

PROVIDENT FINANCIAL SERVICES INC

Form 10-K

March 01, 2019

FALSE12/31/20182018FYFPFSPROVIDENT FINANCIAL SERVICES INCYesYesNoFALSELarge Accelerated

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

**Annual  
Report  
Pursuant to  
Section 13  
or 15(d) of  
the  
Securities  
Exchange  
Act of 1934**

**For the Fiscal Year Ended December 31, 2018  
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    07302  
City, New  
Jersey**

(Address of  
Principal  
Executive  
Offices)            (Zip Code)

**(732) 590-9200**

(Registrant's Telephone Number)

**Securities Registered Pursuant to Section 12(b) of the Act:**

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**Common New York  
Stock, par Stock  
value Exchange  
\$0.01 per  
share**

**(Title of (Name of  
Class) Exchange on  
Which  
Registered)**

**Securities Registered Pursuant to Section 12(g) of the Act:**

**None**

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

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

Emerging Growth Company

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

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

As of February 1, 2019, there were 83,209,293 issued and 66,573,632 outstanding shares of the Registrant's Common Stock, including 248,069 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under accounting principles generally accepted in the United States of America. The aggregate value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the Common Stock as of June 30, 2018, as quoted by the NYSE, was approximately \$1.67 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

1.Proxy Statement for the 2019 Annual Meeting of Stockholders of the Registrant (Part III).

**PROVIDENT FINANCIAL SERVICES, INC.  
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## **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,” “project,” “intend,” “anticipate,” “continue,” or similar terms or variations on those terms or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to those related to the economic environment, particularly in the market areas in which Provident Financial Services, Inc. (the “Company”) operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

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

## **PART I**

### **Item 1. Business**

#### **Provident Financial Services, Inc.**

The Company is a Delaware corporation which became the holding company for Provident Bank (the “Bank”) on January 15, 2003, following the completion of the Bank's conversion 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.

At December 31, 2018, the Company had total assets of \$9.73 billion, total loans of \$7.25 billion, total deposits of \$6.83 billion, and total stockholders’ equity of \$1.36 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 \$53.6 million and repurchased 635,436 shares of its common stock at a cost of \$15.1 million in 2018. At December 31, 2018, 2.5 million shares were eligible for repurchase under the board approved stock repurchase program. The Company and the Bank were “well capitalized” at December 31, 2018 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”). The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company. All SEC reports and amendments to these reports are available on the SEC's website and are made available as soon as practical after they have been filed or furnished to the SEC and are available on the Bank’s website, [www.provident.bank](http://www.provident.bank), at the “Investor Relations” page, without charge from the Company. Information on our website should not be considered a part of this Annual Report on Form 10-K.

#### **Provident Bank**

Established in 1839, the Bank is a New Jersey-chartered capital stock savings bank operating full-service branch offices in the New Jersey counties of Bergen, Essex, Hudson, Hunterdon, Mercer, 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

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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 Provident Bank's operations:**

*Diversified Loan Portfolio.* To improve asset yields and reduce its exposure to interest rate risk, the Bank continues to emphasize 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, 2018, non-performing assets were \$27.3 million or 0.28% of total assets, compared to \$41.8 million or 0.42% of total assets at December 31, 2017. The Bank's non-performing asset levels continued to decline from higher levels reported in prior years as local and national economic conditions have gradually improved. The Bank continues to focus on conservative underwriting criteria and on active and timely collection efforts.

*Emphasis on Relationship Banking and Core Deposits.* The Bank emphasizes the acquisition and retention of core deposit accounts, consisting of savings and demand deposit accounts, and expanding customer relationships. Core deposit accounts totaled \$6.08 billion at December 31, 2018, representing 89.0% of total deposits, compared with \$6.08 billion, or 90.5% of total deposits at December 31, 2017. 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 increased 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 \$58.7 million for the year ended December 31, 2018, compared with \$55.7 million for the year ended December 31, 2017, of which fee income was \$28.1 million for the year ended December 31, 2018, compared with \$27.2 million for the year ended December 31, 2017.

*Managing Interest Rate Risk.* The Bank manages its exposure to interest rate risk through the origination and retention of adjustable rate and shorter-term loans, and its investments in securities. In addition, the Bank uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Bank making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. These interest rate swaps are used to hedge the variable cash outflows associated with Federal Home Loan Bank of New York ("FHLB NY") borrowings. At December 31, 2018, 62.2% of the Bank's loan portfolio had a term to maturity of one year or less, or had adjustable interest rates. At December 31, 2018, the Bank's securities portfolio totaled \$1.61 billion and had an expected average life of 4.72 years to manage its exposure to interest rate movements.

**MARKET AREA**

The Company and the Bank are headquartered in Jersey City, which is located in Hudson County, New Jersey. At December 31, 2018, the Bank operated a network of 84 full-service banking offices throughout thirteen counties in northern and central New Jersey, as well as three counties in Pennsylvania. The Bank maintains its administrative offices in Iselin, New Jersey and satellite loan production offices in Convent Station, Flemington, Paramus and Princeton, New Jersey, as well as in Bethlehem, Newtown and Wayne, Pennsylvania. The Bank's lending activities, though concentrated in the communities surrounding its offices, extend predominantly throughout New Jersey and eastern Pennsylvania.

The Bank's primary market area includes a mix of urban and suburban communities, and has a diversified mix of industries including pharmaceutical, manufacturing companies, network communications, insurance and financial services, healthcare, and retail. According to the U.S. Census Bureau's most recent population data, the Bank's New Jersey market area has a population of approximately 6.9 million, which was 77.7% of the state's total population. The Bank's Pennsylvania market area has a population of approximately 1.3 million, which was 10.4% of that state's total population. Because of the diversity of industries within the Bank's market area and, to a lesser extent, its proximity to the New York City financial markets, the area's economy can be significantly affected by changes in national and international economies. According to the U.S. Bureau of Labor Statistics, the unemployment rate in New Jersey was 4.0% at December 31, 2018, a decrease from 5.0% at December 31, 2017. The unemployment rate in Pennsylvania was 4.2% for December 31, 2018, a decrease from 4.7% at December 31, 2017.

Within its primary market areas in New Jersey and Pennsylvania, the Bank had an approximate 2.23% and 0.75% share of bank deposits as of June 30, 2018, respectively, the latest date for which statistics are available. On a statewide basis, the Bank

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had an approximate 1.94% deposit share of the New Jersey market and an approximate 0.06% deposit share of the Pennsylvania market.

### **COMPETITION**

The Bank faces significant competition in originating and retaining loans and attracting deposits. The northern and central New Jersey and eastern Pennsylvania market areas have a high concentration of financial institutions, including large money center and regional banks, community banks, credit unions, investment brokerage firms and insurance companies. The Bank faces direct competition for loans from each of these institutions as well as from mortgage companies, on-line lenders and other loan origination firms operating in its market area. The Bank's most direct competition for deposits comes from several commercial banks and savings banks in its market area. Certain of these banks have substantially greater financial resources than the Bank. The Bank also 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 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 for qualified borrowers.

The Bank has historically provided construction loans for both single family and condominium projects intended for sale and commercial projects, including residential rental 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 rental projects vary depending on whether such projects are vertical or horizontal construction.

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.

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.



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*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,										
2018		2017		2016		2015		2014		
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
(Dollars in thousands)										
Residential mortgage loans	\$ 1,100,009	7.29	\$ 1,142,915	7.73	\$ 1,212,257	7.46	\$ 1,255,159	7.88	\$ 1,252,526	7.79
Commercial mortgage loans	\$ 299,417	31.96	\$ 2,171,174	29.88	\$ 1,978,700	28.50	\$ 1,716,117	26.50	\$ 1,695,822	28.15
Multi-family mortgage loans	\$ 39,800	18.62	\$ 1,404,005	19.32	\$ 1,402,169	20.20	\$ 1,234,066	19.06	\$ 1,042,223	17.30
Construction loans	\$ 388,999	5.41	\$ 392,580	5.40	\$ 264,814	3.81	\$ 331,649	5.12	\$ 221,102	3.67
Total mortgage loans	\$ 1,828,225	71.28	\$ 5,110,673	70.33	\$ 4,857,938	69.97	\$ 4,536,991	70.06	\$ 4,211,673	69.91
Commercial loans	\$ 1,695,148	23.56	\$ 1,745,301	24.02	\$ 1,630,887	23.49	\$ 1,434,291	22.15	\$ 1,263,618	20.98
Consumer loans	\$ 431,428	6.00	\$ 473,958	6.52	\$ 516,755	7.44	\$ 566,175	8.74	\$ 611,596	10.15
Total gross loans	\$ 7,254,801	100.84	\$ 7,329,932	100.87	\$ 7,005,580	100.90	\$ 6,537,457	100.95	\$ 6,086,887	101.04
Premiums on purchased loans	\$ 3,243	0.04	\$ 4,029	0.06	\$ 4,968	0.07	\$ 5,740	0.09	\$ 5,307	0.09
Unearned discounts	\$ (33)	—	\$ (36)	—	\$ (39)	—	\$ (41)	—	\$ (53)	—
Net deferred fees	\$ (7,423)	(0.11)	\$ (8,207)	(0.10)	\$ (7,023)	(0.08)	\$ (5,482)	(0.09)	\$ (6,636)	(0.11)
Total loans	\$ 7,250,588	100.77	\$ 7,325,718	100.83	\$ 7,003,486	100.89	\$ 6,537,674	100.95	\$ 6,085,505	101.02
Allowance for loan losses	\$ (55,562)	(0.77)	\$ (60,195)	(0.83)	\$ (61,883)	(0.89)	\$ (61,424)	(0.95)	\$ (61,734)	(1.02)
Total loans, net	\$ 7,195,026	100.00	\$ 7,265,523	100.00	\$ 6,941,603	100.00	\$ 6,476,250	100.00	\$ 6,023,771	100.00

*Loan Maturity Schedule.* The following table sets forth certain information as of December 31, 2018, 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
(In thousands)							
Residential mortgage loans	\$ 130	\$ 5,817	\$ 11,175	\$ 100,219	\$ 445,379	\$ 537,288	\$ 1,100,009
	183,599	336,849	544,325	1,021,917	207,913	4,814	2,299,417

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Commercial mortgage loans							
Multi-family mortgage loans	26,833	173,031	256,935	818,322	59,184	5,495	1,339,800
Construction loans	129,176	221,502	15,755	1,080	19,015	2,471	388,999
Total mortgage loans	339,738	737,199	828,190	1,941,538	731,491	550,069	5,128,225
Commercial loans	326,610	269,749	336,179	478,406	236,426	47,778	1,695,148
Consumer loans	16,847	5,896	19,115	91,452	227,908	70,210	431,428
Total gross loans	\$ 683,195	\$ 1,012,844	\$ 1,183,484	\$ 2,511,396	\$ 1,195,825	\$ 668,057	\$ 7,254,801

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*Fixed- and Adjustable-Rate Loan Schedule.* The following table sets forth as of December 31, 2018 the amount of all fixed-rate and adjustable-rate loans due after December 31, 2019.

	Due After December 31, 2019		Total
	Fixed	Adjustable	
	( In thousands)		
Residential mortgage loans	\$ 764,118	\$ 335,761	\$ 1,099,879
Commercial mortgage loans	881,988	1,233,830	2,115,818
Multi-family mortgage loans	420,654	892,313	1,312,967
Construction loans	—	259,823	259,823
Total mortgage loans	2,066,760	2,721,727	4,788,487
Commercial loans	444,395	924,143	1,368,538
Consumer loans	273,009	141,572	414,581
Total loans	\$ 2,784,164	\$ 3,787,442	\$ 6,571,606

**Residential Mortgage Loans.** The Bank originates residential mortgage loans secured by first mortgages on one- to four-family residences, generally located in the State of New Jersey and the eastern part of Pennsylvania. The Bank originates residential mortgages primarily through commissioned mortgage representatives and via the Internet. The Bank originates both fixed-rate and adjustable-rate mortgages. As of December 31, 2018, \$1.10 billion or 15.3% of the total portfolio consisted of residential real estate loans. Of the one- to four-family loans at that date, 69.5% were fixed-rate and 30.5% were adjustable-rate loans.

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

Residential mortgage loans are primarily underwritten to Freddie Mac and Fannie Mae standards. The Bank's standard maximum loan to value ratio is 80%. However, working through mortgage insurance companies, the Bank underwrites loans for sale to Freddie Mac programs that will finance up to 97% 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 2018, \$1.5 million or 1.4% of residential real estate loans originated were sold into the secondary market. All of the loans sold in 2018 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 \$17.7 million. The Bank also offers a special rate program for first-time homebuyers under which originations have totaled over \$21.2 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 32.0% of the loan portfolio at December 31, 2018. 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 expertise in the commercial real estate market.

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

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

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

The Bank's largest commercial mortgage loan as of December 31, 2018 was a \$38.2 million loan secured by a first mortgage lien on eight office buildings and five industrial/flex buildings located throughout Middlesex and Somerset counties in New Jersey. This was a refinance and consolidation of several loans to an existing customer with extensive experience and a successful track record. 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, 2018. (For the Bank's largest group borrower exposure—see discussion on "Loans to One Borrower")

**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, 2018 was a \$41.0 million loan secured by a first leasehold mortgage lien on a newly renovated 129-unit, six story class A luxury rental apartment building with 12,000 square feet of office/retail space located in Morristown, New Jersey. The project sponsor is one of the largest privately-held

real estate owner/developers in the United States, and has extensive experience and a successful track record in the development and management of multi-family projects. The loan has a risk rating of “3” (loans rated 1-4 are deemed to be “acceptable quality”—see discussion of the Bank’s nine-point risk rating system for loans under “Allowance for Loan Losses” in the “Asset Quality”

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section) and was performing in accordance with its terms and conditions as of December 31, 2018. (For the Bank's largest group borrower exposure —see discussion on "Loans to One Borrower")

**Construction Loans.** The Bank originates commercial construction loans. Commercial construction lending includes both new construction of residential and commercial real estate projects and the rehabilitation of existing structures. The Bank's commercial construction financing includes projects constructed for investment purposes (rental property), projects for sale (single family/condominiums) and to a lesser extent, owner-occupied business properties. To mitigate the speculative nature of construction loans, the Bank generally requires significant pre-leasing on rental properties; requires that a percentage of the for-sale single-family residences or condominiums be under contract to support construction loan advances; and requires other covenants on residential for rental 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, 2018 was a \$32.1 million commitment secured by a first mortgage lien on property and improvements related to the construction of a 5-story 275 unit multi-family apartment building with 5,000 square feet of retail space and a 6-level parking deck with 481 spaces located in Willow Grove, PA. The loan had an outstanding balance of \$12.0 million at December 31, 2018. This represents the Bank's lead position in a total \$50.7 million construction loan with the remainder having been sold to a participating bank. This loan closed in mid-2018 with construction completion expected by the end of 2019. The project sponsor is an experienced and long standing real estate owner and developer with a successful track record in the development and management of commercial real estate. The loan has a risk rating of "4" (loans rated 1-4 are deemed "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, 2018.

**Commercial Loans.** The Bank underwrites commercial loans to corporations, partnerships and other businesses. Commercial loans represented 23.6% of the loan portfolio at December 31, 2018. 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.

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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, 2018 was a \$30.0 million working capital and bonding line of credit to a large and long standing general contractor specializing in heavy bridge and highway construction. The loan, which is annually renewable at the Bank's option, is unsecured and primarily used for working capital and bonding purposes. The loan has a risk rating of "4" (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). At December 31, 2018, there was no outstanding balance under the line. (For the Bank's largest group borrower exposure—see discussion on "Loans to One Borrower")

**Consumer Loans.** The Bank offers a variety of consumer loans on a direct basis to individuals. Consumer loans represented 6.0% of the loan portfolio at December 31, 2018. Home equity loans and home equity lines of credit constituted 94.9% of the consumer loan portfolio and indirect marine loans constituted

1.8% of the consumer loan portfolio as of December 31, 2018. The remaining 3.3% of the consumer loan portfolio includes personal loans and unsecured lines of credit, direct auto loans and recreational vehicle loans. 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 \$650,000. A portion of the home equity loan portfolio includes "first lien product loans," under which the Bank has offered special rates to borrowers who refinance first mortgage loans on the home equity (first lien) basis. At December 31, 2018, first-lien home equity loans outstanding totaled \$238.3 million. The Bank's home equity lines of credit are made at floating interest rates and the Bank provides lines of credit of up to \$500,000. The approved home equity lines and utilization amounts as of December 31, 2018 were \$401.8 million and \$143.0 million, respectively, representing utilization of 35.6%.

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, 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,		
	2018	2017	2016
	(In thousands)		
<b><u>Originations:</u></b>			
Residential mortgage	\$ 108,406	\$ 121,901	\$ 145,684
Commercial mortgage	448,137	525,900	427,442
Multi-family mortgage	126,159	51,371	238,386
Construction	360,413	354,594	265,623
Commercial	1,992,972	2,525,921	1,891,067
Consumer	120,369	121,790	125,515
Subtotal of loans originated	3,156,456	3,701,477	3,093,717
Loans purchased	1,344	—	28,590
Total loans originated and purchased	3,157,800	3,701,477	3,122,307
Loans sold	36,043	24,938	34,976
<b><u>Repayments:</u></b>			
Residential mortgage	149,326	188,103	197,701
Commercial mortgage	348,055	188,352	273,469
Multi-family mortgage	204,781	150,205	102,939
Construction	296,450	249,872	129,918
Commercial	2,006,342	2,403,945	1,735,420
Consumer	162,597	163,041	175,658
Total repayments	3,167,551	3,343,518	2,615,105
Total reductions	3,203,594	3,368,456	2,650,081
Other items, net <sup>(1)</sup>	(29,336)	(10,789)	(6,414)
Net increase	\$ (75,130)	\$ 322,232	\$ 465,812

(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 at least an annual basis and 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 commercial loan approvals require dual signature authority.

The largest individual lending authority is \$10.0 million, which is only available to the Chief Executive Officer, the Chief Lending Officer and the Chief Credit Officer. The authority of the Chief Lending Officer and Chief Credit Officer may be increased to \$15.0 million for permanent commercial real estate loans acting jointly. 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 eleven senior officers including the Chief Executive Officer, the Chief Lending Officer, the Chief Financial Officer, the Chief Credit Officer, the Chief Administrative Officer, the Credit Risk Manager and the Deputy Lending Officer, and requires a majority vote for credit approval.

