 31, 2013.

Borrowed funds increased $306.0 million, or 25.4% during the year ended December 31, 2014, to $1.51 billion, as longer-term wholesale funding was added to mitigate interest rate risk. Borrowed funds represented 17.7% of total assets at December 31, 2014, an increase from 16.1% at December 31, 2013.

Total stockholders' equity increased $133.3 million to $1.14 billion at December 31, 2014, from $1.01 billion at December 31, 2013. This increase was a result of $83.5 million of common stock issued for the purchase of Team Capital, net income of $73.6 million, the allocation of shares to stock-based compensation plans of $10.4 million, other comprehensive income of $4.9 million and the reissuance of shares for the dividend reinvestment program of $1.3 million, partially offset by cash dividends of $36.1 million and common stock repurchases of $4.4 million.

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 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. 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 $4.7 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. 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 $2.7 million, to $31.3 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, partially offset by a $1.4 million increase in wealth management income. 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 $989,000 increase in other income for the year ended December 31, 2014, compared with 2013, 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.

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.

Comparison of Operating Results for the Years Ended December 31, 2013 and December 31, 2012

General. Net income for the year ended December 31, 2013 was $70.5 million, compared to $67.3 million for the year ended December 31, 2012. Basic and diluted earnings per share were $1.23 for the year ended December 31, 2013, compared to basic and diluted earnings per share of $1.18 for 2012. Earnings for year ended December 31, 2013 was favorably impacted by the continued improvement in asset quality and related reductions in the provision for loan losses compared with the same period last year. In addition, growth in both average loans outstanding and non-interest bearing demand deposits has contributed to the improvement in earnings. Net income for the year ended December 31, 2013 was adversely impacted by the write-off of a deferred tax asset related to non-qualified stock options issued shortly after the Company's 2003 initial public offering, all of which expired unused in July 2013. The write-off 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. This write-off reduced both basic and diluted earnings per share for the year ended December 31, 2013 by $0.06.

Net Interest Income. Net interest income decreased $1.3 million to $216.0 million for 2013, from $217.3 million for 2012. The average interest rate spread declined 6 basis points to 3.19% for 2013, from 3.25% for 2012. The net interest margin decreased 7 basis points to 3.31% for 2013, compared to 3.38% for 2012. For the year ended December 31, 2013, net interest income was unfavorably impacted by compression in net interest margin, which was mitigated by an increase in average loans outstanding, funded in part by growth in non-interest bearing demand deposits.

Interest income decreased $9.5 million, or 3.6%, to $252.8 million for 2013, compared to $262.3 million for 2012. The decrease in interest income was attributable to a decrease in the yield on average earning assets, partially offset by an increase in average earning asset balances. The yield on interest-earning assets decreased 21 basis points to 3.87% for 2013, from 4.08% for 2012, with reductions in yields experienced in nearly all earning asset classes. Average interest-earning assets increased $93.5 million, or 1.5%, to $6.53 billion for 2013, compared to $6.43 billion for 2012. The average outstanding loan balances increased $263.8 million, or 5.7%, to $4.92 billion for 2013 from $4.66 billion for 2012, the average balance of securities available for sale decreased $160.1 million, or 11.9%, to $1.19 billion for 2013, compared to $1.35 billion for 2012, and the average balance of investment securities held to maturity increased $1.7 million, or 0.5%, to $353.6 million for 2013, compared to $352.0 million for 2012. These increases were partially offset by a decrease in average interest-earning deposits, Federal funds sold and short-term investment balances of $16.8 million, to $16.8 million for 2013, from $33.6 million for 2012.

Interest expense decreased $8.2 million, or 18.2%, to $36.8 million for 2013, from $44.9 million for 2012. The decrease in interest expense was attributable to lower short-term interest rates coupled with a shift in the funding composition to lower-costing core deposits from certificates of deposit and a reduction in the average cost of borrowings. This was partially offset by an increase in average borrowings, which replaced average deposit outflow and funded a portion of the growth in average interest-earning assets. The average rate paid on interest-bearing liabilities decreased 15 basis points to 0.68% for 2013, from 0.83% for 2012. The average rate paid on interest-bearing deposits decreased 16 basis points to 0.40% for 2013, from 0.56% for 2012. The average rate paid on borrowings decreased 20 basis points to 2.06% for 2013, from 2.26% for 2012. The average balance of interest-bearing liabilities decreased $8.2 million to $5.37 billion for 2013, compared to $5.39 billion for 2012. Average interest-bearing deposits decreased $65.7 million, or 1.45%, to $4.46 billion for 2013, from $4.52 billion for 2012. Within average interest-bearing deposits, average interest-bearing core deposits increased $97.5 million, or 2.8%, for 2013, compared with 2012, while average time deposits decreased $163.1 million, or 15.66%, for 2013, compared with 2012. Also contributing to the decrease in interest expense, average non-interest bearing deposits increased $96.2 million, or 12.9%, to $839.3 million for 2013, from $743.1 million for 2012. Average outstanding borrowings increased $44.1 million, or 5.1%, to $908.8 million for 2013, compared with $864.7 million for 2012.