While the Bank discourages loan policy exceptions, 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

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approved by the Credit Committee. The Credit Administration Department reports the type and frequency of loan policy exceptions to 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 maintain an appropriate risk rating for each loan in their portfolio. When the lender learns of important financial developments, the risk rating is reviewed accordingly. Risk ratings are subject to review by the Credit Department during the underwriting and loan review processes. Loan review examinations are performed by an independent third party which validates the risk ratings on a sample basis. In addition, a risk rating can be adjusted at the weekly Credit Committee meeting and quarterly at management's Credit Risk Management Committee where they meet to review all loans rated a "watch" ("5") or worse. 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, 2018, the regulatory lending limit was \$146.0 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, 2018, the Bank's largest group exposure with an individual borrower and its related entities was \$107.9 million, consisting of seven commercial real estate loans totaling \$29.0 million, secured by two office buildings, one multi-family apartment building, two warehouse/industrial buildings and two single family dwellings located in New Jersey and Pennsylvania, three construction loans totaling \$59.6 million, secured by a multi-family apartment and office building project located in Pennsylvania and a multi-family apartment project located in New Jersey, a \$7.5 million unsecured line of credit, \$10.6 million in interest rate swap exposure, an \$800,000 letter of credit, a \$300,000 land loan, and a \$100,000 ACH facility. A \$25.0 million multi-family construction project loan paid off in full on January 10, 2019 as expected. The loans have an average risk rating of "4". The borrower, headquartered in New Jersey, is an experienced real estate owner and developer in the states of New Jersey and Pennsylvania. As of December 31, 2018, all of the loans in this lending relationship were performing in accordance with their respective terms and conditions.

As of December 31, 2018, the Bank had \$2.0 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 or other loss mitigation arrangement 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 and loss mitigation 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

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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.

*Delinquent Loans and Non-performing Loans and Assets.* Bank policy requires that the Chief Credit Officer to continuously monitor the status of the loan portfolios and report to the Board of Directors on at least a quarterly 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-homogeneous 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, 2018, there were 152 impaired loans totaling \$50.7 million, of which 148 loans totaling \$46.8 million were TDRs. Included in this total were 129 TDRs related to 124 borrowers totaling \$35.6 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2018. Interest income stops accruing on loans when interest or principal payments are 90 days in arrears or earlier when the timely collectability of such interest or principal is doubtful. When the accrual of interest on a loan is stopped, the loan is designated as a non-accrual loan and the outstanding unpaid interest previously credited is reversed. A non-accrual loan is returned to accrual status when factors indicating doubtful collection no longer exist, the loan has been brought current and the borrower demonstrates some period (generally six months) of timely contractual payments. Federal and state regulations as well as the Bank’s policy require the Bank to utilize an internal risk rating system as a means of reporting problem and potential problem assets. Under this system, the Bank classifies problem and potential problem assets as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the Bank will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories, but possess potential weaknesses, are designated “special mention.” Management estimates the amount of loan losses for groups of loans by applying quantitative loss factors to loan segments at the risk rating level, and applying qualitative adjustments to each loan segment at the portfolio level. Quantitative loss factors give consideration to historical loss experience by loan type based upon an appropriate look back period and adjusted for a loss emergence period. Qualitative adjustments give consideration to other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries and loan volumes, as well as national and local economic trends and conditions. Qualitative adjustments reflect risks in the loan portfolio not captured by the quantitative loss factors and, as such, are evaluated from a risk level perspective relative to the risk levels present over the look back period. The reserves resulting from the application of both of these sets of loss factors are combined to arrive at the allowance for loan losses. When the Bank classifies one or more assets, or portions thereof, as “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.

Management'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

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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, 2018, 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, 2018, \$74.2 million of loans were classified as "substandard," which consisted of \$45.2 million in commercial loans, \$13.3 million in commercial and multi-family mortgage loans, \$7.9 million in residential loans and \$1.7 million in consumer loans. At that same date, there were \$923,000 loans classified as "doubtful." Also, there were no loans classified as "loss" at December 31, 2018. As of December 31, 2018, \$87.8 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, 2018				At December 31, 2017				At December 31, 2016				
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	24	\$ 5,557	31	\$ 5,853	27	\$ 4,325	34	\$ 8,105	34	76	\$ 12,021	
Commercial mortgage loans	—	—	12	3,180	—	—	8	5,887	1	80	6	5,192
Multi-family mortgage loans	—	—	—	—	—	—	—	—	—	2	553	
Construction loans	—	—	—	—	—	—	—	—	—	1	2,517	
Total mortgage loans	24	5,557	43	9,033	27	4,325	57	13,992	34	6,643	20,283	
Commercial loans	2	13,565	19	4,309	2	406	24	6,901	4	357	29	11,857
Consumer loans	15	610	21	1,266	12	487	41	2,491	19	1,199	43	2,940
Total loans	41	\$ 19,738	83	\$ 14,608	41	\$ 5,218	122	\$ 23,385	57	\$ 8,199	148	\$ 35,080

*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, 2018, there were 19 TDRs totaling \$11.2 million that were classified as non-accrual, compared to 16 non-accrual TDRs which totaled \$10.0 million at December 31, 2017. 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,				
	2018	2017	2016	2015	2014
(Dollars in thousands)					
<b>Non-accruing loans:</b>					
Residential mortgage loans	\$ 5,853	\$ 8,105	\$ 12,021	\$ 12,031	\$ 17,222
	3,180	7,090	7,493	1,263	20,026

Commercial mortgage loans					
Multi-family mortgage loans	—	—	553	742	322
Construction loans	—	—	2,517	2,351	—
Commercial loans	15,391	17,243	16,787	23,875	12,342
Consumer loans	1,266	2,491	3,030	4,109	3,944
Total non-accruing loans	25,690	34,929	42,401	44,371	53,856
Accruing loans - 90 days or more delinquent	—	—	—	165	—
Total non-performing loans	25,690	34,929	42,401	44,536	53,856
Foreclosed assets	1,565	6,864	7,991	10,546	5,098
Total non-performing assets	\$ 27,255	\$ 41,793	\$ 50,392	\$ 55,082	\$ 58,954
Total non-performing assets as a percentage of total assets	0.2%	0.42%	0.53%	0.62%	0.69%
Total non-performing loans to total loans	0.3%	0.48%	0.61%	0.68%	0.88%

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Non-performing commercial mortgage loans decreased \$3.9 million to \$3.2 million at December 31, 2018, from \$7.1 million at December 31, 2017. At December 31, 2018, the Company held 12 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a \$1.5 million loan secured by a first mortgage on a property located in Somerville, New Jersey. The loan is presently in default. There is no contractual commitment to advance additional funds to this borrower.

Non-performing commercial loans decreased \$1.9 million, to \$15.4 million at December 31, 2018, from \$17.2 million at December 31, 2017. Non-performing commercial loans at December 31, 2018 consisted of 29 loans. The largest non-performing commercial loan relationship consisted of two loans to a health and fitness club with total outstanding balances of \$7.9 million at December 31, 2018. Both of these loans are secured by liens on a commercial property. These loans are currently paying in accordance with their restructured terms.

There were no non-performing constructions loans at December 31, 2018 or 2017.

At December 31, 2018, the Company held \$1.6 million of foreclosed assets, compared with \$6.9 million at December 31, 2017. Foreclosed assets at December 31, 2018 are carried at fair value based on recent appraisals and valuation estimates, less estimated selling costs. During the year ended December 31, 2018, there were nine additions to foreclosed assets with a carrying value of \$2.0 million and 20 properties sold with a carrying value of \$7.1 million. Foreclosed assets at December 31, 2018, consisted of \$1.6 million of residential real estate.

Non-performing assets totaled \$27.3 million, or 0.28% of total assets at December 31, 2018, compared to \$41.8 million, or 0.42% of total assets at December 31, 2017. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by \$1.4 million during the year ended December 31, 2018. The amount of cash basis interest income that was recognized on impaired loans during the year ended December 31, 2018 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 a 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 status. For commercial mortgage, multi-family, construction and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.

As part of its 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, multi-family, construction and commercial 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 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 process. In addition, the Bank requires an annual review be performed for commercial and commercial real estate loans above certain dollar thresholds, depending on loan type, to help determine the appropriate risk rating. Each quarter, the lending groups prepare individual Credit Risk Management Reports for the Credit Administration Department. These reports review all commercial loans and commercial mortgage loans that have been determined to involve above-average risk (risk rating of 5 or worse). The Credit Risk Management Reports contain the reason for the risk rating assigned to each loan, status of the loan and any current developments. These reports are submitted to a committee chaired by the Chief Credit Officer. Each loan officer reviews the loan and the corresponding Credit Risk Management Report with the committee and the risk rating is evaluated for appropriateness.

Management estimates the amount of loan losses for groups of loans by applying quantitative loss factors to loan segments at the risk rating level, and applying qualitative adjustments to each loan segment at the portfolio level. Quantitative loss factors give consideration to historical loss experience by loan type based upon an appropriate look-back period and adjusted for a loss emergence period; these factors are evaluated at least annually. The most recent periodic review and

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recalculation of quantitative loss factors was completed in the third quarter of 2018 using historical loss data through June 30, 2018 and was applied effective September 30, 2018. Qualitative adjustments give consideration to other qualitative or environmental factors such as:

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

Qualitative adjustments reflect risks in the loan portfolio not captured by the quantitative loss factors and, as such, are evaluated from a risk level perspective relative to the risk levels present over the look-back period. Qualitative adjustments are recalibrated at least annually and evaluated at least quarterly. The range of adjustments to historical loss rates applicable to qualitative factors were updated in the third quarter of 2018 in conjunction with the review and recalculation of quantitative loss factors. The reserves resulting from the application of both of these sets of loss factors are combined to arrive at the general allowance for loan losses.

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

The provision for loan losses is established after considering the allowance for loan loss analysis, the amount of the allowance for loan losses in relation to the total loan balance, loan portfolio growth, loan portfolio composition, loan delinquency and non-performing loan trends and peer group analysis.

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

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

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance at beginning of period	\$ 60,195	\$ 61,883	\$ 61,424	\$ 61,734	\$ 64,664
Charge offs:					
Residential mortgage loans	277	421	1,033	1,296	3,184
Commercial mortgage loans	—	72	35	1,086	705
Multi-family mortgage loans	—	2	—	105	4
Construction loans	—	6	—	—	15
Commercial loans	28,986	7,187	4,862	2,863	4,449
Consumer loans	755	1,253	1,020	3,478	2,515
Total	30,018	8,941	6,950	8,828	10,872
Recoveries:					
Residential mortgage loans	58	1	57	102	73
Commercial mortgage loans	431	59	504	86	131
Multi-family mortgage loans	—	—	67	2	1
Construction loans	—	6	—	57	80
Commercial loans	428	800	570	2,413	1,776
Consumer loans	768	787	811	1,508	1,231
Total	1,685	1,653	2,009	4,168	3,292
Net charge-offs	28,333	7,288	4,941	4,660	7,580
Provision for loan losses	23,700	5,600	5,400	4,350	4,650
Balance at end of period	\$ 55,562	\$ 60,195	\$ 61,883	\$ 61,424	\$ 61,734
Ratio of net charge-offs to average loans outstanding during the period	0.3%	0.10%	0.07%	0.07%	0.13%

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Allowance for loan losses to total loans 0.7% 0.82% 0.88% 0.94% 1.01%

Allowance for loan losses to non-performing loans 216.28 172.34 145.95 137.92 114.63

*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,		2017		2016		2015		2014	
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
<b>(Dollars in thousands)</b>									
Residential mortgage loans	3,971 15.46	\$ 4,328 15.59	\$ 5,540 17.80	\$ 5,110 19.20	\$ 4,805 20.58				
Commercial mortgage loans	12,639 31.70	13,136 29.62	12,234 28.24	12,798 26.25	16,645 27.86				
Multi-family mortgage loans	4,745 18.46	4,919 19.15	7,481 20.02	7,841 18.88	6,258 17.12				
Construction loans	6,323 5.36	5,669 5.35	4,371 3.77	6,345 5.06	4,269 3.62				
Commercial loans	25,693 23.37	29,814 23.81	29,143 23.28	25,829 21.94	24,381 20.76				
Consumer loans	2,191 5.95	2,329 6.48	3,114 7.39	3,501 8.67	4,881 10.06				
Unallocated	—	—	—	—	495				
<b>Total</b>	<b>\$ 55,562 100.00</b>	<b>\$ 60,195 100.00</b>	<b>\$ 61,883 100.00</b>	<b>\$ 61,424 100.00</b>	<b>\$ 61,734 100.00</b>				



## INVESTMENT ACTIVITIES

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

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

The Investment Policy does not currently permit the purchase of any securities that are below investment grade. The investment strategy is to maximize the return on the investment portfolio consistent with the Investment Policy. The investment strategy considers the Bank's and the Company's interest rate risk position as well as liquidity, loan demand and other factors. Acceptable investment securities include U.S. Treasury and Agency obligations, collateralized mortgage obligations ("CMOs"), corporate debt obligations, municipal bonds, mortgage-backed securities, commercial paper, mutual funds, bankers' acceptances and Federal funds. Securities purchased for the investment portfolio require a minimum credit rating of "A" by Moody's or Standard & Poor's at the time of purchase. Securities in the investment portfolio are classified as held to maturity debt securities, available for sale debt securities, equity securities, or held for trading. Securities that are classified as held to maturity debt securities 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 debt securities are reported at fair value. Available for sale securities debt securities include U.S. Treasury and Agency obligations, U.S. Agency and privately-issued CMOs, corporate debt obligations. 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. Equity securities are traded in active markets with readily accessible quoted market prices, carried at fair value. 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 was 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 (loss). 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. 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, 2018, the Bank held \$31,000 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.

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*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, 2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Held to Maturity Debt Securities:</b>						
Mortgage-backed securities	\$ 187	\$ 190	\$ 382	\$ 396	\$ 893	\$ 924
FHLB obligations	1,396	1,374	410	403	409	407
FHLMC obligations	2,195	2,162	1,600	1,564	1,600	1,560
FNMA obligations	899	869	1,799	1,763	1,798	1,762
FFCB obligations	499	491	499	491	499	496
State and municipal obligations	463,801	464,363	462,942	470,484	473,653	474,852
Corporate obligations	10,448	10,291	10,020	9,938	9,331	9,286
Total held-to-maturity debt securities	\$ 479,425	\$ 479,740	\$ 477,652	\$ 485,039	\$ 488,183	\$ 489,287
<b>Available for Sale Debt Securities:</b>						
U.S Treasury obligations	\$ —	\$ —	\$ —	\$ —	\$ 7,995	\$ 8,008
Mortgage-backed securities	1,048,415	1,034,969	993,548	988,367	952,992	951,861
FHLMC obligations	—	—	—	—	10,009	10,014
FHLB obligations	—	—	19,014	19,005	25,136	25,164
FNMA obligations	—	—	—	—	21,978	22,010
State and municipal obligations	2,828	2,912	3,259	3,388	3,727	3,743
Corporate obligations	25,039	25,198	26,047	26,394	19,013	19,037
Total available for sale debt securities	\$ 1,076,282	\$ 1,063,079	\$ 1,041,868	\$ 1,037,154	\$ 1,040,850	\$ 1,039,837
	\$ 635	\$ 635	\$ 417	\$ 658	\$ 397	\$ 549

**Equity securities**

Average expected life of securities<sup>(1)</sup>

4.72 years	4.34 years	4.24 years
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(1) Average expected life is based on prepayment assumptions utilizing prevailing interest rates as of the reporting dates and excludes equity securities.

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

	Amortized Cost	Fair Value
<b>At December 31, 2018:</b>		
FNMA	\$ 480,236	\$ 472,220
FHLMC	494,200	486,830

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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, 2018. No tax equivalent adjustments were made to the weighted average yields. Amounts are shown at amortized cost for held to maturity debt securities and at fair value for available for sale debt securities.

At December 31, 2018

	One Year or Less		More Than One Year to Five Years		More Than Five Years to Ten Years		After Ten Years		Total	
	Weighted Carrying Value	Weighted Average Yield	Weighted Carrying Value	Weighted Average Yield	Weighted Carrying Value	Weighted Average Yield	Weighted Carrying Value	Weighted Average Yield		
	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)		
<b>Held to Maturity Debt Securities:</b>										
Mortgage-backed securities	\$ —	—%	\$ 187	5.35	\$ —	—%	\$ —	—%	\$ 187	5.35
Agency obligations	—	—	4,989	1.92	—	—	—	—	4,989	1.92
Corporate obligations	1,809	2.70	8,639	2.80	—	—	—	—	10,448	2.78
State and municipal obligations	6,964	3.22	72,380	2.74	263,750	2.57	120,707	2.84	463,801	2.68
Total held to maturity debt securities	\$ 8,773	3.14	\$ 86,195	2.70	\$ 263,750	2.57	\$ 120,707	2.84	\$ 479,425	2.67
<b>Available for Sale Debt Securities:</b>										
State and municipal obligations	\$ —	—%	\$ —	—%	\$ 2,912	2.78	\$ —	—%	\$ 2,912	2.78
Mortgage-backed securities	211	3.12	23,572	1.73	234,111	2.48	777,075	2.92	1,034,969	2.79
Agency obligations	—	—	—	—	—	—	—	—	—	—
Corporate obligations	—	—	2,967	2.99	22,231	4.99	—	—	25,198	4.75
Total available for sale debt securities(2)	\$ 211	3.12	\$ 26,539	1.87	\$ 259,254	2.70	\$ 777,075	2.92	\$ 1,063,079	2.84

(1) Yields are not tax equivalent.

(2) Totals exclude \$635,000 equity securities at fair value.

## **SOURCES OF FUNDS**

*General.* Primary sources of funds consist of principal and interest cash flows received from loans and mortgage-backed securities, contractual maturities on investments, deposits, 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 investment, insurance, IRA and KEOGH products. 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 89.0% of total deposits at December 31, 2018 and 90.5% of total deposits at December 31, 2017. As of December 31, 2018 and 2017, time deposits maturing in less than one year amounted to \$584.5 million and \$424.4 million, respectively.

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The following table indicates the amount of certificates of deposit by time remaining until maturity at December 31, 2018.

	Maturity				Total
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	
	( In thousands)				
Certificates of deposit of \$100,000 or more	\$ 127,146	\$ 106,186	\$ 112,477	\$ 69,039	\$ 414,848
Certificates of deposit less than \$100,000	74,267	76,726	87,676	96,975	335,644
Total certificates of deposit	\$ 201,413	\$ 182,912	\$ 200,153	\$ 166,014	\$ 750,492

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

	Period to Maturity from December 31, 2018						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	2018	2017	2016
	(Dollars in thousands)								
Rate:									
0.00 to 0.99%	\$ 179,251	\$ 10,873	\$ —	\$ 3	\$ —	\$ —	\$ 190,158	\$ 283,569	\$ 421,772
1.00 to 2.00%	177,766	660,850	27,506	19,652	10,773	737	297,284	342,692	228,111
2.01 to 3.00%	227,471	118,338	2,087	2,582	12,508	104	263,090	8,544	950
3.01 to 4.00%	—	—	—	—	—	—	—	4	4
4.01 to 5.00%	—	—	—	—	—	—	—	—	104
5.01 to 6.00%	—	—	—	—	—	—	—	—	200
6.01 to 7.00%	—	—	—	—	—	—	—	—	6

Over  
7.01%

Total \$ 584,438,906 \$ 29,598,223 \$ 23,281,841 \$ 750,492,634,809 651,183

*Borrowed Funds.* At December 31, 2018, the Bank had \$1.44 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.



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

	Years Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
<u>Maximum</u>			
<u>Balance:</u>			
FHLBNY advances	\$ 1,256,525	\$ 1,288,448	\$ 1,343,095
FHLBNY line of credit	487,000	472,000	173,000
Securities sold under agreements to repurchase	153,715	210,702	283,233
<u>Average</u>			
<u>Balance:</u>			
FHLBNY advances	1,136,988	1,237,979	1,315,278
FHLBNY line of credit	259,197	179,003	37,608
Securities sold under agreements to repurchase	139,729	164,982	224,421
<u>Weighted</u>			
<u>Average</u>			
<u>Interest Rate:</u>			
FHLBNY advances	1.90%	1.78 %	1.76 %
FHLBNY line of credit	2.09	1.17	0.61
Securities sold under agreements to repurchase	1.04	1.26	1.42

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

	At December 31,		
	2018	2017	2016
	(Dollars in thousands)		
FHLBNY advances	\$ 1,037,960	\$ 1,127,335	\$ 1,295,080
FHLBNY line of credit	283,000	472,000	161,000
Securities sold under	121,322	143,179	156,665

repurchase  
agreements

Total borrowed funds	\$ 1,442,282	\$ 1,742,514	\$ 1,612,745
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Weighted average interest rate of FHLBNY advances	2.0%	1.74 %	1.77 %
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Weighted average interest rate of FHLBNY line of credit	2.6%	1.53 %	0.79 %
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Weighted average interest rate of securities sold under agreements to repurchase	0.8%	1.00 %	1.35 %
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#### **WEALTH MANAGEMENT SERVICES**

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

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

On January 22, 2019, Beacon announced the signing of a definitive agreement to acquire New York City-based Tirschwell & Loewy, Inc., an independent registered investment adviser. The transaction is subject to the satisfaction of customary closing conditions and is anticipated to close in the second quarter of 2019.

#### **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.

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

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

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

Bergen Avenue Realty, LLC, a New Jersey limited liability company is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure.

Bergen Avenue Realty PA, LLC, a Pennsylvania limited liability company is a wholly owned subsidiary of the Bank formed to manage and sell real estate acquired through foreclosure in Pennsylvania.

Beacon Trust Company, a New Jersey limited purpose trust company, is a wholly owned subsidiary of the Bank.

Beacon Investment Advisory Services, Inc. is a wholly owned subsidiary of Beacon Trust Company, incorporated under Delaware law and is a registered investment advisor.

#### **PERSONNEL**

As of December 31, 2018, the Company had 959 full-time and 85 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. This framework 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. On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("Economic Growth Act") was enacted, which repealed or modified several important provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") that have impacted the Company. Key aspects of the Economic Growth Act that have the potential to affect the Company's business and results of operations include:



- Raising the total asset threshold from \$10 billion to \$250 billion at which bank holding companies are required to conduct annual company-run stress tests mandated by the Dodd-Frank Act; and
- Raising the total asset threshold from \$10 billion to \$50 billion at which publicly traded bank holding companies are required to establish risk committees for the oversight of the enterprise-wide risk management practices of the institution.

To the extent our balance sheet grows organically or through strategic opportunities, the Company expects to benefit from the amendments which raised the above asset thresholds for conducting annual company-run stress tests.

However, notwithstanding this regulatory relief, the Company intends to continue employing a stress testing protocol commensurate with the risk of the institution as part of its enterprise risk management framework. The Company currently has, and will continue to maintain, a risk committee of its board of directors.

The Economic Growth Act also provided regulatory relief to institutions with less than \$10 billion in assets, including by:

- Raising the total asset threshold from \$2 billion to \$10 billion at which banks may deem certain loans originated and held in portfolio as “qualified mortgages” for purposes of the Consumer Financial Protection Bureau's ability-to-repay rule;
- Requiring the federal banking agencies to develop a Community Bank Leverage Ratio of not less than 8% and not more than 10%, under which any qualifying community bank under \$10 billion in total assets that exceeds such ratio would be considered to have met the existing risk-based capital rules and be deemed “well capitalized”; and
- Amending the Bank Holding Company Act to exempt from the Volcker Rule banks with total assets of \$10 billion or less and which have total trading assets and trading liabilities of 5% or less of their total consolidated assets.

Although the Company may benefit from these legislative changes in the short term, the extent of such benefits will be limited if the Company grows and eventually exceeds \$10 billion in total consolidated assets.

Despite the improvements for community banks and mid-size financial institutions resulting from the Economic Growth Act, many provisions of the Dodd-Frank Act and its implementing regulations remain in place and will continue to result in additional operating and compliance costs that could have a material adverse effect on the Company's business, financial condition, and results of operation. In addition, the Economic Growth Act requires the enactment of a number of implementing regulations, the details of which may have a material effect on the ultimate impact of the law.

In connection with the adoption of the state of New Jersey's budget on July 1, 2018, sweeping changes were made to New Jersey's Corporation Business Tax, generally effective January 1, 2019. Among other provisions, a New Jersey surtax was enacted effective July 1, 2018, for the periods beginning January 1, 2018 through December 31, 2021. This surtax did not have a material impact on the Company's income tax expense for the year ended December 31, 2018.

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

As of December 31, 2018, the Bank had consolidated assets of \$9.73 billion. The Dodd-Frank Act established several measures that apply to institutions and holding companies once they reach \$10 billion in assets. In addition to Consumer Financial Protection Bureau compliance examinations, limits on debit card interchange fees apply, which will reduce the Bank's fee income. Certain enhanced prudential standards will also become applicable such as additional risk management requirements, both from a framework and corporate governance perspective. These and other supervisory and regulatory implications of crossing the \$10 billion threshold would likely result in increased regulatory costs.

#### **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 such 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

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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, 2018, the Bank was considered “well capitalized” under FDIC guidelines.

*Examination and Enforcement.* The New Jersey Department of Banking and Insurance may examine the Company and the Bank whenever it deems an examination advisable. The Department examines the Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Commissioner has ordered the activity to be terminated, to show cause at a hearing before the Commissioner why such person should not be removed.

### **Federal Banking Regulation**

*Capital Requirements.* Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders’ equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution’s capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

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

The capital conservation buffer during the calendar year 2018 was 1.875% and increased to 2.5% on January 1, 2019.

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The following table shows the Bank's Tier 1 leverage ratio, common equity Tier 1 risk-based capital ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio, at December 31, 2018:

As of December 31, 2018				
Capital		Percent of Assets <sup>(1)</sup>	Capital Requirements <sup>(1)</sup>	Capital Requirements with Capital Conservation Buffer <sup>(1)</sup>
(Dollars in thousands)				
Tier 1 leverage capital	\$ 917,659	9.86	4.00	4.00
Common equity Tier 1 risk-based capital	917,659	12.06	4.50	6.38
Tier 1 risk-based capital	917,659	12.06	6.00	7.88
Total risk-based capital	973,366	12.80	8.00	9.88

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

As of December 31, 2018, the Bank was considered "well capitalized" under FDIC guidelines.

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

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

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

*Federal Home Loan Bank System.* The Bank is a member of the FHLB system which consists of eleven regional FHLBs, each subject to supervision and regulation by the Federal Housing Finance Agency ("FHFA"). The FHLB provides a central credit facility primarily for member institutions. As a member of the FHLB of New York, the Bank

is required to purchase and hold shares of capital stock in that FHLB in an amount as required by that FHLB's capital plan and minimum capital requirements. The Bank is in compliance with these requirements. The Bank has received dividends on its FHLB NY stock, although no assurance can be given that these dividends will continue to be paid. For the year ended December 31, 2018, dividends paid by the FHLB NY to the Bank totaled \$4.9 million.

*Deposit Insurance.* As a member institution of the FDIC, deposit accounts at the Bank are generally insured by the FDIC's Deposit Insurance Fund ("DIF") up to a maximum of \$250,000 for each separately insured depositor. Under the FDIC's risk-based assessment system, insured institutions were originally assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depended upon the category to which it was assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky paid lower assessments. No institution may pay a dividend if it is in default of its federal deposit insurance assessment.

The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range (inclusive of possible adjustments) at 25 to 45 basis points of total assets less tangible equity. However, as described below, there were recent changes to both the FDIC's assessment range and its risk-based assessment procedures.

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The FDIC has established a long range target size for the DIF of 2% of insured deposits. The FDIC's regulations also provided for a lower assessment rate schedule when the DIF reached 1.15% of total insured deposits. The 1.15% ratio was achieved as of June 30, 2016. As a result, effective July 1, 2016, the assessment range (inclusive of possible adjustments) has been lowered to 1.5 to 30 basis points for banks of less than \$10 billion in consolidated assets. The Dodd-Frank Act required banks of greater than \$10 billion of assets to pay to increase the DIF reserve ratio from 1.15% to 1.35%. Consequently, also effective July 1, 2016, banks of greater than \$10 billion of assets paid a surcharge of 4.5 basis points on assets above \$10 billion. In November 2018, the FDIC indicated that the 1.35% ratio had been achieved, that surcharges on banks with more than \$10 billion in assets would cease and that institutions below that size would receive credits for the portion of their assessment that contributed to the reserve ratio between 1.15% and 1.35%, effective when the ratio reaches 1.38%. Also on July 1, 2016, the FDIC eliminated the risk categories. Most institutions are now assessed based on financial ratios derived from statistical models that estimate the probability of a bank's failure within three years. Banks of greater than \$10 billion are assessed based on a rate derived from a scorecard which assesses certain factors such as examination ratings, financial measures related to the bank's ability to withstand stress and measures of loss severity to the DIF if the bank should fail.

*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 entire communities, including low- and moderate-income neighborhoods and borrowers (i.e. assessment(s)). 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 examination and evaluation process focuses on three tests:

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- a lending test, to evaluate the institution's record of making home mortgage, small business, small farm, and consumer loans, if applicable, in its assessment area(s), with consideration given towards, amongst other factors, borrower characteristics and geographic distribution;
- an investment test, to evaluate the institution's record of helping to meet the credit needs of its assessment area(s) through qualified investments characterized as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development; and
- a service test, to evaluate the institution's systems for delivering retail banking services through its branches, ATMs and other offices and access facilities, including the distribution of its branches, ATMs and other offices/access facilities, and the institution's record of opening and closing branches.

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 a "Satisfactory" Community Reinvestment Act rating in its most recently completed federal examination, which was conducted by the FDIC as of July 2018.

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

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

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

An institution will be treated as "well capitalized" if:

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

An institution will be treated as "adequately capitalized" if:

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

An institution will be treated as "undercapitalized" if:

- its total risk-based capital is less than 8%; or

- its Tier 1 risk-based-capital is less than 6%;
- its ratio of common equity Tier 1 capital to risk-weighted assets is less than 4.5%; or
- its leverage ratio is less than 4%

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

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

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

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

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

#### **Loans to a Bank’s Insiders**

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

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

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

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

#### **Federal Reserve System**

Under Federal Reserve Board regulations, the Bank is required to maintain non-interest earning reserves against its transaction accounts. For 2018, the Federal Reserve Board regulations generally require that reserves of 3% must be maintained against aggregate transaction accounts over \$16.0 million and up to \$122.3 million, and 10% against that portion of total transaction accounts in excess of up to \$122.3 million. The first \$16.0 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 and their customers conduct their business. The growth of the Internet has caused banks to adopt and refine alternative distribution and marketing systems. The federal bank regulatory agencies have targeted various aspects of internet banking, including the security and systems. There can be no assurance that the bank regulatory agencies will not adopt new regulations that will materially affect the Bank's Internet operations or restrict any such further operations.

#### **The USA PATRIOT Act**

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

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

#### **Holding Company Regulation**

*Federal Regulation.* The Company is regulated as a bank holding company, and as such, is subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board.

The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis. The Dodd-Frank Act directed the Federal Reserve Board to issue consolidated capital requirements for depository institution holding companies that are not less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. The previously discussed final rule regarding regulatory capital requirements implemented the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks applied to bank holding companies (with greater than \$1 billion of assets) as of January 1, 2015. As is the case with institutions themselves, the capital conservation buffer was effective on January 1, 2016, and increased each year until it is fully implemented on January 1, 2019. As of December 31, 2018, the Company's regulatory capital ratios exceed these minimum capital requirements.





The following table shows the Company's Tier 1 leverage capital ratio, common equity Tier 1 risk-based capital ratio, Tier 1 risk-based capital ratio and the total risk-based capital ratio as of December 31, 2018.

As of December 31, 2018				
Capital		Percent of Assets <sup>(1)</sup>	Capital Requirements <sup>(1)</sup>	Capital Requirements with Capital Conservation Buffer <sup>(1)</sup>
(Dollars in thousands)				
Tier 1 leverage capital	\$ 953,768	10.24	4.00	4.00
Common Equity Tier 1 risk-based capital	953,768	12.54	4.50	6.38
Tier 1 risk-based capital	953,768	12.54	6.00	7.88
Total risk-based capital	1,009,475	13.27	8.00	9.88

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

As of December 31, 2018, the Company was "well capitalized" under Federal Reserve Board guidelines.

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

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

Federal Reserve Board regulations require a bank holding company 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. The regulations provide that 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. Notwithstanding the aforementioned regulations, the Company has learned that Federal Reserve Board staff is interpreting its regulatory capital regulation to require Federal Reserve Board approval for any redemption or repurchase of stock included in regulatory capital.

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:

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- 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.

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.

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.

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**

Beacon Investment Advisory Services, Inc. is an investment adviser registered with the SEC. As such, it is required to make certain filings with and is subject to periodic examination by, the SEC.

#### **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.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted. Included as part of the law, was a permanent reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018. Based upon the change in the tax rate, the Company revalued its net deferred tax asset at December 31, 2017 to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized. As a result of the enactment of the Tax Act, the Company recognized an additional tax expense of \$3.9 million for the year ended December 31, 2017.

*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, 2018 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, 2018, the Bank had an unrecognized tax liability of \$14.1 million with respect to this reserve.

*Corporate Alternative Minimum Tax.* The Internal Revenue Code of 1986, as amended (the "Code"), imposed 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 was payable to the extent such AMTI was in excess of an exemption amount and the AMT exceeded the regular income tax. Net operating losses could offset no more than 90% of AMTI. Certain payments of alternative minimum tax could be used as credits against regular tax liabilities in future years. The Company was not subject to the alternative minimum tax and has no such amounts available as credits for carryover. The Tax Act repealed the corporate AMT effective for tax years beginning after December 31, 2017.

*Net Operating Loss Carryovers.* Under the general rule, for tax periods ending 12/31/2017 and prior 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, 2018, the Company had approximately \$1.7 million 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. The Tax Act limits the NOL deduction for a given year to 80% of taxable income, effective with respect to losses arising in tax years beginning after December 31, 2017. It also repealed the pre-enactment carryback provision for NOLs and provides for the indefinite carryforward of NOLs arising in tax years ending after December 31, 2017.

*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 corporation business tax at 9% of apportioned taxable income for tax periods ended December 31, 2017 and prior. As a result of

the newly enacted legislation that New Jersey effectuated on July 1, 2018, subsequent years will be subject to a temporary surtax effective for tax years 2018 through 2021, and requiring companies to file combined tax returns beginning 2019.

Prior to the new legislation, New Jersey tax law did not allow 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 for tax periods prior to December 31, 2018.

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Pennsylvania State Taxation. The Bank is subject to Pennsylvania Mutual Thrift Institutions Tax. Mutual thrift institutions tax is imposed at the rate of 11.5% 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.

*New York State Taxation.* In 2014, New York State enacted significant and comprehensive reforms to its corporate tax system that went into effect January 1, 2015. The legislation resulted in significant changes to the method of calculating income taxes for banks, including changes to future period tax rates, rules relating to the sourcing of income, and the elimination of the banking corporation tax so that banking corporations are taxed under New York State's corporate franchise tax. The corporate franchise tax is based on the combined entire net income of the Company and its affiliates allocable and apportionable to New York State and taxed at a rate of 6.5%. The amount of revenues that are sourced to New York State under the new legislation can be expected to fluctuate over time. In addition, the Company and its affiliates are subject to the Metropolitan Transportation Authority ("MTA") Surcharge allocable to business activities carried on in the Metropolitan Commuter Transportation District. The MTA surcharge for 2018 was 28.6% of a recomputed New York State franchise tax, calculated using a 6.5% tax rate on allocated and apportioned entire net income. The examination of the Company's 2016 and 2015 New York State tax returns was completed in the first quarter of 2019, and did not have a material impact on the Company's effective income tax rate.

#### **Item 1A. Risk Factors.**

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

#### **Changes to the underlying drivers of our net interest income could adversely affect our results of operations and financial condition.**

Our financial condition and results of operations are significantly affected by changes in market interest rates, and the degree to which these changes disparately impact short-term and long-term interest rates and influence the behavior of our customer base. 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. The Federal Reserve Board's policy action to increase short-term rates could result in a flattening or inverted yield curve, which could negatively impact our net interest margin and earnings.

Our interest-bearing liabilities may be subject to repricing or maturing more quickly than our interest-earning assets.

If short-term rates increase rapidly, we may have to increase the rates we pay on our deposits and borrowed funds more quickly than we can increase the interest rates we earn 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 or are lost to competitors offering higher rates on their deposit products. 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 for such period would decrease 3.5% or \$10.8 million. Conversely, should market interest rates fall below current levels, our net interest income could also be negatively affected if competitive pressures prevented us from reducing rates on our deposits, while the yields on our assets decrease through loan prepayments and interest rate adjustments.

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, 2018, our available for sale debt securities portfolio totaled \$1.06 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 a temporary adverse effect on stockholders' equity.

We are also subject to other financial risks related to interest rate benchmarks and their associated movements.

Changes in interest rates can affect the average lives of loans and mortgage related securities. Increases in interest rates can result in extending the average lives of our loans and mortgage related securities, thereby reducing the

amount of cash flows available to invest in higher-yielding assets. Additionally, our inability to oversee a successful transition to an alternative reference rate for loans in our portfolio that use of the London Inter-bank Offered Rate (“LIBOR”) could impact our costs. At December 31, 2018, loans that tied to the LIBOR rate totaled \$1.48 billion.

**We are subject to liquidity risk.**

Liquidity risk is the potential that we will be unable to meet our obligations as they become due, 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, or meet regulatory-imposed expectations for liquidity levels. Liquidity is required to fund various obligations, including loan originations and commitments, withdrawals by depositors, repayments of borrowings, operating expenses and capital expenditures. Liquidity is derived primarily from deposit growth and retention; principal and interest payments, sales, maturities, and prepayments of loans and 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, lack of competitiveness, 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, our credit risk rating process, loan portfolio trends, 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.

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. In 2016, the Financial Accounting Standards Board released an updated standard for determining credit losses, which fundamentally changes how financial institutions calculate their allowance reserves. The new standard, which will become effective for reporting periods beginning after December 15, 2019, will require us to adopt a “Current Expected Credit Loss” model that measures projected credit losses over the estimated life of the asset. This approach is a significant departure from the current accounting standard, which estimates potential credit losses based on losses considered to be probable and reasonably estimable. When adopted, this new standard may increase our allowance for credit losses, which could materially affect our financial condition and future results of operations. The extent of the increase, if any, will ultimately depend upon the nature and characteristics of our loan portfolio at the adoption date, as well as the macroeconomic assumptions and forecasts used at that date. Therefore, the potential financial impact is currently unknown.