Provision for Loan Losses. The provision for loan losses was $5.5 million in 2013, compared to $16.0 million in 2012. The decrease in the provision for loan losses was primarily attributable to a decline in non-performing loan formation and an improvement in credit risk ratings. Net charge-offs for 2013 were $11.2 million, compared to $20.0

million for 2012. Total charge-offs for the year ended December 31, 2013 were $14.4 million, compared to $23.9 million for the year ended December 31, 2012. Recoveries for the year ended December 31, 2013, were $3.2 million, compared to $3.9 million for the year ended December 31, 2012. The allowance for loan losses at December 31, 2013 was $64.7 million, or 1.24% of total loans, compared to $70.3 million, or 1.43% of total loans at December 31, 2012. At December 31, 2013, non-performing loans as a percentage of total loans were 1.48%, compared to 2.02% at December 31, 2012. Non-performing assets as a percentage of total assets were 1.10% at December 31, 2013, compared to 1.53% at December 31, 2012. At December 31, 2013, non-performing loans were $76.7 million, compared to $99.0 million at December 31, 2012, and non-performing assets were $82.2 million at December 31, 2013, compared to $111.5 million at December 31, 2012.

Non-Interest Income. For the year ended December 31, 2013, non-interest income totaled $44.2 million, an increase of $540,000, or 1.2%, compared to the same period in 2012. Fee income increased $3.7 million, to $34.0 million for the year ended December 31, 2013, compared with the same period in 2012, largely due to increases in prepayment fees on commercial loans, wealth management income and deposit fees. BOLI income increased $1.3 million for the year ended December 31, 2013, compared to the same period in the prior year, principally due to the recognition of a policy claim. These increases were partially offset by a $3.5 million decrease in net gains on securities transactions for the year ended December 31, 2013, compared to the same period in 2012. Other income decreased $554,000 for the year ended December 31, 2013, compared with the same period in 2012, primarily due to a $491,000 decrease in gains on loan sales, a $525,000 decrease associated with the sale of a parcel of land in 2012, partially offset by a $478,000 increase in net gains on the sales of foreclosed real estate. Additionally, for the year ended December 31, 2013, the Company recognized a $434,000 net other-than-temporary impairment charge related to an investment in a previously impaired non-Agency mortgage-backed security.

Non-Interest Expense. For the year ended December 31, 2013, non-interest expense was $148.8 million, a decrease of $65,000 from the year ended December 31, 2012. Other operating expenses decreased $2.0 million, primarily due to a reduction in non-performing asset related expenses and charges incurred in the prior year period, which included $545,000 related to damages sustained in Superstorm Sandy, $213,000 associated with the termination of a software contract in connection with the Beacon integration and $222,000 related to the consolidation of underperforming branches. In addition, the amortization of intangibles decreased $842,000 for the year ended December 31, 2013, compared with the same period in 2012, as a result of scheduled reductions in core deposit intangible amortization. FDIC insurance costs declined $417,000 as a result of a lower assessment rate and advertising expense decreased $249,000 to $3.9 million. Partially offsetting these reductions, compensation and benefits expense increased $3.2 million and data processing expense increased $232,000, respectively, for the year ended December 31, 2013, compared to the same period last year. The increase in compensation and benefits expense was principally due to an increase in the incentive compensation accrual, an increase in stock-based compensation resulting from an increase in the Company's stock price and an increase in salaries and related payroll taxes, partially offset by a reduction in employee medical and retirement benefit costs and severance expense. The increase in data processing expense was attributable to increased software maintenance and Internet-banking costs.

Income Tax Expense. For the year ended December 31, 2013, the Company’s income tax expense was $35.4 million, compared with $28.9 million, for the same period in 2012. The increase in income tax expense for the year ended December 31, 2013 was primarily attributable to a $3.2 million charge associated with the write-off of a deferred tax asset related to expired non-qualified stock options in the third quarter of 2013, and growth in pre-tax income from taxable sources. The Company’s effective tax rate was 33.4% for the year ended December 31, 2013, compared with 30.0% for the year ended December 31, 2012

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, 2014 and 2013, loan repayments totaled $1.65 billion and $1.47 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 $1.94 billion for the year ended December 31, 2014, compared to $1.81 billion for the year ended December 31, 2013. Purchases for the investment portfolio totaled $137.2 million for the year ended December 31, 2014, compared to $401.3 million for the year ended December 31, 2013.