**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 construction loans for borrowers whose properties are located in areas where we face significant competition. These loans are generally regarded as having a higher inherent risk of default and potential 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, multi-family loans, commercial mortgage loans and commercial loans have significantly larger average loan balances compared to our single-family residential mortgage loans and typically face higher environmental-related risks. 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.

The FDIC, the OCC and the FRB (collectively, the “Agencies”) have issued joint guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” (the “CRE Guidance”). Although the CRE Guidance did not establish specific lending limits, it provides that a bank’s commercial real estate lending exposure may receive increased supervisory scrutiny where total non-owner occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate and construction and land loans (“CRE Loans”),



represent 300% or more of an institution's total risk-based capital and the outstanding balance of the CRE Loan portfolio has increased by 50% or more during the preceding 36 months. While our level of CRE Loans equaled 422% of total risk-based capital at December 31, 2018, our CRE Loan portfolio has not increased by 50% or more during the preceding 36 months.

In December 2015, the Agencies released a new statement on prudent risk management for commercial real estate lending (the "2015 Statement"). In the 2015 Statement, the Agencies express concerns about easing commercial real estate underwriting standards, direct financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicate that the Agencies will continue "to pay special attention" to commercial real estate lending activities and concentrations going forward. If our regulators were to impose restrictions on the

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amount of commercial real estate loans we can hold in our loan portfolio, or require higher capital ratios as a result of the level of commercial real estate loans held, our earnings or our ability to engage in certain merger and acquisition activity could be adversely affected.

**Our continuing concentration of business in a relatively confined region may increase our risk.**

Our success is significantly affected by general economic conditions in northern and central New Jersey, and eastern Pennsylvania. Unlike some larger banks that are more geographically diversified, we provide banking, financial, and wealth management 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 meet their loan payment obligations and the value of the collateral securing our loans. Adverse local economic conditions caused by inflation, recession, unemployment, state or local government action, or other factors beyond our control would impact these local economic conditions and could negatively affect the financial results of our business.

Because we have a significant amount of real estate loans, depressed real estate values and real estate sales could 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. The recent changes in the federal tax laws enacted in 2017 under the Tax Cuts and Jobs Act may have an adverse effect on the market for, and the valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. These recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes, like New Jersey. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

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

**We may be adversely affected by recent changes in tax laws.**

The Tax Act is likely to have both positive and negative effects on our financial performance. For example, the new legislation resulted in a reduction in the federal corporate tax rate from 35% to 21% beginning in 2018, which will have a favorable impact on our earnings and capital generation abilities. However, the new legislation also enacted limitations on certain deductions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. These limitations include (1) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (2) the elimination of interest deductions for certain home equity loans, (3) a limitation on the deductibility of business interest expense, and (4) a limitation on the deductibility of property taxes and state and local income taxes.

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

Additionally, legislation in New Jersey that was adopted in July 2018 will increase our state income tax liability and could increase our overall tax expense. The legislation imposes a temporary surtax on corporations earning New Jersey allocated income in excess of \$1 million of 2.5% for tax years beginning on or after January 1, 2018 through December 31, 2019, and of 1.5% for tax years beginning on or after January 1, 2020 through December 31, 2021. The new legislation also requires combined filing for members of an affiliated group for tax years beginning on or after

January 1, 2019, changing New Jersey's current status as a separate return state, and limits the deductibility of dividends received. These changes are not temporary. Regulations implementing the legislative changes have not yet been issued, so we cannot yet fully evaluate the impact of the legislation on our overall tax expense. However, the new legislation may cause us to lose the benefit of certain of our tax management strategies and may cause our total tax expense to increase.

**A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.**

The Bank collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both the Bank and third-party service providers. Our operational and security systems, infrastructure, including our computer systems, data management, and internal processes, as well as those of third parties, are integral to our business. We rely on our employees and third parties in our day-to-day and ongoing operations, who may, as a result of human error, misconduct or malfeasance, or failure or breach of third-party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and other safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with our own systems.

We handle a substantial volume of customer and other financial transactions every day. Our financial, accounting, data processing, check processing, electronic funds transfer, loan processing, online and mobile banking, automated teller machines, or ATMs, backup or other operating or security systems and infrastructure may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. This could adversely affect our ability to process these transactions or provide these services.

There could be sudden increases in customer transaction volume, electrical, telecommunications or other major physical infrastructure outages, natural disasters, events arising from local or larger scale political or social matters, including terrorist acts, and cyber attacks. We continuously update these systems to support our operations and growth. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones. Operational risk exposures could adversely impact our results of operations, liquidity and financial condition, and cause reputational harm.

**A cyber attack, information or security breach, or a technology failure of ours or of a third-party could adversely affect our ability to conduct our business or manage our exposure to risk, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.**

Our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our operations rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. We rely on digital technologies, computer, database and email systems, software, and networks to conduct our operations. In addition, to access our network, products and services, our customers and third parties may use personal mobile devices or computing devices that are outside of our network environment.

Financial services institutions have been subject to, and are likely to continue to be the target of, cyber attacks, including computer viruses, malicious or destructive code, phishing attacks, denial of service or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the institution, its employees or customers or of third parties, or otherwise materially disrupt network access or business operations. For example, denial of service attacks have been launched against a number of large financial institutions and several large retailers have disclosed substantial cyber security breaches affecting debit and credit card accounts of their customers. We have experienced cyber security incidents in the past, although not material, and we anticipate that, as a larger bank, we could experience further incidents. There can be no assurance that we will not suffer material losses or other material consequences relating to technology failure, cyber attacks or other information or security breaches.

In addition, there have been instances where financial institutions have been victims of fraudulent activity in which criminals pose as customers to initiate wire and automated clearinghouse transactions out of customer accounts. The

recent massive breach of the systems of a credit bureau presents additional threats as criminals now have more information about a larger portion of the population of the United States than past breaches have involved, which could be used by criminals to pose as customers initiating transfers of money from customer accounts. Although the Bank has policies and procedures in place to verify the authenticity of its customers, the Bank cannot assure that such policies and procedures will prevent all fraudulent transfers. Such activity can result in financial liability and harm to our reputation.

Misconduct by employees could also result in fraudulent, improper or unauthorized activities on behalf of clients or improper use of confidential information. The Bank may not be able to prevent employee errors or misconduct, and the precautions the Bank takes to detect this type of activity might not be effective in all cases. Employee errors or misconduct could subject the Bank to civil claims for negligence or regulatory enforcement actions, including fines and restrictions on our business.

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As cyber threats and other fraudulent activity continues to evolve, we may be required to expend significant additional resources to continue to modify and enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Any of these matters could result in our loss of customers and business opportunities, significant disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, and additional compliance costs. In addition, any of the matters described above could adversely impact our results of operations and financial condition.

**We rely on third-party providers and other suppliers for a number of services that are important to our business. An interruption or cessation of an important service by any third-party could have a material adverse effect on our business.**

We are dependent for the majority of our technology, including our core operating system, on third-party providers. If these companies were to discontinue providing services to us, we may experience significant disruption to our business. In addition, each of these third parties faces the risk of cyber attack, information breach or loss, or technology failure. If any of our third-party service providers experience such difficulties, or if there is any other disruption in our relationships with them, we may be required to find alternative sources of such services. We are dependent on these third-party providers securing their information systems, over which we have limited control, and a breach of their information systems could adversely affect our ability to process transactions, service our clients or manage our exposure to risk and could result in the disclosure of sensitive, personal customer information, which could have a material adverse impact on our business through damage to our reputation, loss of business, remedial costs, additional regulatory scrutiny or exposure to civil litigation and possible financial liability. Assurance cannot be provided that we could negotiate terms with alternative service sources that are as favorable or could obtain services with similar functionality as found in existing systems without the need to expend substantial resources, if at all, thereby resulting in a material adverse impact on our business and results of operations.

**We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.**

We are subject to the extensive regulation, supervision and examination of various regulatory authorities, but primarily by the New Jersey Department of Banking and Insurance, our chartering authority, and by the FDIC, as insurer of our deposits. As a bank holding company, we are subject to regulation and oversight by the Federal Reserve Board. 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.

**We will be subject to heightened regulatory requirements when we exceed total assets of \$10 billion.**

Provident's total assets were \$9.73 billion at December 31, 2018. Banks with assets in excess of \$10 billion are subject to requirements imposed by the Dodd-Frank Act and its implementing regulations including the examination authority of the Consumer Financial Protection Bureau to assess our compliance with federal consumer financial laws, imposition of higher FDIC premiums, reduced debit card interchange fees, and enhanced risk management

frameworks, all of which increase operating costs and reduce earnings.

As we approach \$10 billion in assets, we continue to incur additional costs to prepare for the implementation of these imposed requirements. We may be required to invest more significant management attention and resources to evaluate and continue to make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. Further, federal financial regulators may require us to accelerate our actions and investments to prepare for compliance before we exceed \$10 billion in total consolidated assets, and may suspend or delay certain regulatory actions, such as approving a merger agreement, if they deem our preparations to be inadequate. Upon reaching this threshold, we face the risk that we may fail to meet these requirements, which may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be material.

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

A general economic slowdown could affect our core banking business. Furthermore, uncertainty and market volatility regardless of overall market conditions could affect the value of the assets under management in our wealth management business resulting in lower fee income. Conditions that produce extended market volatility could affect our ability to provide our clients with an adequate return, thereby impacting our ability to attract new clients or causing existing clients to seek more stable investment opportunities with alternative wealth advisors.

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

Competition in the banking and financial services industry is intense and expanding with entrants into our market providing new and innovative technology-driven financial solutions. Our profitability depends upon our continued ability to successfully compete 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, online lenders, large non-bank participants, and brokerage and investment banking firms operating both 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. 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. There are also a number of strong locally-based competitors with large capital positions in our market who may deploy aggressive strategies to drive growth, take our customers and win market share.

Furthermore, key components of the financial services value chain have been replicated by digital innovation, commonly referred to as Fintech. The adoption of these Fintech solutions within our market area may cause greater and faster disruption to our business model if we are unable to keep pace with, or invest wisely in, these enabling technologies.

**Because the financial services business involves a high volume of transactions, we face significant operational risks.**

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

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

Our business is subject to risk from external events. Financial institutions have been, and continue to be, targets of terrorist threats aimed at compromising their operating and communication systems. The metropolitan New York and Philadelphia areas remain central targets for potential acts of terrorism, including cyber terrorism, which could affect not only our operations but those of our customers. Events such as these may become more common in the future and could cause significant damage such as disrupt 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, which could 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.

**A State Bank in New Jersey could be disruptive to our overall strategies and potentially reduce the level of public funds held on deposit with us.**



We maintain a large and relatively stable level of deposits from local government entities, primarily through relationships we have cultivated with New Jersey municipalities. These deposits are a relatively low-cost source used to fund our loans and investments. The State of New Jersey is considering creating a State Bank, whose purpose would be to promote small businesses, fair educational lending, housing, infrastructure improvements, community development, economic development, commerce and industry in the State. As currently proposed, it intends to permit State funds, including funds from State institutions and any State public source, to be held by the State Bank. There can be no assurance that legislation to create a State Bank will pass or whether it will pass as currently proposed.

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Given the degree of our funding reliance on many New Jersey-based public entities and the potential scope of the proposed State Bank's lending activities, we are uncertain of the impact this proposal may have on us. If we are unable to retain the current level of public funds on deposit, we may need to increase the costs associated with our funding needs, which could have a negative impact on our net income.

**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, 2018, the Bank conducted business through 84 full-service branch offices located in Bergen, Essex, Hudson, 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 Bank maintains satellite loan production offices in Convent Station, Flemington, Paramus and Princeton, New Jersey, as well as in Bethlehem, Newtown and Wayne, Pennsylvania. The aggregate net book value of premises and equipment was \$58.1 million at December 31, 2018.

On December 13, 2017, the Company completed the sale and leaseback of 12 of its New Jersey banking offices, which had a net book value of \$14.5 million. Net proceeds from the sale totaled \$20.7 million. The transaction did not have a significant immediate impact on the Company's financial statements as the resultant net gain on sale will be recognized over the 10 year term of the leases as a reduction of rent expense.

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

**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not applicable.

## **PART II**

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

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

As of February 1, 2019, there were 83,209,293 shares of the Company's common stock issued and 66,580,600 shares outstanding, and approximately 4,731 stockholders of record.

On February 1, 2019, the Board of Directors declared a quarterly cash dividend of \$0.23 per common share and a special cash dividend of \$0.20 per common share, which were both paid on February 28, 2019, to common stockholders of record as of the close of business on February 15, 2019. 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.

**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, 2013 through December 31, 2018, (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 NYSE and NASDAQ stock exchange. Cumulative return assumes the reinvestment of dividends and is expressed in dollars based on an assumed investment of \$100 on December 31, 2013.

Index	Period Ending					
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Provident Financial Services, Inc.	100.00	106.80	111.72	162.44	160.48	148.25
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
SNL Thrift	100.00	107.55	120.94	148.14	147.06	123.87

The following table reports information regarding purchases of the Company's common stock during the fourth quarter of 2018 under the stock repurchase plan approved by the Company's Board of Directors:

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)(2)
October 1, 2018 through October 31, 2018	36,247	\$ 22.47	36,247	3,032,480
November 1, 2018 through November 30, 2018	1,713	25.24	1,713	3,030,767
December 1, 2018 through December 31, 2018	519,710	23.41	519,710	2,511,057
Total	557,670	\$ 23.36	557,670	

(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. The allotment of shares for repurchase under this program was filled in December 2018, whereafter repurchases of the Company's common stock were made under the eighth 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.

### 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,				
	2018	2017	2016	2015	2014
	(In thousands)				
<b>Selected Financial Condition Data:</b>					
Total assets	\$ 9,725,769	\$ 9,845,274	\$ 9,500,465	\$ 8,911,657	\$ 8,523,377
Loans, net <sup>(1)</sup>	7,195,026	7,265,523	6,941,603	6,476,250	6,023,771
Held to maturity debt securities	479,425	477,652	488,183	473,684	469,528
Available for sale debt securities	1,063,079	1,037,154	1,039,837	964,014	1,073,871
Deposits	6,830,122	6,714,166	6,553,629	5,923,987	5,792,523
Borrowed funds	1,442,282	1,742,514	1,612,745	1,707,632	1,509,851
Stockholders' equity	1,358,980	1,298,661	1,251,781	1,196,065	1,144,099

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

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share data)				
<b>Selected Operations Data:</b>					
Interest income	\$ 359,829	\$ 323,846	\$ 302,315	\$ 291,781	\$ 279,361
Interest expense	59,153	45,644	43,748	41,901	40,472
Net interest income	300,676	278,202	258,567	249,880	238,889
	23,700	5,600	5,400	4,350	4,650

Provision for loan losses					
Net interest income after provision for loan losses	276,976	272,602	253,167	245,530	234,239
Non-interest income	58,676	55,697	55,393	55,222	41,168
Non-interest expense	191,735	187,822	183,778	180,589	169,991
Income before income tax expense	143,917	140,477	124,782	120,163	105,416
Income tax expense	25,530	46,528	36,980	36,441	31,785
Net income	\$ 118,387	\$ 93,949	\$ 87,802	\$ 83,722	\$ 73,631
Earnings per share:					
Basic earnings per share	\$ 1.82	\$ 1.46	\$ 1.38	\$ 1.33	\$ 1.22
Diluted earnings per share	\$ 1.82	\$ 1.45	\$ 1.38	\$ 1.33	\$ 1.22

	At or For the Years Ended December 31,				
	2018	2017	2016	2015	2014
<b>Selected Financial and Other Data<sup>(1)</sup></b>					
<b>Performance Ratios:</b>					
Return on average assets	1.22	0.99	0.95	0.96	0.92
Return on average equity	8.93	7.28	7.12	7.12	6.75
Average net interest rate spread	3.20	3.07	2.98	3.07	3.18
Net interest margin <sup>(2)</sup>	3.39	3.21	3.11	3.20	3.30
Average interest-earning assets to average interest-bearing liabilities	1.29	1.27	1.25	1.24	1.22
Non-interest income to average total assets	0.60	0.58	0.60	0.64	0.51
Non-interest expenses to average total assets	1.97	1.97	1.99	2.07	2.11
Efficiency ratio <sup>(3)</sup>	53.36	56.25	58.54	59.19	60.70
<b>Asset Quality Ratios:</b>					
Non-performing loans to total loans	0.75	0.48	0.61	0.68	0.68
Non-performing assets to total assets	0.28	0.42	0.53	0.62	0.69
Allowance for loan losses to non-performing loans	216.28	172.34	145.95	137.92	114.63
Allowance for loan losses to total loans	0.77	0.82	0.88	0.94	1.01
<b>Capital Ratios:</b>					

Leverage capital <sup>(4)</sup>	10.24	9.65	9.25	9.25	9.21
Total risk based capital <sup>(4)</sup>	13.27	12.67	12.50	12.57	13.06
Average equity to average assets	13.61	13.53	13.38	13.53	13.57
<b>Other Data:</b>					
Number of full-service offices	84	84	87	87	86
Full time equivalent employees	1,002	1,006	1,001	1008	967

(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:	At December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Net interest income	\$ 300,676	\$ 278,202	\$ 258,567	\$ 249,880	\$ 238,889
Non-interest income	58,676	55,697	55,393	55,222	41,168
Total income	\$ 359,352	\$ 333,899	\$ 313,960	\$ 305,102	\$ 280,057
Non-interest expense	\$ 191,735	\$ 187,822	\$ 183,778	\$ 180,589	\$ 169,991
Expense/income	53.36%	56.25%	58.54%	59.19%	60.70%

## 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 full-service branches and loan production offices 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 mortgage, multi-family, construction 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 lending policy focuses on quality underwriting standards and close monitoring of the loan portfolio. At December 31, 2018, these commercial loan types accounted for 78.9% of the loan portfolio and retail loans accounted for 21.1%. The Company intends to continue to focus on commercial mortgage, multi-family, construction and commercial lending relationships.

The Company's relationship banking strategy focuses on increasing core accounts and expanding relationships through its branch network, mobile banking, online banking and telephone banking touch points. The Company continues to evaluate opportunities to increase market share by expanding within existing and contiguous markets. Core deposits, consisting of savings and demand deposit accounts, are generally a stable, relatively inexpensive source of funds. At December 31, 2018, core deposits were 89.0% 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 may result in a decrease in the Company's average interest rate spread and net interest income, which could have a negative effect on profitability. The Company generates non-interest income such as income from retail and business account fees, loan servicing fees, loan origination fees, loan level swap fees, appreciation in the cash surrender value of Bank-owned life insurance, income from loan or securities sales, fees from wealth management services and investment product sales and other fees. The Company's operating expenses consist primarily of compensation and benefits expense, occupancy and equipment expense, data processing expense, the amortization of intangible assets, marketing and advertising expense and other general and administrative expenses. The Company's results of operations are also affected by general economic conditions, changes in market interest rates, changes in asset quality, changes in asset values, actions of regulatory agencies and government policies.

### **Acquisition**

On January 22, 2019, Beacon announced the signing of a definitive agreement to acquire New York City-based Tirschwell & Loewy, Inc., an independent registered investment adviser. The transaction is subject to the satisfaction of customary closing conditions and is anticipated to close in the second quarter of 2019.

### **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
- 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.

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Management's evaluation of the adequacy of the allowance for loan losses includes a 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 status. For commercial mortgage, multi-family, construction and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.

As part of its 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, multi-family, construction and commercial 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 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 process. In addition, the Bank requires an annual review be performed for commercial and commercial real estate loans above certain dollar thresholds, depending on loan type, to help determine the appropriate risk rating.

Management estimates the amount of loan losses for groups of loans by applying quantitative loss factors to loan segments at the risk rating level, and applying qualitative adjustments to each loan segment at the portfolio level. Quantitative loss factors give consideration to historical loss experience by loan type based upon an appropriate look-back period and adjusted for a loss emergence period. Quantitative loss factors are evaluated at least annually. Management completed its annual evaluation of the quantitative loss factors for the quarter ended September 30, 2018. Qualitative adjustments give consideration to other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries and loan volumes, as well as national and local economic trends and conditions. Qualitative adjustments reflect risks in the loan portfolio not captured by the quantitative loss factors and, as such, are evaluated from a risk level perspective relative to the risk levels present over the look-back period. Qualitative adjustments are recalibrated at least annually and evaluated at least quarterly. The reserves resulting from the application of both of these sets of loss factors are combined to arrive at the allowance for loan losses.

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

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

based on their judgments about information available to them at the time of their examination. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

The determination of whether deferred tax assets will be realizable is predicated on the reversal of existing deferred tax liabilities and estimates of future taxable income. Such estimates are subject to management's judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. The Company did not require a valuation allowance at December 31, 2018 and 2017.

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**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, 2018, 2017 and 2016. 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,					2016						
	2018		2017		2016		2015		2014			
	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	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Cost
<b>(Dollars in thousands)</b>												
<b>Interest-earning assets:</b>												
Deposits	\$ 13,867	\$ 269	1.9%	\$ 19,670	\$ 199	1.0%	\$ 62,704	\$ 314	.5%			
Federal funds sold and short-term investments	50,351	1465	2.92	51,790	1071	2.07	13,010	184	1.42			
Held to maturity debt securities	472,690	12,606	2.67	487,616	13,027	2.67	478,901	13,208	2.76			
Available for sale debt securities	1,046,701	26,074	2.49	1,044,116	22,384	2.14	1,008,372	19,377	1.92			
Equity Securities At Fair Value	683	—	—	587	—	—	528	—	—			
Federal Home Loan Bank NY Stock	72,364	4,907	6.78	73,995	4,061	5.49	72,928	3,513	4.82			
Net loans(2)	7,208,420	314,508	4.36	6,971,512	283,104	4.06	6,669,778	265,719	3.98			
Total interest-earning assets	8,865,076	359,829	4.06	8,649,286	323,846	3.74	8,306,221	302,315	3.64			
Non-interest earning assets	871,373			885,499			906,332					
Total assets	\$ 9,736,449			\$ 9,534,785			\$ 9,212,553					
<b>Interest-bearing liabilities:</b>												
Savings deposits	\$ 1,070,868	\$ 923	0.1%	\$ 1,101,103	\$ 092	0.1%	\$ 1,047,061	\$ 1,709	0.1%			
Demand deposits	3,575,306	20,450	0.57	3,477,413	12,205	0.35	3,305,269	10,106	0.3%			
Time deposits	671,671	8,320	1.24	649,195	5,144	0.79	725,802	5,132	0.7%			

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Borrowed funds	1,535,906	28,460	1.85	1,581,964	26,203	1.66	1,577,307	26,801	1.70
Total interest-bearing liabilities	6,855,751	59,153	0.86	6,809,675	45,644	0.67	6,655,439	43,748	0.66
<b>Non-interest bearing liabilities:</b>									
Non-interest bearing deposits	1,463,662			1,366,354			1,243,224		
Other Non-interest bearing liabilities	63,825			68,783			81,044		
Total Non-Interest Bearing Liabilities	1,527,487			1,435,137			1,324,268		
Total liabilities	8,411,238			8,244,812			7,979,707		
Stockholders' equity	1,325,211			1,289,973			1,232,846		
Total liabilities and equity	\$ 9,736,449			\$ 9,534,785			\$ 9,212,553		
Net interest income	\$ 300,676			\$ 278,202			\$ 258,567		
Net interest rate spread		3.20			3.07			2.98	
Net interest earning assets	\$ 2,011,325			\$ 1,839,611			\$ 1,650,782		
Net interest margin(3)		3.90			3.21			3.11	
Ratio of interest-earning assets to total interest-bearing liabilities		1.29x		1.27 x			1.25x		

(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.

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*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,			2017 vs. 2016			
	2018 vs. 2017			Total Increase/ (Decrease)	Increase/(Decrease)		Total Increase/ (Decrease)
	Increase/(Decrease)				Due to		
	Volume	Rate		Volume	Rate		
	(In thousands)						
<b>Interest-earning assets:</b>							
Deposits, Federal funds sold and short-term investments	\$ (779)	\$ 1,243	\$ 464	\$ 1	\$ 771	\$ 772	
Investment securities	(398)	(23)	(421)	238	(419)	(181)	
Securities available for sale	58	3,632	3,690	706	2,301	3007	
Federal Home Loan Bank Stock	(91)	937	846	52	496	548	
Loans	9,844	21,560	31,404	12,185	5,200	17,385	
Total interest-earning assets	8,634	27,349	35,983	13,182	8,349	21,531	
<b>Interest-bearing liabilities:</b>							
Savings deposits	(9)	(160)	(169)	92	292	384	
Demand deposits	330	7,915	8,245	547	1,551	2,098	
Time deposits	20	3,156	3,176	(572)	584	12	
Borrowed funds	(781)	3,038	2,257	79	(677)	(598)	
Total interest-bearing liabilities	(440)	13,949	13,509	146	1,750	1,896	
Net interest income	\$ 9,074	\$ 13,400	\$ 22,474	\$ 13,036	\$ 6,599	\$ 19,635	

**Comparison of Financial Condition at December 31, 2018 and December 31, 2017**

Total assets decreased \$119.5 million to \$9.73 billion at December 31, 2018, from \$9.85 billion at December 31, 2017. The decrease in total assets was primarily due to a \$75.1 million decrease in total loans and a \$48.2 million decrease in total cash and cash equivalents, partially offset by a \$15.3 million increase in total investments. Total loans decreased \$75.1 million to \$7.25 billion at December 31, 2018, from \$7.33 billion at December 31, 2017. For the year ended December 31, 2018, loan originations, including advances on lines of credit, totaled \$3.16 billion, compared with \$3.07 billion at December 31, 2017. The loan portfolio had net decreases of \$64.2 million in multi-family mortgage loans, \$50.2 million in commercial loans, \$42.9 million in residential mortgage loans and \$3.6 million in construction loans, partially offset by a net increase of \$128.2 million in commercial mortgage loans. Commercial loans, consisting of commercial real estate, multi-family, construction and commercial loans, totaled \$5.72 billion, accounting for 78.9% of the loan portfolio at December 31, 2018, compared to \$5.71 billion, or 77.9% of the loan portfolio at December 31, 2017. 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 \$1.53 billion and accounted for 21.1% of the loan portfolio at December 31, 2018, compared to \$1.62 billion, or 22.1%, of the loan portfolio at December 31, 2017. 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 \$266.8 million and \$146.0 million, respectively, at December 31, 2018. At December 31, 2018, no SNC relationships were classified as substandard.

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The Company had outstanding junior lien mortgages totaling \$171.1 million at December 31, 2018. Of this total, nine loans totaling \$579,000 were 90 days or more delinquent, and were allocated total loss reserves of \$104,000.

The allowance for loan losses decreased \$4.6 million to \$55.6 million at December 31, 2018, as a result of net charge-offs of \$28.3 million during 2018, partially offset by provisions for loan losses of \$23.7 million. The decrease in the allowance for loan losses was a function of the decline in non-performing loans and a decrease in the loan portfolio. Total non-performing loans at December 31, 2018 were \$25.7 million, or 0.35% of total loans, compared with \$34.9 million, or 0.48% of total loans at December 31, 2017. At December 31, 2018, impaired loans totaled \$50.7 million with related specific reserves of \$1.2 million, compared with impaired loans totaling \$52.0 million with related specific reserves of \$2.7 million at December 31, 2017. Within total impaired loans, there were \$31.1 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, 2018, the Company's allowance for loan losses was 0.77% of total loans, compared with 0.82% of total loans at December 31, 2017. The decline in the loan coverage ratio from December 31, 2017, resulted from an overall improvement in asset quality.

Non-performing commercial mortgage loans decreased \$3.9 million to \$3.2 million at December 31, 2018, from \$7.1 million at December 31, 2017. At December 31, 2018, the Company held 12 non-performing commercial mortgage loans. The largest non-performing commercial mortgage loan was a \$1.5 million loan secured by a first mortgage on a property located in Somerville, New Jersey. The loan is presently in default. There is no contractual commitment to advance additional funds to this borrower.

Non-performing commercial loans decreased \$1.9 million to \$15.4 million at December 31, 2018, from \$17.2 million at December 31, 2017. Non-performing commercial loans at December 31, 2018 consisted of 29 loans. The largest non-performing commercial loan relationship consisted of two loans to a health and fitness club with total outstanding balances of \$7.9 million at December 31, 2018. Both of these loans are secured by liens on a commercial property. These loans are currently paying in accordance with their restructured terms.

There were no non-performing construction loans at either December 31, 2018 or the prior year-end.

At December 31, 2018, the Company held \$1.6 million of foreclosed assets, compared with \$6.9 million at December 31, 2017. Foreclosed assets are carried at the lower of the outstanding loan balance at the time of foreclosure or fair value, less estimated costs to sell. During the year ended December 31, 2018, there were nine additions to foreclosed assets with a carrying value of \$2.0 million and 20 properties sold with a carrying value of \$7.1 million. Foreclosed assets at December 31, 2018 consisted of \$1.6 million of residential real estate.

Non-performing assets totaled \$27.3 million, or 0.28% of total assets at December 31, 2018, compared to \$41.8 million, or 0.42% of total assets at December 31, 2017. If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by \$1.4 million during the year ended December 31, 2018. The amount of cash basis interest income that was recognized on impaired loans during the year ended December 31, 2018 was not material.

Total deposits increased \$116.0 million, or 1.7%, during the year ended December 31, 2018 to \$6.83 billion. Time deposits increased \$115.7 million to \$750.5 million at December 31, 2018, while total core deposits, which consist of savings and demand deposit accounts, increased \$273,000 to \$6.08 billion at December 31, 2018. The increase in time deposits was primarily the result of a 13-month certificate of deposit promotional campaign which provided the Company a lower-cost funding alternative to wholesale borrowings. The increase in core deposits for the year ended December 31, 2018 was largely attributable to a \$38.3 million increase in interest bearing demand deposits and a \$28.8 million increase in non-interest bearing demand deposits, partially offset by a \$35.7 million decrease in money market deposits and a \$31.1 million decrease in savings deposits. At December 31, 2018, core deposits represented 89.0% of total deposits compared to 90.5% at December 31, 2017.

Borrowed funds decreased \$300.2 million, or 17.2%, during the year ended December 31, 2018, to \$1.44 billion. The decrease in borrowings for the year was primarily a function of the inflow of lower-cost deposits and lower asset funding requirements. Borrowed funds represented 14.8% of total assets at December 31, 2018, a decrease from 17.7% at December 31, 2017.

Total stockholders' equity increased \$60.3 million, or 4.6%, to \$1.36 billion at December 31, 2018, from \$1.30 billion at December 31, 2017. This increase resulted from net income earned during the year of \$118.4 million,

partially offset by cash dividends paid to stockholders of \$53.6 million and a \$4.7 million decrease in other comprehensive income. Common stock repurchases for the year ended December 31, 2018 totaled 635,436 shares at an average cost of \$23.69 per share. At December 31, 2018, approximately 2.5 million shares remained eligible for repurchase under the current authorization.

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

**General.** Net income for the year ended December 31, 2018 was \$118.4 million, compared to \$93.9 million for the year ended December 31, 2017. Basic and diluted earnings per share were both \$1.82 for the year ended December 31, 2018, compared to basic and diluted earnings per share of \$1.46 and \$1.45, respectively for 2017.

For the year ended December 31, 2018, the Company's earnings were positively impacted by lower Federal income tax rates, period over period growth in average loans outstanding, growth in both average non-interest and interest bearing deposits and the continued expansion of the net interest margin. The improvement in the net interest margin was driven by an increase in the yield on interest-earning assets, growth in average non-interest bearing deposits and a less sensitive and lagging cost of funds. Included was a non-recurring \$1.9 million tax benefit stemming from the Company's completion of a cost segregation study that assigned shorter taxable lives to certain fixed assets. This benefit contributed \$0.03 per basic and diluted share for both the quarter and year ended December 31, 2018. In addition, the Company realized a \$1.6 million, or \$0.02 per share, net of tax gain on the sale of Visa Class B common shares in the fourth quarter of 2018.

**Net Interest Income.** Net interest income increased \$22.5 million to \$300.7 million for 2018, from \$278.2 million for 2017. The interest rate spread increased 13 basis points to 3.20% for 2018, from 3.07% for 2017. The net interest margin increased 18 basis points to 3.39% for 2018, compared to 3.21% for 2017. For the year ended December 31, 2018, the increase in net interest income was primarily due to growth in average loans outstanding resulting from organic originations and increases in both average interest bearing core deposits and average non-interest bearing demand deposits, combined with period-over-period expansion of the net interest margin.

Interest income increased \$36.0 million to \$359.8 million for 2018, compared to \$323.8 million for 2017. The increase in interest income was attributable to an increase in average earning asset balances and an increase in the yield on average interest-earning assets. Average interest-earning assets increased \$215.7 million to \$8.87 billion for 2018, compared to \$8.65 billion for 2017. The increase in average earning assets was largely attributable to a \$236.9 million increase in average outstanding loan balances to \$7.21 billion for 2018 from \$6.97 billion for 2017. This was partially offset by a \$13.9 million decrease in the average balance of the total investment portfolio. The yield on interest-earning assets increased 32 basis points to 4.06% for 2018, from 3.74% for 2017, mainly due to increases in the weighted average yields on total loans, FHLB NY stock and the available for sale debt securities portfolio. The weighted average yield on total loans increased 30 basis points to 4.36% for 2018. The weighted average yield on FHLB NY stock increased to 6.78% for 2018, compared to 5.49% for 2017, and the weighted average yield of available for sale debt securities increased 35 basis points to 2.49% for 2018, from 2.14% for 2017.

Interest expense increased \$13.5 million to \$59.2 million for 2018, from \$45.6 million for 2017. The increase in interest expense was primarily attributable to an increase in average interest-bearing deposits and an increase in the cost of interest-bearing liabilities. The average rate paid on interest-bearing liabilities increased 19 basis points to 0.86% for 2018, compared to 2017. The average rate paid on interest-bearing deposits increased 21 basis points to 0.58% for 2018, from 0.37% for 2017. The average rate paid on borrowings increased 19 basis points to 1.85% for 2018, from 1.66% for 2017. The average balance of interest-bearing liabilities increased \$44.1 million to \$6.85 billion for 2018, compared to \$6.81 billion for 2017. Average interest-bearing deposits increased \$90.1 million to \$5.32 billion for 2018, from \$5.23 billion for 2017. Within average interest-bearing deposits, average interest-bearing core deposits increased \$67.7 million to \$4.65 billion for 2018, compared with 2017, while average time deposits increased \$22.5 million for 2018, compared with 2017. Average non-interest bearing demand deposits increased \$97.3 million, or 7.1%, to \$1.46 billion for 2018, from \$1.37 billion for 2017. Average outstanding borrowings decreased \$46.1 million, or 2.9%, to \$1.54 billion for 2018, compared to 2017.

**Provision for Loan Losses.** Provisions for loan losses are charged to operations in order 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 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. As the Company looks to further increase 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 \$23.7 million in 2018, compared to \$5.6 million in 2017. The increase in the provision for loan losses was primarily attributable to a \$14.9 million loss related to a commercial borrower that filed a Chapter 7 petition

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in bankruptcy on March 27, 2018 for a liquidation of assets. Net charge-offs for 2018 were \$28.3 million, compared to \$7.3 million for 2017. Total charge-offs for the year ended December 31, 2018 were \$30.0 million, compared to \$8.9 million for the year ended December 31, 2017. Recoveries for the year ended December 31, 2018, were \$1.7 million, compared to \$1.7 million for the year ended December 31, 2017. The allowance for loan losses at December 31, 2018 was \$55.6 million, or 0.77% of total loans, compared to \$60.2 million, or 0.82% of total loans, at December 31, 2017. At December 31, 2018, non-performing loans as a percentage of total loans were 0.35%, compared to 0.48% at December 31, 2017. Non-performing assets as a percentage of total assets were 0.28% at December 31, 2018, compared to 0.42% at December 31, 2017. At December 31, 2018, non-performing loans were \$25.7 million, compared to \$34.9 million at December 31, 2017, and non-performing assets were \$27.3 million at December 31, 2018, compared to \$41.8 million at December 31, 2017.

**Non-Interest Income.** For the year ended December 31, 2018, non-interest income totaled \$58.7 million, an increase of \$3.0 million, compared to the same period in 2017. Net gains on securities transactions increased \$2.2 million for the year ended December 31, 2018, due to the sale of Visa Class B common shares. Fee income increased \$866,000 to \$28.1 million, compared to the same period in 2017, largely due to a \$287,000 increase in income from non-deposit investment products, a \$248,000 increase in loan related fee income and a \$238,000 increase in debit card revenue, partially offset by a \$126,000 decrease in prepayment fees on commercial loans. Other income increased \$775,000 to \$4.9 million for the year ended December 31, 2018, primarily due to a \$764,000 increase in net fees on loan-level interest rate swap transactions. Also, wealth management income increased \$353,000 to \$18.0 million for the year ended December 31, 2018, compared to \$17.6 million for the same period in 2017, due to increased revenue from investment advisory fees, including revenue from two mutual funds that were established in October 2017. Partially offsetting these increases, income from bank owned life insurance decreased \$1.2 million to \$5.5 million for the year ended December 31, 2018, compared to the same period in 2017, due to a decrease in benefit claims and lower equity valuations.