At December 31, 2014, the Bank had outstanding loan commitments to borrowers of $1.21 billion, including undisbursed home equity lines and personal credit lines of $343.1 million. Total deposits increased $590.1 million for the year ended December 31, 2014, which included deposits acquired from Team Capital. 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 $568.5 million at December 31, 2014. 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, 2014, the Bank exceeded all minimum regulatory capital requirements. At December 31, 2014, the Bank's leverage (Tier 1) capital ratio was 8.38%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2014, the Bank's total risk-based capital ratio was 11.98%. 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, 2014, 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	$1,180,626	$501,629	$328,173	$61,783	$289,041
Letters of credit	27,983	11,563	16,170	82	168
Total Off-Balance Sheet	1,208,609	513,192	344,343	61,865	289,209
Contractual Obligations:					
Operating leases	42,267	6,521	12,415	10,444	12,887
Certificate of deposits	825,689	568,462	152,317	100,080	4,830
Total Contractual Obligations	867,956	574,983	164,732	110,524	17,717
Total	$2,076,565	$1,088,175	$509,075	$172,389	$306,926

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 $1.21 billion at December 31, 2014, an increase of $298.5 million, or 32.8%, from $910.1 million at December 31, 2013.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There were no securities purchases that were entered into in 2014 and that settled in 2015. There was one securities purchase of $139,000 that was entered into in 2013 and that settled in 2014. Total contractual obligations at December 31, 2014 were $868.0 million, an increase of $16.9 million, or 2.0%, compared to $851.0 million at December 31, 2013. Contractual obligations under operating leases decreased $2.0 million, or 4.5%, to $42.3 million at December 31, 2014, from $44.3 million at December 31, 2013, and certificate of deposit accounts increased $18.9 million, or 2.3%, to $825.7 million at December 31, 2014, from $806.8 million at December 31, 2013.

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 and customer management 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 14.3% at December 31, 2014, compared to 15.5% at December 31, 2013. Certificate of deposit accounts are generally short-term. As of December 31, 2014, 68.8% of all certificates of deposit had maturities of one year or less compared to 65.7% at December 31, 2013. 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, 2014.

Change in Interest Rates in Basis Points (Rate Ramp)	Net Interest Income		
	Amount ($)	Change ($)	Change (%)
	(Dollars in thousands)		
-100	243,499	(3,463)	(1.4)
Static	246,962	—	—
+100	243,835	(3,127)	(1.3)
+200	240,184	(6,778)	(2.7)
+300	237,181	(9,781)	(4.0)

The above table indicates that as of December 31, 2014, 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 4.0%, or $9.8 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 1.4%, or $3.5 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, 2014.

Change in Interest Rates	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
(Basis Points)	(Dollars in thousands)				
-100	1,365,629	54,838	4.2	15.5	3.1

Flat	1,310,791	—	—	15.1	—
+100	1,274,328	(36,463)	(2.8)	14.8	(1.9)
+200	1,224,772	(86,019)	(6.6)	14.4	(4.7)
+300	1,164,074	(146,717)	(11.2)	13.8	(8.4)

The preceding table indicates that as of December 31, 2014, in the event of an immediate and sustained 300 basis point increase in interest rates, the Company would experience a 11.2%, or $146.7 million reduction in the present value of equity. If rates were to decrease 100 basis points, the Company would experience a 4.2%, or $54.8 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, 2014 and 2013

(2) Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012

(3) Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012

(4) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012

(5) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

(6) Notes to Consolidated Financial Statements

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

(1) Condensed Statement of Financial Condition as of December 31, 2014 and 2013

(2) Condensed Statement of Income for the years ended December 31, 2014, 2013 and 2012

(3) Condensed Statement of Cash Flows for the years ended December 31, 2014, 2013 and 2012

The supplementary data required by this Item (selected quarterly financial data) 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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 2, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Short Hills, New Jersey
March 2, 2015

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 and subsidiary (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (1992). 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, 2014, based on criteria established in Internal Control—Integrated Framework (1992) 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, 2014 and 2013, 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, 2014, and our report dated March 2, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Short Hills, New Jersey
March 2, 2015

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
December 31, 2014 and 2013
(Dollars in Thousands, except share data)