**Non-Interest Expense.** Non-interest expense for the year ended December 31, 2018 was \$191.7 million, an increase of \$3.9 million from 2017. Other operating expenses increased \$2.3 million to \$31.1 million for the year ended December 31, 2018, compared to \$28.8 million for the same period in 2017, largely due to increases in consulting, examination and debit card maintenance expenses, partially offset by decreases in loan collection expense and foreclosed real estate expense. Compensation and benefits expense increased \$2.1 million to \$111.5 million for the year ended December 31, 2018, compared to \$109.4 million for the year ended December 31, 2017. This increase was primarily due to additional salary expense related to annual merit increases, combined with increases in severance, stock-based compensation and employee medical expenses, partially offset by a decrease in the accrual for incentive compensation. Data processing costs increased \$742,000 to \$14.7 million for the year ended December 31, 2018, compared with 2017, due to increases in software maintenance, online and mobile banking expenses. Partially offsetting these increases in non-interest expense, amortization of intangibles decreased \$543,000 for the year ended December 31, 2018, compared with 2017, as a result of scheduled reductions in amortization. FDIC insurance expense decreased \$405,000 to \$3.5 million for year ended December 31, 2018, compared to \$3.9 million for the same period in 2017, primarily due to a reduction in the insurance assessment rate. Additionally, net occupancy costs decreased \$234,000, to \$25.1 million for the year ended December 31, 2018, compared to 2017, primarily due to a decrease in building depreciation.

**Income Tax Expense.** For the year ended December 31, 2018, the Company's income tax expense was \$25.5 million, compared with \$46.5 million, for the same period in 2017. The Company's effective tax rate was 17.7% for the year ended December 31, 2018, compared with 33.1% for the year ended December 31, 2017. The decrease in tax expense and the lower effective tax rates for year ended December 31, 2018, were favorably impacted by the Tax Act, which, effective January 1, 2018, reduced the statutory federal income tax rate from 35% to 21%; and the recognition of a non-recurring \$1.9 million tax benefit related to the Company's completion of a cost segregation study that assigned shorter taxable lives to select fixed assets. The tax rates for 2017 included an additional tax expense of \$4.0 million related to the enactment of the Tax Act.

#### **Comparison of Operating Results for the Years Ended December 31, 2017 and December 31, 2016**

**General.** Net income for the year ended December 31, 2017 was \$93.9 million, compared to \$87.8 million for the year ended December 31, 2016. Basic and diluted earnings per share were \$1.46 and \$1.45 for the year ended

December 31, 2017, respectively, compared to basic and diluted earnings per share of \$1.38 for 2016.

As a result of the enactment of the Tax Act on December 22, 2017, the Company recognized additional tax expense of \$3.9 million for the year ended December 31, 2017. Offsetting the effect of the change in tax law, earnings for the year ended December 31, 2017 were favorably impacted by year-over-year growth in average loans outstanding, growth in both average non-interest bearing and interest bearing core deposits and expansion of the net interest margin. The improvement in the net interest margin was driven by the upward repricing of adjustable rate assets and relatively stable cost of funds.

**Net Interest Income.** Net interest income increased \$19.6 million to \$278.2 million for 2017, from \$258.6 million for 2016. The average interest rate spread increased nine basis points to 3.07% for 2017, from 2.98% for 2016. The net interest

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margin increased ten basis points to 3.21% for 2017, compared to 3.11% for 2016. For the year ended December 31, 2017, the increase in net interest income was largely due to growth in average loans outstanding, growth in average core deposits, and expansion in the net interest margin.

Interest income increased \$21.5 million, or 7.1%, to \$323.8 million for 2017, compared to \$302.3 million for 2016. The increase in interest income was attributable to an increase in average earning asset balances and an increase in the yield on average interest-earning assets. Average interest-earning assets increased \$343.1 million, or 4.1%, to \$8.65 billion for 2017, compared to \$8.31 billion for 2016. The average outstanding loan balances increased \$301.7 million, or 4.5%, to \$6.97 billion for 2017 from \$6.67 billion for 2016, the average balance of securities available for sale increased \$35.8 million, or 3.5%, to \$1.04 billion for 2017, compared to \$1.01 billion for 2016, and the average balance of investment securities held to maturity increased \$8.7 million, or 1.8%, to \$487.6 million for 2017, compared to \$478.9 million for 2016. The yield on interest-earning assets increased ten basis points to 3.74% for 2017, from 3.64% for 2016, mainly due to increases in the weighted average yields on total loans, FHLB NY stock and the securities available for sale portfolio.

Interest expense increased \$1.9 million, or 4.3%, to \$45.6 million for 2017, from \$43.7 million for 2016. The increase in interest expense was primarily attributable to an increase in average interest-bearing deposits for the year, which combined with an increase in non-interest bearing deposits largely funded the growth in average interest-earning assets. The increase in interest expense was partially offset by a shift in the funding composition to lower-costing core deposits from time deposits and borrowings. The average rate paid on interest-bearing liabilities increased one basis point to 0.67% for 2017, compared to 2016. The average rate paid on interest-bearing deposits increased four basis points to 0.37% for 2017, from 0.33% for 2016. The average rate paid on borrowings decreased four basis points to 1.66% for 2017, from 1.70% for 2016. The average balance of interest-bearing liabilities increased \$154.2 million to \$6.81 billion for 2017, compared to \$6.66 billion for 2016. Average interest-bearing deposits increased \$149.6 million, or 2.9%, to \$5.23 billion for 2017, from \$5.08 billion for 2016. Within average interest-bearing deposits, average interest-bearing core deposits increased \$226.2 million, or 5.2% for 2017, compared with 2016, while average time deposits decreased \$76.6 million, or 10.6% for 2017, compared with 2016. Average non-interest bearing demand deposits increased \$123.1 million, or 9.9%, to \$1.37 billion for 2017, from \$1.24 billion for 2016. Average outstanding borrowings decreased \$4.7 million, or 0.3%, to \$1.58 billion for 2017, compared to 2016.

**Provision for Loan Losses.** The provision for loan losses was \$5.6 million in 2017, compared to \$5.4 million in 2016. The increase in the provision for loan losses was primarily attributable to year-over-year growth in the loan portfolio. Net charge-offs for 2017 were \$7.3 million, compared to \$4.9 million for 2016. Total charge-offs for the year ended December 31, 2017 were \$8.9 million, compared to \$7.0 million for the year ended December 31, 2016. Recoveries for the year ended December 31, 2017, were \$1.7 million, compared to \$2.0 million for the year ended December 31, 2016. The allowance for loan losses at December 31, 2017 was \$60.2 million, or 0.82% of total loans, compared to \$61.9 million, or 0.88% of total loans, at December 31, 2016. At December 31, 2017, non-performing loans as a percentage of total loans were 0.48%, compared to 0.61% at December 31, 2016. Non-performing assets as a percentage of total assets were 0.42% at December 31, 2017, compared to 0.53% at December 31, 2016. At December 31, 2017, non-performing loans were \$34.9 million, compared to \$42.4 million at December 31, 2016, and non-performing assets were \$41.8 million at December 31, 2017, compared to \$50.4 million at December 31, 2016.

**Non-Interest Income.** For the year ended December 31, 2017, non-interest income totaled \$55.7 million, an increase of \$304,000, compared to the same period in 2016. Income from Bank-owned life insurance increased \$1.2 million to \$6.7 million for the year ended December 31, 2017, compared to the same period in 2016, primarily due to the recognition of death benefit claims. Fee income also increased \$1.2 million to \$27.2 million for the year ended December 31, 2017, compared to the same period in 2016, largely due to a \$657,000 increase in commercial loan prepayment fee income, a \$397,000 increase in deposit related fee income and a \$229,000 increase in merchant fee income, partially offset by a \$218,000 decrease in income from non-deposit investment products and a \$43,000 decrease in debit card revenue. Partially offsetting these increases in non-interest income, other income decreased \$2.1 million for the year ended December 31, 2017, compared with the same period in 2016, mainly due to a \$910,000 decrease in net fees on loan-level interest rate swap transactions, a \$583,000 decrease in net gains recognized on loan sales and a \$335,000 non-recurring gain recognized on the sale of deposits resulting from a strategic branch divestiture in the prior year.

***Non-Interest Expense.*** Non-interest expense for the year ended December 31, 2017 was \$187.8 million, an increase of \$4.0 million from the year ended December 31, 2016. Compensation and benefits expense increased \$3.2 million to \$109.4 million for the year ended December 31, 2017, compared to \$106.1 million for the year ended December 31, 2016. This increase was primarily due to additional salary expense related to annual merit increases, an increase in the accrual for incentive compensation and an increase in stock-based compensation, partially offset by a decrease in retirement benefit costs. Other operating expenses increased \$1.2 million to \$28.8 million for the year ended December 31, 2017, compared to \$27.6 million for the same period in 2016, largely due to increases in consulting and debit card maintenance expenses, partially offset by a decrease in loan collection expense. Data processing costs increased \$694,000 to \$13.9 million for the year ended

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December 31, 2017, compared with the same period in 2016, due to increased software maintenance and telecommunication costs. Net occupancy costs increased \$437,000, to \$25.3 million for the year ended December 31, 2017, compared to the same period in 2016, resulting from an increase in snow removal costs, combined with an increase in facilities maintenance costs. Partially offsetting these increases in non-interest expense, FDIC insurance expense decreased \$1.0 million to \$3.9 million for year ended December 31, 2017, compared to \$4.9 million for the same period in 2016. This decrease was primarily due to the FDIC's reduction of assessment rates for depository institutions with less than \$10.0 billion in assets, which became effective in the quarter ended September 30, 2016. Additionally, amortization of intangibles decreased \$721,000 for the year ended December 31, 2017, compared with the same period in 2016, as a result of scheduled reductions in amortization.

**Income Tax Expense.** For the year ended December 31, 2017, the Company's income tax expense was \$46.5 million, compared with \$37.0 million, for the same period in 2016. The Company's effective tax rate was 33.1% for the year ended December 31, 2017, compared with 29.6% for the year ended December 31, 2016. For the year ended December 31, 2017, the increases in income tax expense and the effective tax rate were a function of growth in pre-tax income and the enactment of the Tax Act, which resulted in additional tax expense of \$3.9 million.

### **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 FHLBNY and approved broker-dealers. Cash flows from loan payments and maturing investment securities are fairly predictable sources 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, 2018 and 2017, loan repayments totaled \$3.17 billion and \$3.34 billion, respectively.

Commercial real estate loans, multi-family loans, commercial loans, one- to four-family residential loans and consumer 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 \$3.16 billion for the year ended December 31, 2018, compared to \$3.70 billion for the year ended December 31, 2017. Purchases for the investment portfolio totaled \$281.0 million for the year ended December 31, 2018, compared to \$276.3 million for the year ended December 31, 2017. At December 31, 2018, the Bank had outstanding loan commitments to borrowers of \$1.49 billion, including undisbursed home equity lines and personal credit lines of \$233.9 million.

Total deposits increased \$116.0 million for the year ended December 31, 2018. 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 \$584.5 million at December 31, 2018. 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, 2018, the Bank exceeded all minimum regulatory capital requirements. At December 31, 2018, the Bank's leverage (Tier 1) capital ratio was 9.86%. FDIC regulations require banks to maintain a minimum leverage ratio of Tier 1 capital to adjusted total assets of 4.00%. At December 31, 2018, the Bank's total risk-based capital ratio was 12.80%. Under current regulations, the minimum required ratio of total capital to risk-weighted assets is 9.88%. 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, 2018, are summarized below:

	Payments Due by Period				
	(In thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Off-Balance Sheet:</b>					
Long-term commitments	\$ 1,459,712	\$ 572,905	\$ 516,942	\$ 106,572	\$ 263,293
Letters of credit	33,227	32,414	813	—	—
Total Off-Balance Sheet	1,492,939	605,319	517,755	106,572	263,293
<b>Contractual Obligations:</b>					
Operating leases	38,850	8,012	12,914	7,191	10,733
Certificate of deposits	750,492	584,479	119,653	45,519	841
Total Contractual Obligations	789,342	592,491	132,567	52,710	11,574
Total	\$ 2,282,281	\$ 1,197,810	\$ 650,322	\$ 159,282	\$ 274,867

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 \$1.49 billion at December 31, 2018, a decrease of \$483.3 million, or 24.5%, from \$1.98 billion at December 31, 2017, largely due to a decrease in commercial lines of credit.

Contractual obligations consist of operating leases and certificate of deposit liabilities. There was one security purchase totaling \$500,000 in 2018 which settled in January 2019. There were no security purchases in 2017 which were settled in 2018. Total contractual obligations at December 31, 2018 were \$789.3 million, an increase of \$109.2 million, or 16.06%, compared to \$680.1 million at December 31, 2017. Contractual obligations under operating leases decreased \$6.5 million, or 14.30%, to \$38.9 million at December 31, 2018, from \$45.3 million at December 31, 2017, and certificate of deposit accounts increased \$115.7 million, or 18.2%, to \$750.5 million at December 31, 2018, from \$634.8 million at December 31, 2017.

**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 all 20- and 30-year fixed-rate residential mortgage loans at origination. The Company retains residential fixed rate mortgages with terms of 15 years or less and biweekly payment residential mortgages with a term of 30 years or less. 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 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 the economic value of equity. 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 11.0% at December 31, 2018, compared to 9.5% at December 31, 2017. Certificate of deposit accounts are generally short-term. As of December 31, 2018, 77.9% of all certificates of deposit had maturities of one year or less compared to 66.9% at December 31, 2017. The Company's ability to retain maturing time deposit accounts is the result of its strategy to remain competitively priced within its marketplace. The Company's pricing strategy may vary depending upon current funding needs and the ability of the Company to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB NY 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 analysis captures 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

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forecast period, generally twelve to twenty-four months, are measured and compared to policy limits for acceptable change. The Company periodically reviews historical deposit re-pricing 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 closely 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, 2018.

Change in Interest Rates in Basis Points (Rate Ramp)	Net Interest Income	
	Amount (\$)	Change (%)
	(Dollars in thousands)	
<b>-100</b>	312,857	0.3
<b>Static</b>	312,059	—
<b>100</b>	308,862	(1.0)
<b>200</b>	305,069	(2.2)
<b>300</b>	301,248	(3.5)

The above table indicates that as of December 31, 2018, 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 3.5%, or \$10.8 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 0.3%, or \$857,000 increase 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, 2018.

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	
	(Dollars in thousands)				
<b>-100</b>	1,583,909	1.2	16.1	(1.1)	
<b>Flat</b>	1,564,381	—	16.3	—	

<b>100</b>	1,496,425	(4.1)	16.0	(1.7)
<b>200</b>	1,436,291	(8.3)	15.7	(3.7)
<b>300</b>	1,376,188	(12.1)	15.4	(5.5)

The preceding table indicates that as of December 31, 2018, in the event of an immediate and sustained 300 basis point increase in interest rates, the Company would experience a 12.1%, or \$188.9 million reduction in the present value of equity. If rates were to decrease 100 basis points, the Company would experience a 1.2%, or \$19.2 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 use of certain assumptions regarding prepayment and deposit decay rates, which

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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 the Company's net interest income and will differ from actual results.

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**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, 2018 and 2017

(2) Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016

(3) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016

(4) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016

(5) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

(6) Notes to Consolidated Financial Statements

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

(1) Condensed Statement of Financial Condition as of December 31, 2018 and 2017

(2) Condensed Statement of Income for the years ended December 31, 2018, 2017 and 2016

(3) Condensed Statement of Cash Flows for the years ended December 31, 2018, 2017 and 2016

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

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**Report of Independent Registered Public Accounting Firm**

The Stockholders and Board of Directors

Provident Financial Services, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of financial condition of Provident Financial Services, Inc. and subsidiary (the “Company”) as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three - year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

*Basis for Opinion*

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

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

/s/ KPMG LLP

We have not been able to determine the specific year that we began serving as the Company’s auditor; however, we are aware that we have served as the Company’s auditor since at least 1997.

Short Hills, New Jersey

March 1, 2019

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## Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors  
Provident Financial Services, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Provident Financial Services, Inc. and subsidiary's (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial condition of the Company as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated March 1, 2019, expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

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

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

/s/ KPMG LLP  
Short Hills, New Jersey  
March 1, 2019



**PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY****Consolidated Statements of Financial Condition****December 31, 2018 and 2017****(Dollars in Thousands, except share data)**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 86,195	\$ 139,557
Short-term investments	56,466	51,277
Total cash and cash equivalents	142,661	190,834
Available for sale debt securities, at fair value	1,063,079	1,037,154
Held to maturity debt securities (fair value of \$479,740 and \$485,039 at December 31, 2018 and December 31, 2017, respectively).	479,425	477,652
Equity securities, at fair value	635	658
Federal Home Loan Bank Stock	68,813	81,184
Loans	7,250,588	7,325,718
Less allowance for loan losses	55,562	60,195
Net loans	7,195,026	7,265,523
Foreclosed assets, net	1,565	6,864
Banking premises and equipment, net	58,124	63,185
Accrued interest receivable	31,475	29,646
Intangible assets	418,178	420,290
Bank-owned life insurance	193,085	189,525
Other assets	73,703	82,759
Total assets	\$ 9,725,769	\$ 9,845,274
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Demand deposits	\$ 5,027,708	\$ 4,996,345
Savings deposits	1,051,922	1,083,012
Certificates of deposit of \$100,000 or more	414,848	316,074

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Other time deposits	335,644	318,735
Total deposits	6,830,122	6,714,166
Mortgage escrow deposits	25,568	25,933
Borrowed funds	1,442,282	1,742,514
Other liabilities	68,817	64,000
Total liabilities	8,366,789	8,546,613
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 66,325,458 shares outstanding at December 31, 2018, and 83,209,293 shares issued and 66,535,017 shares outstanding at December 31, 2017, respectively.	832	832
Additional paid-in capital	1,021,533	1,012,908
Retained earnings	651,099	586,132
Accumulated other comprehensive loss	(12,336)	(7,465)
Treasury stock	(272,470)	(259,907)
Unallocated common stock held by the Employee Stock Ownership Plan	(29,678)	(33,839)
Common stock acquired by the Directors' Deferred Fee Plan	(4,504)	(5,175)
Deferred compensation—Directors' Deferred Fee Plan	4,504	5,175
Total stockholders' equity	1,358,980	1,298,661
Total liabilities and stockholders' equity	\$ 9,725,769	\$ 9,845,274

See accompanying notes to consolidated financial statements.



**PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY****Consolidated Statements of Income****Years Ended December 31, 2018, 2017 and 2016**

(Dollars in Thousands, except share data)

	Years ended December 31,		
	2018	2017	2016
Interest income:			
Real estate secured loans	\$ 215,231	\$ 189,896	\$ 180,868
Commercial loans	79,371	72,907	63,022
Consumer loans	19,906	20,301	21,829
Available for sale debt securities and Federal Home Loan Bank Stock	30,981	26,445	22,890
Held to maturity debt securities	12,606	13,027	13,208
Deposits, federal funds sold and other short-term investments	1,734	1,270	498
Total interest income	359,829	323,846	302,315
Interest expense:			
Deposits	30,693	19,441	16,947
Borrowed funds	28,460	26,203	26,801
Total interest expense	59,153	45,644	43,748
Net interest income	300,676	278,202	258,567
Provision for loan losses	23,700	5,600	5,400
Net interest income after provision for loan losses	276,976	272,602	253,167

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Non-interest income:				
Fees	28,084	27,218		26,047
Wealth management income	17,957	17,604		17,556
Bank-owned life insurance	5,514	6,693		5,470
Net gain on securities transactions	2,221	57		64
Other income	4,900	4,125		6,256
Total non-interest income	58,676	55,697		55,393
Non-interest expense:				
Compensation and employee benefits	111,496	109,353		106,141
Net occupancy expense	25,056	25,290		24,853
Data processing expense	14,664	13,922		13,228
FDIC Insurance	3,482	3,887		4,887
Advertising and promotion expense	3,836	3,904		3,685
Amortization of intangibles	2,127	2,670		3,391
Other operating expenses	31,074	28,796		27,593
Total non-interest expenses	191,735	187,822		183,778
Income before income tax expense	143,917	140,477		124,782
Income tax expense	25,530	46,528		36,980
Net income	\$ 118,387	\$ 93,949		\$ 87,802
Basic earnings per share	\$ 1.82	\$ 1.46		\$ 1.38

Average basic shares outstanding	64,942,886	64,384,851	63,643,622
Diluted earnings per share	\$ 1.82	\$ 1.45	\$ 1.38
Average diluted shares outstanding	65,103,097	64,579,222	63,851,986

See accompanying notes to consolidated financial statements.

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**PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(Dollars in Thousands)**

	Years ended December 31,		
	2018	2017	2016
Net income	\$ 118,387	\$ 93,949	\$ 87,802
Other comprehensive loss, net of tax:			
<b>Unrealized gains and losses on available for sale debt securities:</b>			
Net unrealized losses arising during the period	(6,129)	(2,163)	(4,431)
Reclassification adjustment for gains included in net income	—	—	(30)
Total	(6,129)	(2,163)	(4,461)
Unrealized gains on derivatives	221	379	242
Amortization related to post-retirement obligations	1,221	(889)	3,368
Total other comprehensive loss	(4,687)	(2,673)	(851)
Total comprehensive income	\$ 113,700	\$ 91,276	\$ 86,951

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, 2018, 2017 and 2016**  
**(Dollars in Thousands)**

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2015	\$ 832	\$ 1,000,810	\$ 507,713	\$ (2,546)	\$ (269,014)	\$ (41,730)	\$ (6,517)	\$ 6,517	\$ 1,196,065
Net income			87,802						87,802
Other comprehensive loss, net of tax				(851)					(851)
Cash dividends paid			(45,369)						(45,369)
Effect of adopting Accounting Standards Update ("ASU") No. 2016-09		(622)	622						
Distributions from DDFP		131					671	(671)	131
Purchases of treasury stock					(1,557)				(1,557)
Purchase of employee restricted shares to fund statutory tax withholding					(1,225)				(1,225)
Shares issued dividend reinvestment plan		356			1,296				1,652
Option exercises		(81)			6,279				6,198
Allocation of ESOP shares		1,199				3,752			4,951
Allocation of SAP shares		3,812							3,812
Allocation of stock options		172							172

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Balance at December 31, 2016	\$	832	\$	1,005,777	\$	550,768	\$	(3,397)	\$	(264,221)	\$	(37,978)	\$	(5,846)	\$	5,846	\$	1,251,781
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**PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2018, 2017 and**  
**2016 (Continued)**  
**(Dollars in Thousands)**

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2016	\$ 832	\$ 1,005,777	\$ 550,768	\$ (3,397)	\$ (264,221)	\$ (37,978)	\$ (5,846)	\$ 5,846	\$ 1,251,781
Net income			93,949						93,949
Other comprehensive loss, net of tax				(2,673)					(2,673)
Reclassification due to the adoption of ASU No. 2018-02			1,395	(1,395)					
Cash dividends paid			(59,980)						(59,980)
Distributions from DDFP		232					671	(671)	232
Purchases of treasury stock					(443)				(443)
Purchase of employee restricted shares to fund statutory tax withholding					(778)				(778)
Shares issued dividend reinvestment plan		712			1,402				2,114
Option exercises		(1,179)			4,133				2,954
Allocation of ESOP shares		2,200				4,139			6,339
Allocation of SAP shares		4,963							4,963
Allocation of stock options		203							203
	\$ 832	\$ 1,012,908	\$ 586,132	\$ (7,465)	\$ (259,907)	\$ (33,839)	\$ (5,175)	\$ 5,175	\$ 1,298,661

Balance  
at  
December  
31, 2017

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**PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2018, 2017 and**  
**2016 Continued)**  
**(Dollars in Thousands)**

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2017	\$ 832	\$ 1,012,908	\$ 586,132	\$ (7,465)	\$ (259,907)	\$ (33,839)	\$ (5,175)	\$ 5,175	\$ 1,298,661
Net income			118,387						118,387
Other comprehensive loss, net of tax	—	—	—	(4,687)	—	—	—	—	(4,687)
Cash dividends paid	—	—	(53,604)	—	—	—	—	—	(53,604)
Effect of adopting Accounting Standards Update ("ASU") No. 2016-01	—	—	184	(184)	—	—	—	—	—
Distributions from DDFP		156					671	(671)	156
Purchases of treasury stock	—	—	—	—	(13,172)	—	—	—	(13,172)
Purchase of employee restricted shares to fund statutory tax withholding	—	—	—	—	(1,896)	—	—	—	(1,896)
Shares issued dividend reinvestment plan	—	577	—	—	1,132	—	—	—	1,709
Option exercises	—	(366)	—	—	1,373	—	—	—	1,007
Allocation of ESOP shares	—	2,022	—	—	—	4,161	—	—	6,183
Allocation of SAP shares	—	6,046	—	—	—	—	—	—	6,046
Allocation of stock options	—	190	—	—	—	—	—	—	190

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Balance at December 31, 2018	\$	832	\$	1,021,533	\$	651,099	\$	(12,336)	\$	(272,470)	\$	(29,678)	\$	(4,504)	\$	4,504	\$	1,358,980
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See accompanying notes to consolidated financial statements.

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**PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(Dollars in Thousands)**

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 118,387	\$ 93,949	\$ 87,802
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of intangibles	10,101	11,623	12,760
Provision for loan losses	23,700	5,600	5,400
Deferred tax (benefit) expense	(18,541)	40,634	3,160
Income on Bank-owned life insurance	(5,514)	(6,693)	(5,470)
Net amortization of premiums and discounts on securities	8,540	9,948	10,831
Accretion of net deferred loan fees	(5,773)	(4,655)	(3,408)
Amortization of premiums on purchased loans, net	894	1,021	1,311
Net increase in loans originated for sale	(36,043)	(24,938)	(34,976)
Proceeds from sales of loans originated for sale	37,386	26,387	37,008
Proceeds from sales and paydowns of foreclosed assets	7,963	5,423	6,109
ESOP expense	4,516	4,600	3,706
Allocation of stock award shares	6,046	4,963	3,812
Allocation of stock options	190	203	172



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Net gain on sale of loans	(1,343)	(1,449)	(2,032)
Net gain on securities transactions	(2,221)	(57)	(64)
Net gain on sale of premises and equipment	(25)	(20)	(14)
Net gain on sale of foreclosed assets	(798)	(819)	(585)
Increase in accrued interest receivable	(1,829)	(2,564)	(1,316)
Decrease (increase) in other assets	5,266	(52,078)	5,873
Increase (decrease) in other liabilities	4,817	6,142	(2,770)
Net cash provided by operating activities	155,719	117,220	127,309
Cash flows from investing activities:			
Proceeds from maturities, calls and paydowns of held to maturity debt securities	39,534	55,720	62,975
Purchases of held to maturity debt securities	(43,887)	(47,894)	(80,349)
Proceeds from sales of securities	2,212	—	3,401
Proceeds from maturities, calls and paydowns of available for sale debt securities	196,690	220,138	211,440
Purchases of available for sale debt securities	(237,076)	(228,363)	(306,151)
Proceeds from redemption of Federal Home Loan Bank stock	145,191	130,125	56,505
Purchases of Federal Home Loan Bank stock	(132,820)	(135,583)	(54,050)

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Proceeds from bank-owned life insurance claims	1,954	4,428	—
Purchases of loans	(1,344)	—	(28,590)
Net decrease (increase) in loans	79,388	(322,443)	(440,999)
Proceeds from sales of premises and equipment	25	20,766	14
Purchases of premises and equipment	(3,162)	(3,231)	(4,995)
Net cash provided by (used in) investing activities	46,705	(306,337)	(580,799)
Cash flows from financing activities:			
Net increase in deposits	115,956	160,537	629,642
(Decrease) increase in mortgage escrow deposits	(365)	1,481	1,107
Purchase of treasury stock	(13,172)	(443)	(1,557)
Purchase of employee restricted shares to fund statutory tax withholding	(1,896)	(778)	(1,225)
Cash dividends paid to stockholders	(53,604)	(59,980)	(45,369)
Shares issued to dividend reinvestment plan	1,709	2,114	1,652
Stock options exercised	1,007	2,954	6,198
Proceeds from long-term borrowings	695,000	347,000	355,000
Payments on long-term borrowings	(804,375)	(539,745)	(485,202)

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	Years Ended December 31,		
	2018	2017	2016
Net (decrease) increase in short-term borrowings	(190,857)	322,514	35,315
Net cash (used in) provided by financing activities	(250,597)	235,654	495,561
Net (decrease) increase in cash and cash equivalents	(48,173)	46,537	42,071
Cash and cash equivalents at beginning of period	190,834	144,297	102,226
Cash and cash equivalents at end of period	\$ 142,661	\$ 190,834	\$ 144,297
Cash paid during the period for:			
Interest on deposits and borrowings	\$ 58,959	\$ 46,391	\$ 44,004
Income taxes	\$ 15,259	\$ 40,566	\$ 33,886
Non cash investing activities:			
Transfer of loans receivable to foreclosed assets	\$ 1,965	\$ 3,845	\$ 3,631

See accompanying notes to consolidated financial statements.

## **(1) Summary of Significant Accounting Policies**

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of Provident Financial Services, Inc. (the “Company”), 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 original maturity dates less than 90 days.

### ***Securities***

Securities include held to maturity debt securities and available for sale debt securities. The available for sale debt 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. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity debt securities and carried at amortized cost. Management conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. In this evaluation, if such a decline were deemed other-than-temporary, management would measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income (loss). The fair value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the fair value of fixed-rate securities decreases and as interest rates fall, the fair value of fixed-rate securities increases. The Company determines if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If either exists, the entire decline in value is considered other-than-temporary and would be recognized as an expense in the current period.

Premiums and discounts on securities are amortized and accreted to income using a method that approximates the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Dividend and interest income



are recognized when earned. Realized gains and losses are recognized when securities are sold or called based on the specific identification method.

***Fair Value of Financial Instruments***

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

***Federal Home Loan Bank of New York Stock***

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

***Loans***

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

The Bank defers loan origination fees and certain direct loan origination costs and accretes such amounts as an adjustment to the 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 collectability 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 tax expense in the period that includes the enactment date. Deferred tax assets and liabilities are reported as a component of other assets on the Consolidated Statements of Financial Condition. 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) 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, 2018. 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 Trust Company ("Beacon") and The MDE Group, Inc. ("MDE")





and are amortized on an accelerated basis over 12.0 years and 10.4 years, respectively. Mortgage servicing rights are recorded when purchased or when originated mortgage loans are sold, with servicing rights retained. Mortgage servicing rights are amortized on an accelerated method based upon the estimated lives of the related loans, adjusted for prepayments. Mortgage servicing rights are carried at the lower of amortized cost or fair value.

***Bank-owned Life Insurance***

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

***Employee Benefit Plans***

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

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

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

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

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

In connection with the First Sentinel acquisition in July 2004, the Company assumed the First Savings Bank Directors' Deferred Fee Plan (the "DDFP"). The DDFP was frozen prior to the acquisition. The Company recorded a deferred compensation equity instrument and corresponding contra-equity account for the value of the shares held by the DDFP at the July 14, 2004 acquisition date. These accounts will be liquidated as shares are distributed from the DDFP in accordance with the plan document. At December 31, 2018, there were 257,665 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.

***Post-retirement Benefits Other Than Pensions***

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

***Derivatives***

The Company records all derivatives on the Consolidated Statements of Financial Condition at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. These 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 the fair value of these derivatives are recognized directly in earnings.

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

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

***Comprehensive Income***

Comprehensive income is divided into net income and other comprehensive income (loss). Other comprehensive income (loss) includes items previously recorded directly to equity, such as unrealized gains and losses on available for sale debt securities, unrealized gains and losses on derivatives and amortization related to post-retirement obligations. Comprehensive income is presented in a separate Consolidated Statement of Comprehensive Income.

***Segment Reporting***

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

***Earnings Per Share***

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or resulted in the issuance of

common stock. These potentially dilutive shares would then be included in the weighted average number of shares outstanding for the period using the 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***

##### **Accounting Pronouncements Adopted in 2018**

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, "*Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost*," which requires that companies disaggregate the service cost component from other components of net benefit cost. This update calls for companies that offer post-retirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if one is presented. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2017-07 effective January 1, 2018, and it did not have a material impact on the Company's consolidated financial statements. In May 2017, the FASB issued ASU 2017-09, "*Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*." This ASU provides guidance about changes to terms or conditions of a share-based payment award which would require modification accounting. In particular, an entity is required to account for the effects of a modification if the fair value, vesting condition or the equity/liability classification of the modified award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 is effective on a prospective basis for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2017-09 effective January 1, 2018, and it did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "*Simplifying the Test for Goodwill Impairment*." The main objective of this ASU is to simplify the accounting for goodwill impairment by requiring that impairment charges be based upon the first step in the current two-step impairment test under Accounting Standards Codification (ASC) 350. Currently, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1. To determine the implied fair value of goodwill, entities estimate the fair value of any unrecognized intangible assets and any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1. Under ASU 2017-04, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. This standard eliminates the requirement to calculate a goodwill impairment charge using Step 2. ASU 2017-04 does not change the guidance on completing Step 1 of the goodwill impairment test. Under ASU 2017-04, an entity will still be able to perform the current optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard will be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company adopted ASU 2017-04 effective September 2018, and it did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*," a new ASU which addresses diversity in practice related to eight specific cash flow issues: debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities will apply the

standard's provisions using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted this guidance for the

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interim reporting period ended March 31, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements, nor was additional disclosure deemed necessary.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities*." This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities, except equity method investments, to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. This amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted this ASU effective January 1, 2018. As a result, \$658,000 of equity securities, as of December 31, 2017, were reclassified from securities available for sale and presented as a separate item on the Consolidated Statements of Financial Condition. The \$184,000 after-tax unrealized gain on these securities, at the time of adoption, was reclassified from accumulated other comprehensive income (loss) to retained earnings and is reflected in the Consolidated Statements of Changes in Stockholders' Equity. For financial instruments that are measured at amortized cost, the Company measures fair value utilizing an exit pricing methodology, and as such, no changes were required as a result of the adoption of this guidance.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." The objective of this ASU is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. 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. The ASU is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and early adoption is permitted. Subsequently, the FASB issued the following standards related to ASU 2014-09: ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations;" ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing;" ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting;" and ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." These amendments are intended to improve and clarify the implementation guidance of ASU 2014-09 and have the same effective date as the original standard. The Company's revenue is comprised of net interest income on interest earning assets and liabilities and non-interest income. The scope of guidance explicitly excludes net interest income as well as other revenues associated with financial assets and liabilities, including loans, leases, securities and derivatives. Accordingly, the majority of the Company's revenues are not affected. The Company formed a working group to guide implementation efforts including the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts and the respective performance obligations within those contracts. The Company completed its evaluation of this guidance and concluded there are no material changes related to the timing or amount of revenue recognized. The Company adopted this ASU effective January 1, 2018. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements, but resulted in additional footnote disclosures, including the disaggregation of certain categories of revenue (see Note 22 - "Revenue Recognition").

**Accounting Pronouncements Not Yet Adopted**

In October 2018, the FASB issued ASU No. 2018-16, “*Derivatives and Hedging (Topic 815) – Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes.*” This ASU permits the use of the OIS rate based upon SOFR as a U.S. benchmark interest rate for hedge accounting

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purposes under Topic 815 in addition to the UST, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate, and the SIFMA Municipal Swap Rate. The amendments in ASU 2018-16 are required to be adopted concurrently with ASU 2017-12, "*Derivatives and Hedging: Targeted Improvements to Accounting for Hedging*," which is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The amendments should be adopted on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The Company's adoption of this ASU will not have a significant impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, "*Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*." This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. The Company's adoption of this ASU will not have a significant impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "*Derivatives and Hedging: Targeted Improvements to Accounting for Hedging*." The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company's adoption of this ASU will not have a significant impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "*Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*." This ASU shortens the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This change more closely aligns the accounting with the economics of a callable debt security and the amortization period with expectations that already are included in market pricing on callable debt securities. This ASU does not change the accounting for discounts on callable debt securities, which will continue to be amortized to the maturity date. This ASU only includes instruments that are held at a premium and have explicit call features. It does not include instruments that contain prepayment features, such as mortgage backed securities; nor does it include call options that are contingent upon future events or in which the timing or amount to be paid is not fixed. The effective date for this ASU is fiscal years beginning after December 15, 2018, including interim periods within the reporting period, with early adoption permitted. Transition is on a modified retrospective basis with an adjustment to retained earnings as of the beginning of the period of adoption. If early adopted in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company's adoption of this ASU will not have a significant impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments*." The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments by a reporting entity at each reporting date. The amendments in this ASU require financial assets measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses would represent a valuation account that would be deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement would reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses would be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An



entity will be required to use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The amendments in ASU 2016-13 are effective for fiscal years, including interim periods, beginning after December 15, 2019. Early adoption of this ASU is permitted for fiscal years beginning after December 15, 2018. The Company continues to evaluate the potential impact of ASU 2016-13 on the consolidated financial statements. In that regard, the Company formed, in the first quarter of 2017, a cross-functional working group, under the direction of the Chief Credit Officer, Chief Financial Officer and Chief Risk Officer. The working

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group is comprised of individuals from various functional areas including credit, risk management, audit, finance and information technology, among others. The Company developed a detailed implementation plan to include an assessment of processes and controls, portfolio segmentation, model development, model validation, system requirements and the identification of data and resource needs, among other things. The Company has engaged third-party vendors to assist with model development, data governance and operational controls to support the adoption of this ASU. Model development and validation is underway, as is the establishment of the control activities required to support the models. The adoption of the ASU 2016-13 may result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate establishing an allowance for expected credit losses on debt securities. The Company is currently unable to reasonably estimate the impact of adopting ASU 2016-13. It is expected that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU requires all lessees to recognize a lease liability and a right-of-use asset ("ROU"), measured at the present value of the future minimum lease payments, at the lease commencement date. Lessor accounting remains largely unchanged under the new guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period, with early adoption permitted. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU No. 2018-11, "*Leases - Targeted Improvements*" to provide entities with relief from the costs of implementing certain aspects of ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02. In the first quarter of 2018, the Company formed a working group to guide the implementation efforts, including the identification and review of all lease agreements within the scope of the guidance. The working group has identified the inventory of leases and actively accumulated the requisite lease data necessary to apply the guidance. Also, the working group purchased and implemented a software platform to properly record and track all leases, monitor ROU and lease liabilities and support all accounting and disclosure requirements of the guidance. The Company adopted both ASU No. 2016-02 and ASU No. 2018-11 effective January 1, 2019 and elected to apply the guidance as of the beginning of the period of adoption (January 1, 2019) and not restate comparative periods. The Company also elected certain optional practical expedients, which allow the Company to forego a reassessment of (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) the initial direct costs for any existing leases. The adoption of the new standard resulted in the Company recording a ROU and an additional lease liability on its consolidated statement of financial condition of approximately \$44.9 million and \$46.1 million, respectively, based on the present value of the expected remaining lease payments. The Company also anticipates additional disclosures to be provided on its quarterly report on Form 10-Q for the quarter ended March 31, 2019. Adoption of the standard did not result in material changes to the Company's consolidated results of operations.