	December 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$102,484	$100,053
Short-term investments	1,278	1,171
Total cash and cash equivalents	103,762	101,224
Securities available for sale, at fair value	1,074,395	1,157,594
Investment securities held to maturity (fair value of $482,473 and $355,913 at December 31, 2014 and December 31, 2013, respectively)	469,528	357,500
Federal Home Loan Bank Stock	69,789	58,070
Loans	6,085,505	5,194,813
Less allowance for loan losses	61,734	64,664
Net loans	6,023,771	5,130,149
Foreclosed assets, net	5,098	5,486
Banking premises and equipment, net	92,990	66,448
Accrued interest receivable	25,228	22,956
Intangible assets	404,422	356,432
Bank-owned life insurance	177,712	150,511
Other assets	76,682	80,958
Total assets	$8,523,377	$7,487,328
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$3,971,487	$3,473,724
Savings deposits	995,347	921,993
Certificates of deposit of $100,000 or more	342,072	270,631
Other time deposits	483,617	536,123
Total deposits	5,792,523	5,202,471
Mortgage escrow deposits	21,649	20,376
Borrowed funds	1,509,851	1,203,879
Other liabilities	55,255	49,849
Total liabilities	7,379,278	6,476,575
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, 83,209,285 shares issued and 64,905,905 shares outstanding at December 31, 2014, and 83,209,285 shares issued and 59,917,649 shares outstanding at December 31, 2013, respectively	832	832
Additional paid-in capital	995,053	1,026,144
Retained earnings	465,276	427,763
Accumulated other comprehensive income	29	(4,851)
Treasury stock	(271,779)	(390,380)
Unallocated common stock held by the Employee Stock Ownership Plan	(45,312)	(48,755)
Common stock acquired by the Directors' Deferred Fee Plan	(7,113)	(7,205)
Deferred compensation—Directors' Deferred Fee Plan	7,113	7,205
Total stockholders' equity	1,144,099	1,010,753

Total liabilities and stockholders' equity	$8,523,377	$7,487,328

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Income
Years Ended December 31, 2014, 2013 and 2012
(Dollars in Thousands, except share data)

	Years ended December 31,		
	2014	2013	2012
Interest income:			
Real estate secured loans	$166,700	$152,429	$155,078
Commercial loans	50,115	40,428	40,942
Consumer loans	23,755	23,644	25,208
Securities available for sale and Federal Home Loan Bank stock	26,475	25,250	29,141
Investment securities held to maturity	12,263	10,987	11,808
Deposits, Federal funds sold and other short-term investments	53	39	82
Total interest income	279,361	252,777	262,259
Interest expense:			
Deposits	15,332	18,031	25,348
Borrowed funds	25,140	18,736	19,574
Total interest expense	40,472	36,767	44,922
Net interest income	238,889	216,010	217,337
Provision for loan losses	4,650	5,500	16,000
Net interest income after provision for loan losses	234,239	210,510	201,337
Non-interest income:			
Fees	31,345	34,045	30,336
Bank-owned life insurance	5,633	6,596	5,276
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	251	996	4,497
Other income	3,939	2,950	3,504
Total non-interest income	41,168	44,153	43,613
Non-interest expense:			
Compensation and employee benefits	92,218	83,000	79,814
Net occupancy expense	23,958	20,560	20,487
Data processing expense	13,667	10,550	10,318
FDIC Insurance	4,662	4,678	5,095
Advertising and promotion expense	5,008	3,890	4,139
Amortization of intangibles	2,757	1,624	2,466
Other operating expenses	27,721	24,461	26,509
Total non-interest expenses	169,991	148,763	148,828
Income before income tax expense	105,416	105,900	96,122
Income tax expense	31,785	35,366	28,855
Net income	$73,631	$70,534	$67,267
Basic earnings per share	$1.22	$1.23	$1.18
Average basic shares outstanding	60,388,398	57,236,909	57,145,868
Diluted earnings per share	$1.22	$1.23	$1.18
Average diluted shares outstanding	60,562,070	57,361,443	57,199,804

See accompanying notes to consolidated financial statements

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014, 2013 and 2012
(Dollars in Thousands)

	Years ended December 31,		
	2014	2013	2012
Net income	$73,631	$70,534	$67,267
Other comprehensive income (loss), net of tax:			
Unrealized gains and losses on securities available for sale:			
Net unrealized gains (losses) arising during the period	10,692	(19,428)	1,810
Reclassification adjustment for gains included in net income	(150)	(589)	(2,660)
Total	10,542	(20,017)	(850)
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	—
Amortization related to post-retirement obligations	(5,662)	7,193	(1,005)
Total other comprehensive income (loss)	4,880	(12,567)	(1,855)
Total comprehensive income	$78,511	$57,967	$65,412

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, 2014, 2013 and 2012
(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, 2011	$ 832	$ 1,019,253	$ 363,011	$ 9,571	$ (384,725)	$ (55,465)	$ (7,390)	$ 7,390	$ 952,477
Net income	—	—	67,267	—	—	—	—	—	67,267
Other comprehensive income, net of tax	—	—	—	(1,855)	—	—	—	—	$ (1,855)
Cash dividends paid	—	—	(40,729)	—	—	—	—	—	(40,729)
Distributions from DDFP	—	—	—	—	—	—	92	(92)	—
Purchases of treasury stock	—	—	—	—	(9,424)	—	—	—	(9,424)
Shares issued dividend reinvestment plan	—	(1,755)	—	—	7,845	—	—	—	6,090
Option exercises	—	(6)	—	—	34	—	—	—	28
Allocation of ESOP shares	—	(452)	—	—	—	3,377	—	—	2,925
Allocation of SAP shares	—	4,015	—	—	—	—	—	—	4,015
Allocation of stock options	—	452	—	—	—	—	—	—	452
Balance at December 31, 2012	$ 832	$ 1,021,507	$ 389,549	$ 7,716	$ (386,270)	$ (52,088)	$ (7,298)	$ 7,298	$ 981,246

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2014, 2013 and 2012—(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, 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 income, 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, 2014, 2013 and 2012—(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 to finance 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

See accompanying notes to consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2014, 2013 and 2012
(Dollars in Thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$73,631	$70,534	$67,267
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangibles	11,133	8,776	9,327
Provision for loan losses	4,650	5,500	16,000
Deferred tax expense (benefit)	3,666	5,531	(1,134)
Increase in cash surrender value of Bank-owned Life Insurance	(5,633)	(6,596)	(5,276)
Net amortization of premiums and discounts on securities	10,461	12,942	16,545
Accretion of net deferred loan fees	(3,364)	(3,877)	(3,493)
Amortization of premiums on purchased loans	694	1,286	1,694
Net increase in loans originated for sale	(12,609)	(30,977)	(36,723)
Proceeds from sales of loans originated for sale	14,018	32,447	38,684
Proceeds from sales of foreclosed assets	6,494	13,686	16,484
ESOP expense	2,654	2,559	2,030
Allocation of stock award shares	6,359	4,869	3,658
Allocation of stock options	298	297	452
Net gain on sale of loans	(1,409)	(1,470)	(1,961)
Net gain on securities available for sale	(251)	(996)	(4,497)
Impairment charge on securities	—	434	—
Net gain on sale of premises and equipment	(5)	(42)	(633)
Net (gain) loss on sale of foreclosed assets	(516)	(403)	75
Contribution to pension plan	—	—	(4,113)
Decrease in accrued interest receivable	787	1,046	651
Increase in other assets	(22,379)	(16,325)	(9,228)
Increase in other liabilities	7,721	173	2,482
Net cash provided by operating activities	96,400	99,394	108,291
Cash flows from investing activities:			
Proceeds from maturities, calls and paydowns of investment securities held to maturity	41,057	97,974	77,207
Purchases of investment securities held to maturity	(73,397)	(97,964)	(89,281)
Proceeds from sales of securities	25,033	14,834	106,768
Proceeds from maturities calls and paydowns of securities available for sale	207,531	351,472	488,590
Purchases of securities available for sale	(63,835)	(303,334)	(495,726)
Cash received, net of cash consideration paid for acquisition	68,650	—	—
Purchases of loans	(130,540)	(34,766)	(73,740)
Net increase in loans	(129,240)	(259,359)	(191,904)
Proceeds from sales of premises and equipment	1,903	35	638
Purchases of premises and equipment, net	(16,441)	(7,709)	(7,658)
Net cash used in investing activities	(69,279)	(238,817)	(185,106)

Cash flows from financing activities:			
Net (decrease) increase in deposits	(179,886)	(226,504)	271,674
Increase (decrease) in mortgage escrow deposits	1,250	(666)	283
Purchase of treasury stock	(4,420)	(5,899)	(9,424)
Cash dividends paid to stockholders	(36,118)	(32,320)	(40,729)
Shares issued to dividend reinvestment plan	1,336	1,244	6,090
Stock options exercised	117	354	28
Proceeds from long-term borrowings	595,063	301,000	—
Payments on long-term borrowings	(289,757)	(79,090)	(55,700)
Net (decrease) increase in short-term borrowings	(112,168)	178,705	(61,216)
Net cash (used in) provided by financing activities	(24,583)	136,824	111,006
Net increase (decrease) in cash and cash equivalents	2,538	(2,599)	34,191
Cash and cash equivalents at beginning of period	101,224	103,823	69,632
Cash and cash equivalents at end of period	$103,762	$101,224	$103,823
Cash paid during the period for:			
Interest on deposits and borrowings	$39,952	$36,727	$45,362
Income taxes	$25,776	29,119	$25,858
Non cash investing activities:			
Transfer of loans receivable to foreclosed assets	$5,382	6,602	$16,253
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	50,222	—	(672)
Other assets	33,939	—	672
Total non-cash assets acquired	$895,324	$—	$—
Liabilities assumed:			
Deposits	769,936	—	—
Borrowings	112,835	—	—
Other Liabilities	(2,314)	—	—
Total liabilities assumed	$880,457	$—	$—
Common stock issued for acquisitions	$83,517	$—	$—

See accompanying notes to consolidated financial statement

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

(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"). 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. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 320 "Investments-Debt and Equity Securities" on April 1, 2009, 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 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 ("FHLB"), is required to hold shares of capital stock of the FHLB 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 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, 2014. Based upon its qualitative assessment of goodwill, the Company concluded that goodwill was not impaired and no further quantitative analysis was warranted.

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 are amortized on an accelerated basis over 12.0 years. 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 Earnings Per Share 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, 2014, there were 406,883 shares held by the DDFP.
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.

Postretirement Benefits Other Than Pensions

The Bank provides postretirement 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 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 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 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 fair value of the Company's derivatives are determined using discounted cash flow analysis 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 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 to its customers traditional banking and other financial services. 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 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 August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 does not anticipate a significant impact to the consolidated financial statements related to this guidance. The Company will comply with the provisions of this guidance upon its effective date and, if applicable, record a separate other receivable for foreclosed government guaranteed mortgage loans.

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 is prohibited. The Company is currently assessing the impact that the adoption of this update will have on its consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are in the scope of other standards. For public entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2016. The Company does not anticipate a material impact to the consolidated financial statements related to this guidance.

In January 2014, the FASB issued ASU No. 2014-04, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” which clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, this ASU requires interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for annual and interim periods beginning after December 15, 2014. The Company’s adoption of ASU No. 2014-04 is not expected to have a significant 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, 2014, the liquidation account, which is an off-balance sheet memorandum account, amounted to $15.7 million.

Acquisitions

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.

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	40,354
Other intangibles assets	9,868
Foreclosed assets, net	653
Other assets	5,448
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

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

Fair Value Measurement of Assets Assumed and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and liabilities assumed in the 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 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, 2014 and 2013 was $20,502,000 and $21,052,000, respectively, representing reserves required by banking regulations.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

(4) Investment Securities Held to Maturity

Investment securities held to maturity at December 31, 2014 and 2013 are summarized as follows (in thousands):

	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

	2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$7,523	13	(66)	7,470
Mortgage-backed securities	5,273	247	—	5,520
State and municipal obligations	334,750	5,435	(7,198)	332,987
Corporate obligations	9,954	58	(76)	9,936
	$357,500	5,753	(7,340)	355,913

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 $343,127,000 and $186,251,000 at December 31, 2014 and 2013, 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, 2014 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.

	2014	
	Amortized cost	Fair value
Due in one year or less	$8,939	9,011
Due after one year through five years	52,090	53,225
Due after five years through ten years	175,546	181,887
Due after ten years	230,137	235,411
	$466,712	479,534

Mortgage-backed securities totaling $2.8 million at amortized cost and $2.9 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.

During 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 gain, related to the sale of a security with proceeds of $524,000. The sales of this security was in response to the credit deterioration of the issuer.

In 2013, the Company recognized gains of $90,000 and no losses related to calls on certain securities in the held to maturity portfolio, with total proceeds from the calls totaling $49,631,000. In addition, for the year ended

December 31, 2013, the Company

recognized gross gains of $18,000, and no gross losses, 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, 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)

	December 31, 2013 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	$5,766	(66)	—	—	5,766	(66)
State and municipal obligations	123,988	(5,376)	19,051	(1,822)	143,039	(7,198)
Corporate obligations	5,387	(76)	—	—	5,387	(76)
	$135,141	(5,518)	19,051	(1,822)	154,192	(7,340)

Based on its detailed review of the securities portfolio, the Company believes that as of December 31, 2014, 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, 2014 totaled 163, compared with 270 at December 31, 2013. All temporarily impaired investment securities were investment grade at December 31, 2014.

(5) Securities Available for Sale

Securities available for sale at December 31, 2014 and 2013 are summarized as follows (in thousands):

	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

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

	2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$93,223	372	(179)	93,416
Mortgage-backed securities	1,060,013	14,493	(19,532)	1,054,974
State and municipal obligations	8,739	171	(152)	8,758
Equity securities	357	89	—	446
	$1,162,332	15,125	(19,863)	1,157,594

Securities available for sale having a carrying value of $585,928,000 and $627,053,000 at December 31, 2014 and 2013, 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, 2014, 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.

	2014	
	Amortized cost	Fair value
Due in one year or less	$28,709	28,831
Due after one year through five years	81,558	81,729
Due after five years through ten years	3,018	3,015
Due after ten years	2,983	3,039
	$116,268	116,614

Mortgage-backed securities totaling $944.8 million at amortized cost and $957.3 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 $524,000 at fair value.

During 2014, 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. 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.

For the 2013 period, proceeds from the sale of securities available for sale were $14,310,000 resulting in gross gains of $888,000 and no losses. Also, for the year ended December 31, 2013, proceeds from calls on securities available for sale totaled $896,000, with no gross gains or 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, 2014.

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):

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

	December 31, 2014	December 31, 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

The Company did not incur a net other-than-temporary impairment charge on securities for the year ended December 31, 2014. During the 2014 period, 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. For the prior year period, the Company incurred a $434,000 subsequent net other-than-temporary impairment charge on a previously impaired non-Agency mortgage-backed security. 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.
The following table represents the Company's disclosure on securities available for sale with temporary impairment (in thousands):

	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)
State and municipal obligations	—	—	—	—	—	—
Corporate obligations	3,466	(15)	—	—	3,466	(15)
	$89,295	(279)	211,679	(2,951)	300,974	(3,230)

	December 31, 2013 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	$34,355	(179)	—	—	34,355	(179)
Mortgage-backed securities	604,778	(18,850)	13,521	(682)	618,299	(19,532)
State and municipal obligations	2,867	(152)	—	—	2,867	(152)
	$642,000	(19,181)	13,521	(682)	655,521	(19,863)

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, 2014, 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, 2014 totaled 43, compared with 76 at December 31, 2013. There were two private label mortgage-backed security in an unrealized loss position at

December 31, 2014, with an amortized cost of $1,800,000 and unrealized losses totaling $16,200. Both private label mortgage-backed securities were investment grade at December 31, 2014.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

(6) Loans Receivable and Allowance for Loan Losses

Loans receivable at December 31, 2014 and 2013 are summarized as follows (in thousands):

	2014	2013
Mortgage loans:		
Residential	$1,251,445	1,174,043
Commercial	1,694,359	1,400,624
Multi-family	1,041,582	928,906
Construction	221,102	183,289
Total mortgage loans	4,208,488	3,686,862
Commercial loans	1,262,422	932,199
Consumer loans	611,467	577,602
Total gross loans	6,082,377	5,196,663
Purchased credit-impaired ("PCI") loans	4,510	—
Premiums on purchased loans	5,307	4,202
Unearned discounts	(53)	(62)
Net deferred fees	(6,636)	(5,990)
	$6,085,505	5,194,813

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, 2014, 2013 and 2012, $694,000, $1,286,000 and $1,694,000, 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, 2014						
	30-59 Days	60-89 Days	Non-accrual	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 days accruing
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	—

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

	At December 31, 2013						
	30-59 Days	60-89 Days	Non-accrual	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 days accruing
Mortgage loans:							
Residential	$10,639	5,062	23,011	38,712	1,135,331	1,174,043	—
Commercial	687	318	18,662	19,667	1,380,957	1,400,624	—
Multi-family	—	—	403	403	928,503	928,906	—
Construction	—	—	8,448	8,448	174,841	183,289	—
Total mortgage loans	11,326	5,380	50,524	67,230	3,619,632	3,686,862	—
Commercial loans	305	77	22,228	22,610	909,589	932,199	—
Consumer loans	2,474	2,194	3,928	8,596	569,006	577,602	—
Total gross loans	$14,105	7,651	76,680	98,436	5,098,227	5,196,663	—

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 $53.9 million and $76.7 million at December 31, 2014 and 2013, respectively. There were no loans ninety days or greater past due and still accruing interest at December 31, 2014, or 2013.

If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by $1,877,000, $1,913,000 and $3,022,000, for the years ended December 31, 2014, 2013 and 2012, respectively. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2014, 2013 and 2012 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 analyses 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, 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 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. At December 31, 2013, there were 152 impaired loans totaling $106.4 million, of which 142 loans totaling $89.4 million were TDRs. Included in this total were 115 TDRs related to 110 borrowers totaling $58.2 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2013.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

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

	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

	At December 31, 2013			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$75,839	28,210	2,321	106,370
Collectively evaluated for impairment	3,611,023	903,989	575,281	5,090,293
Total gross loans	$3,686,862	932,199	577,602	5,196,663

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

	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

	At December 31, 2013					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	$7,829	2,221	167	10,217	—	10,217
Collectively evaluated for impairment	26,315	21,886	4,762	52,963	1,484	54,447
Total	$34,144	24,107	4,929	63,180	1,484	64,664

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.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

The following tables present the number of loans modified as TDRs during the years ended December 31, 2014 and 2013 and their balances immediately prior to the modification date and post-modification as of December 31, 2014 and 2013.

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
Commercial loans	—	—	—
Consumer loans	2	394	156
Total restructured loans	17	$ 4,293	3,742

Troubled Debt Restructurings	Year Ended December 31, 2013		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		($ in thousands)	
Mortgage loans:			
Residential	42	$ 9,097	9,149
Commercial	1	330	304
Total mortgage loans	43	9,427	9,453
Commercial loans	3	1,846	1,816
Consumer loans	8	1,119	1,095
Total restructured loans	54	$ 12,392	12,364

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, 2014 and 2013 exceeded the carrying amounts of such loans. As a result, there were no charge-offs recorded on collateral dependent impaired loans presented in the preceding tables for the years ended December 31, 2014 or December 31, 2013. The allowance for loan losses associated with the TDRs presented in the preceding tables totaled $419,000 and $1.0 million at December 31, 2014 and 2013, 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 4.58% and 4.08%, compared to a yield of 5.69% and 5.75% prior to modification for the years ended December 31, 2014 and 2013, respectively.

The following table presents loans modified as TDRs within the previous 12 months from December 31, 2014 and 2013, and for which there was a payment default (90 days or more past due) during the years ended December 31, 2014 and 2013:

	Year Ended December 31, 2014	Year Ended December 31, 2013

Troubled Debt Restructurings Subsequently Defaulted	Number of Loans	Outstanding Recorded Investment ($ in thousands)	Number of Loans	Outstanding Recorded Investment ($ in thousands)
Commercial loans	—	—	3	1,815
Consumer loans	—	—	1	130
Total restructured loans	—	$ —	4	$ 1,945

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

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 declined $710,000 to $4.5 million at December 31, 2014, from $5.2 million at acquisition from Team Capital on May 30, 2014, largely due to the full repayment and greater than projected cash flows on certain PCI loans. This resulted in a $348,000 increase in interest income for the year ended December 31, 2014, 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 ended December 31, 2014 (in thousands):

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

The activity in the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012 is as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Balance at beginning of period	$64,664	70,348	74,351
Provision charged to operations	4,650	5,500	16,000
Recoveries of loans previously charged off	3,292	3,222	3,904
Loans charged off	(10,872)	(14,406)	(23,907)
Balance at end of period	$61,734	64,664	70,348

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

The activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014 and 2013 are as follows (in thousands):

	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

	Year ended December 31, 2013					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Balance at beginning of period	$37,962	20,315	5,224	63,501	6,847	70,348
Provision charged to operations	2,065	6,403	2,395	10,863	(5,363)	5,500
Recoveries of loans previously charged off	1,133	1,075	1,014	3,222	—	3,222
Loans charged off	(7,016)	(3,686)	(3,704)	(14,406)	—	(14,406)
Balance at end of period	$34,144	24,107	4,929	63,180	1,484	64,664

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

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

	At December 31, 2014					At December 31, 2013				
	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	$14,942	10,629	—	11,138	357	13,459	9,999	—	10,322	299
Commercial	4,971	4,708	—	4,713	—	4,917	4,667	—	4,834	3
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Total	19,913	15,337	—	15,851	357	18,376	14,666	—	15,156	302
Commercial loans	2,718	2,179	—	1,823	4	8,163	6,674	—	8,252	24
Consumer loans	1,250	830	—	870	28	754	618	—	674	26
Total loans	$23,881	18,346	—	18,544	389	27,293	21,958	—	24,082	352
Loans with an allow-ance recorded										
Mortgage loans:										
Residential	$15,523	14,906	2,367	15,106	555	$17,122	16,473	2,571	16,610	557
Commercial	37,555	36,306	2,329	36,674	914	37,320	36,251	2,309	36,727	976
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	9,810	8,449	2,949	8,659	—
Total	53,078	51,212	4,696	51,780	1,469	64,252	61,173	7,829	61,996	1,533
Commercial loans	15,990	14,283	2,318	15,967	390	22,779	21,536	2,221	23,204	650
Consumer loans	1,565	1,554	113	1,578	80	1,732	1,703	167	1,726	63
Total loans	$70,633	67,049	7,127	69,325	1,939	$88,763	84,412	10,217	86,926	2,246
Total										
Mortgage loans:										
Residential	$30,465	25,535	2,367	26,244	912	$30,581	26,472	2,571	26,932	856
Commercial	42,526	41,014	2,329	41,387	914	42,237	40,918	2,309	41,561	979
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	9,810	8,449	2,949	8,659	—
Total	72,991	66,549	4,696	67,631	1,826	82,628	75,839	7,829	77,152	1,835
Commercial loans	18,708	16,462	2,318	17,790	394	30,942	28,210	2,221	31,456	674
Consumer loans	2,815	2,384	113	2,448	108	2,486	2,321	167	2,400	89
Total loans	$94,514	85,395	7,127	87,869	2,328	$116,056	106,370	10,217	111,008	2,598

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. At December 31, 2013, impaired loans consisted of 152 residential, commercial and commercial mortgage loans totaling $106,370,000, of which 37 loans totaling $48,204,000 were included in nonaccrual loans. Specific allocations of the allowance for loan losses attributable to impaired loans totaled $7,127,000 and $10,217,000 at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, impaired loans for which there was no related allowance for loan losses totaled $18,346,000 and $21,958,000, respectively. The average balances of impaired loans during the years ended December 31, 2014, 2013 and 2012 were $87,869,000, $111,008,000 and $115,611,000, 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 $908,581,000 and $657,563,000, at December 31, 2014 and 2013, respectively, and undisbursed home equity and personal credit lines of $300,029,000 and $252,522,000, at December 31, 2014 and 2013, 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, 2014, 2013 and 2012

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, 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

	At December 31, 2013							
	Residential	Commercial mortgages	Multi-family	Construction	Total mortgages	Commercial loans	Consumer loans	Total loans
Special mention	$5,062	15,301	—	—	20,363	28,551	2,037	50,951