## **(2) Stockholders' Equity and Acquisition**

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

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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, 2018, the liquidation account, which is an off-balance sheet memorandum account, amounted to \$10.4 million.

### (3) Restrictions on Cash and Due from Banks

Included in cash on hand and due from banks at December 31, 2018 and 2017 was \$35.0 million and \$39.5 million, respectively, representing reserves required by banking regulations.

### (4) Held to Maturity Debt Securities

Held to maturity debt securities at December 31, 2018 and 2017 are summarized as follows (in thousands):

	2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 4,989	1	(94)	4,896
Mortgage-backed securities	187	3	—	190
State and municipal obligations	463,801	4,329	(3,767)	464,363
Corporate obligations	10,448	1	(158)	10,291
	\$ 479,425	4,334	(4,019)	479,740
	2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 4,308	—	(87)	4,221
Mortgage-backed securities	382	14	—	396
State and municipal obligations	462,942	9,280	(1,738)	470,484
Corporate obligations	10,020	1	(83)	9,938
	\$ 477,652	9,295	(1,908)	485,039

The Company generally purchases securities for long-term investment purposes, and differences between carrying and fair values may fluctuate during the investment period. Held to maturity debt securities having a carrying value of \$453.1 million and \$409.7 million at December 31, 2018 and 2017, respectively, were pledged to secure other borrowings, securities sold under repurchase agreements and government deposits.

The amortized cost and fair value of held to maturity debt securities at December 31, 2018 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.

2018	
Amortized	Fair

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	cost	value
Due in one year or less	\$ 8,773	8,771
Due after one year through five years	86,008	86,126
Due after five years through ten years	263,750	264,093
Due after ten years	120,707	120,560
	\$ 479,238	479,550

Mortgage-backed securities totaling \$187,000 at amortized cost and \$190,000 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.

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During 2018, the Company recognized gains of \$10,000 and losses of \$1,000 related to calls on securities in the held to maturity debt securities portfolio, with total proceeds from the calls totaling \$32.0 million. There were no sales of securities from the held to maturity debt securities portfolio for the year ended December 31, 2018.

For 2017, the Company recognized gains of \$60,000 and losses of \$3,000 related to calls on securities in the held to maturity debt securities portfolio, with total proceeds from the calls totaling \$32.9 million. There were no sales of securities from the held to maturity debt securities portfolio for the year ended December 31, 2017.

For the 2016 period, the Company recognized gains of \$15,000 and \$1,000 losses related to calls on certain securities in the held to maturity debt securities portfolio, with total proceeds from the calls totaling \$45.9 million. There were no sales of securities from the held to maturity debt securities portfolio for the year ended December 31, 2016.

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

	December 31, 2018 Unrealized Losses						Total
	Less than 12 months			12 months or longer			
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	
Agency obligations	\$ —	—	4,525	(94)	4,525	(94)	
State and municipal obligations	96,412	(918)	81,663	(2,849)	178,075	(3,767)	
Corporate obligations	—	—	9,004	(158)	9,004	(158)	
	\$ 96,412	(918)	95,192	(3,101)	191,604	(4,019)	
	December 31, 2017 Unrealized Losses						Total
	Less than 12 months			12 months or longer			
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	
Agency obligations	\$ 3,821	(87)	—	—	3,821	(87)	
State and municipal obligations	37,317	(295)	49,488	(1,443)	86,805	(1,738)	
Corporate obligations	9,662	(83)	—	—	9,662	(83)	
	\$ 50,800	(465)	49,488	(1,443)	100,288	(1,908)	

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, 2018. Based on its detailed review of the held to maturity debt securities portfolio, the Company believes that as of December 31, 2018, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The Company does not have the intent to sell securities in a temporary loss position at December 31, 2018, 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, 2018 totaled 334, compared with 184 at December 31, 2017. All temporarily impaired investment securities were investment grade at December 31, 2018.



**(5) Available for Sale Debt Securities**

Available for sale debt securities at December 31, 2018 and 2017 are summarized as follows (in thousands):

	2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities	\$ 1,048,415	2,704	(16,150)	1,034,969
State and municipal obligations	2,828	84	—	2,912
Corporate obligations	25,039	268	(109)	25,198
	\$ 1,076,282	3,056	(16,259)	1,063,079
	2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 19,014	—	(9)	19,005
Mortgage-backed securities	993,548	4,914	(10,095)	988,367
State and municipal obligations	3,259	129	—	3,388
Corporate obligations	26,047	359	(12)	26,394
	\$ 1,041,868	5,402	(10,116)	1,037,154

Available for sale debt securities having a carrying value of \$524.2 million and \$939.4 million at December 31, 2018 and 2017, respectively, are pledged to secure other borrowings and securities sold under repurchase agreements. The amortized cost and fair value of available for sale debt securities at December 31, 2018, 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.

	2018	
	Amortized cost	Fair value
Due after one year through five years	\$ 3,006	2,967
Due after five years through ten years	24,861	25,143
	\$ 27,867	28,110



Mortgage-backed securities totaling \$1.05 billion at amortized cost and \$1.03 billion 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 2018, the Company sold 15,046 VISA Class B common shares at a gross gain of approximately \$2.2 million. For 2017 and 2016, there were no sales or calls of securities from the available for sale debt securities portfolio.

For the years ended December 31, 2018, 2017 and 2016, the Company did not incur an other-than-temporary impairment charge on available for sale debt securities.

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

	December 31, 2018 Unrealized Losses						Total
	Less than 12 months			12 months or longer			
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	
Mortgage-backed securities	\$ 218,175	(2,173)	545,880	(13,977)	764,055	(16,150)	
Corporate obligations	7,897	(109)	—	—	7,897	(109)	
	\$ 226,072	(2,282)	545,880	(13,977)	771,952	(16,259)	
	December 31, 2017 Unrealized Losses						Total
	Less than 12 months			12 months or longer			
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	
Agency obligations	\$ 12,006	(8)	6,999	(1)	19,005	(9)	
Mortgage-backed securities	420,746	(3,936)	235,056	(6,159)	655,802	(10,095)	
Corporate obligations	—	—	989	(12)	989	(12)	
	\$ 432,752	(3,944)	243,044	(6,172)	675,796	(10,116)	

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, 2018. Based on its detailed review of the available for sale debt securities portfolio, the Company believes that as of December 31, 2018, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The Company does not have the intent to sell securities in a temporary loss position at December 31, 2018, 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, 2018 totaled 175, compared with 122 at December 31, 2017. There was one private label mortgage-backed security in an unrealized loss position at December 31, 2018, with an amortized cost of \$32,000 and unrealized loss of \$1,000. This private label mortgage-backed security was investment grade at December 31, 2018.

**(6) Loans Receivable and Allowance for Loan Losses**

Loans receivable at December 31, 2018 and 2017 are summarized as follows (in thousands):

	2018	2017
Mortgage loans:		
Residential	\$ 1,099,464	1,142,347
Commercial	2,299,313	2,171,056
Multi-family	1,339,677	1,403,885
Construction	388,999	392,580
Total mortgage loans	5,127,453	5,109,868
Commercial loans	1,695,021	1,745,138
Consumer loans	431,428	473,957
Total gross loans	7,253,902	7,328,963
Purchased credit-impaired ("PCI") loans	899	969
Premiums on purchased loans	3,243	4,029
Unearned discounts	(33)	(36)
Net deferred fees	(7,423)	(8,207)
Total loans	\$ 7,250,588	7,325,718

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, 2018, 2017 and 2016, \$894,000, \$1.0 million and \$1.3 million decreased interest income, respectively, 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, 2018							
	30-59 Days	60-89 Days	Non-accrual	90 days or more past due and accruing	Total Past Due	Current	Total Loans Receivable
Mortgage loans:							
Residential	\$ 4,188	5,557	5,853	—	15,598	1,083,866	1,099,464
Commercial	—	—	3,180	—	3,180	2,296,133	2,299,313
Multi-family	—	—	—	—	—	1,339,677	1,339,677
Construction	—	—	—	—	—	388,999	388,999
Total mortgage loans	4,188	5,557	9,033	—	18,778	5,108,675	5,127,453
Commercial loans	425	13,565	15,391	—	29,381	1,665,640	1,695,021

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Consumer loans	1,238	610	1,266	—	3,114	428,314	431,428	
Total gross loans	\$	5,851	19,732	25,690	—	51,273	7,202,629	7,253,902

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At December 31, 2017

	30-59 Days	60-89 Days	Non-accrual	90 days or more past due and accruing	Total Past Due	Current	Total Loans Receivable
Mortgage loans:							
Residential \$	7,809	4,325	8,105	—	20,239	1,122,108	1,142,347
Commercial <sup>486</sup>	—	—	7,090	—	8,576	2,162,480	2,171,056
Multi-family—	—	—	—	—	—	1,403,885	1,403,885
Construction—	—	—	—	—	—	392,580	392,580
Total mortgage loans	9,295	4,325	15,195	—	28,815	5,081,053	5,109,868
Commercial loans	551	406	17,243	—	18,200	1,726,938	1,745,138
Consumer loans	2,465	487	2,491	—	5,443	468,514	473,957
Total gross loans	\$ 12,311	5,218	34,929	—	52,458	7,276,505	7,328,963

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 \$25.7 million and \$34.9 million at December 31, 2018 and 2017, respectively. There were no loans ninety days or greater past due and still accruing interest at December 31, 2018 and 2017.

If the non-accrual loans had performed in accordance with their original terms, interest income would have increased by \$1.4 million, \$1.9 million and \$2.2 million, for the years ended December 31, 2018, 2017 and 2016, respectively. The amount of cash basis interest income that was recognized on impaired loans during the years ended December 31, 2018, 2017 and 2016 was \$2.0 million, \$1.8 million and \$1.5 million respectively.

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

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

A specific allocation of the allowance for loan losses is established for each impaired loan with a carrying balance greater than the collateral’s fair value, less estimated costs to sell. Charge-offs are generally taken for the amount of the specific allocation when operations associated with the respective property cease and it is determined that collection of amounts due will be derived primarily from the disposition of the collateral. At each fiscal quarter end, if a loan is

designated as a collateral dependent impaired loan and the third-party appraisal has not yet been received, an evaluation of all available collateral is made using the best information available at the time, including rent rolls, borrower financial statements and tax returns, prior appraisals, management's knowledge of the market and collateral, and internally prepared collateral valuations based upon market assumptions regarding vacancy and capitalization rates, each as and where applicable. Once the appraisal is received and reviewed, the specific reserves are adjusted to reflect the appraised value. The Company believes there have been no significant time lapses as a result of this process.

At December 31, 2018, there were 152 impaired loans totaling \$50.7 million, of which 148 loans totaling \$46.8 million were TDRs. Included in this total were 129 TDRs related to 124 borrowers totaling \$35.6 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2018. At December 31, 2017, there were 149 impaired loans totaling \$52.0 million, of which 141 loans totaling \$41.7 million were TDRs. Included in this

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total were 125 TDRs related to 121 borrowers totaling \$31.7 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2017.

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

<b>At December 31, 2018</b>				
	<b>Mortgage loans</b>	<b>Commercial loans</b>	<b>Consumer loans</b>	<b>Total Portfolio Segments</b>
Individually evaluated for impairment	\$ 24,680	23,747	2,257	50,684
Collectively evaluated for impairment	5,102,773	1,671,274	429,171	7,203,218
Total gross loans	\$ 5,127,453	1,695,021	431,428	7,253,902

<b>At December 31, 2017</b>				
	<b>Mortgage loans</b>	<b>Commercial loans</b>	<b>Consumer loans</b>	<b>Total Portfolio Segments</b>
Individually evaluated for impairment	\$ 28,459	21,223	2,359	52,041
Collectively evaluated for impairment	5,081,409	1,723,915	471,598	7,276,922
Total gross loans	\$ 5,109,868	1,745,138	473,957	7,328,963

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

<b>At December 31, 2018</b>					
	<b>Mortgage loans</b>	<b>Commercial loans</b>	<b>Consumer loans</b>	<b>Total Portfolio Segments</b>	<b>Total</b>
Individually evaluated for impairment	\$ 1,026	92	47	1,165	1,165
Collectively evaluated for impairment	26,652	25,601	2,144	54,397	54,397
Total	\$ 27,678	25,693	2,191	55,562	55,562

<b>At December 31, 2017</b>					
	<b>Mortgage loans</b>	<b>Commercial loans</b>	<b>Consumer loans</b>	<b>Total Portfolio Segments</b>	<b>Total</b>
Individually evaluated for	\$ 1,486	1,134	70	2,690	2,690

impairment

Collectively evaluated for impairment	26,566	28,680	2,259	57,505	57,505
Total	\$ 28,052	29,814	2,329	60,195	60,195

Loan modifications to borrowers 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.

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The following tables present the number of loans modified as TDRs during the years ended December 31, 2018 and 2017 and their balances immediately prior to the modification date and post-modification as of December 31, 2018 and 2017.

Troubled Debt Restructurings	Year Ended December 31, 2018		
	Pre-Modification	Outstanding	Post-Modification
	Number of Loans	Recorded Investment (\$ in thousands)	Recorded Investment
Mortgage loans:			
Residential	6	\$ 981	945
Total mortgage loans	6	981	945
Commercial loans	8	9,192	7,888
Consumer loans	1	336	332
Total restructured loans	15	\$ 10,509	9,165

Troubled Debt Restructurings	Year Ended December 31, 2017		
	Pre-Modification	Outstanding	Post-Modification
	Number of Loans	Recorded Investment (\$ in thousands)	Recorded Investment
Mortgage loans:			
Residential	5	\$ 2,468	2,260
Total mortgage loans	5	2,468	2,260
Commercial loans	1	874	874
Consumer loans	2	262	257
Total restructured loans	8	\$ 3,604	3,391

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, 2018 and 2017 exceeded the carrying amounts of such loans. During the year ended December 31, 2018, there were \$8.3 million of charge-offs recorded on collateral dependent impaired loans. There were \$5.1 million of charge-offs recorded on collateral dependent impaired loans for the year ended December 31, 2017. The allowance for loan losses associated

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with the TDRs presented in the preceding tables totaled \$119,000 and \$166,000 at December 31, 2018 and 2017, respectively and were included in the allowance for loan losses for loans individually evaluated for impairment. The TDRs presented in the preceding tables had a weighted average modified interest rate of approximately 5.41% and 4.18%, compared to a yield of 5.46% and 4.19% prior to modification for the years ended December 31, 2018 and 2017, respectively.

The following table presents loans modified as TDRs within the previous 12 months from December 31, 2018 and 2017, and for which there was a payment default (90 days or more past due) at the quarter ended December 30, 2018 and 2017.

Troubled Debt Restructurings Subsequently Defaulted	December 31, 2018			December 31, 2017	
	Number of Loans	Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment	
		(\$ in thousands)		(\$ in thousands)	
Commercial Loans	3	\$ 1,344	—	\$ —	—
Total restructured loans	3	\$ 1,344	—	\$ —	—

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There were three loans to one borrower which had a payment default (90 days or more past due) for loans modified as TDRs within the 12 month period ending December 31, 2018. There were no payment defaults (90 days or more past due) for loans modified as TDRs within the 12 month period ending December 31, 2017.

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. These loans are accounted for at fair value, based upon the present value of expected future cash flows, with no related allowance for loan losses. At December 31, 2018, PCI loans totaled \$899,000, compared to \$1.0 million at December 31, 2017. The \$70,000 decrease from December 31, 2017 was largely due to the full repayment and greater than projected cash flows on certain PCI loans.

The following table summarizes the changes in the accretable yield for PCI loans for the years ended December 31, 2018 and 2017 (in thousands):

	Year ended December 31,	
	2018	2017
Beginning balance	\$ 101	200
Accretion	(88)	(320)
Reclassification from non-accretable difference	99	221
Ending balance	\$ 112	101

The activity in the allowance for loan losses for the years ended December 31, 2018, 2017 and 2016 is as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Balance at beginning of \$ period	60,195	61,883	61,424
Provision charged to operations	23,700	5,600	5,400
Recoveries of loans previously charged off	1,685	1,653	2,009
Loans charged off	(30,018)	(8,941)	(6,950)
Balance at end of \$ period	55,562	60,195	61,883

The activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2018 and 2017 are as follows (in thousands):

For the Year Ended December 31, 2018				
Mortgage loans	Commercial loans	Consumer loans	Total Portfolio	Total

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				Segments	
Balance at beginning of \$ period	28,052	29,814	2,329	60,195	60,195
Provision charged to operations (586)		24,437	(151)	23,700	23,700
Recoveries of loans previously charged off 489		428	768	1,685	1,685
Loans charged off (277)		(28,986)	(755)	(30,018)	(30,018)
Balance at end of period \$	27,678	25,693	2,191	55,562	55,562

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For the Year Ended December 31, 2017

	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Total
Balance at beginning of \$ period	29,626	29,143	3,114	61,883	61,883
Provision charged to operations	(1,139)	7,058	(319)	5,600	5,600
Recoveries of loans previously charged off	66	800	787	1,653	1,653
Loans charged off	(501)	(7,187)	(1,253)	(8,941)	(8,941)
Balance at end of \$ period	28,052	29,814	2,329	60,195	60,195

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

	At December 31, 2018					At December 31, 2017				
	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
<b>Loans with no related allowance</b>										
Mortgage loans:										
Residential \$	15,013	12,005	—	12,141	594	\$ 13,239	10,477	—	10,552	479
Commercial	1,550	1,546	—	1,546	—	5,037	4,908	—	5,022	12
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Total	16,563	13,551	—	13,687	594	18,276	15,385	—	15,574	491
Commercial loans	21,746	16,254	—	17,083	328	19,196	14,984	—	15,428	395
Consumer loans	1,871	1,313	—	1,386	90	1,582	1,041	—	1,150	69
Total loans	\$ 40,180	31,118	—	32,156	1,012	\$ 39,054	31,410	—	32,152	955
<b>Loans with an allowance recorded</b>										
Mortgage loans:										
Residential \$	10,573	10,090	954	10,186	425	\$ 13,052	12,010	1,351	12,150	475
Commercial	1,039	1,039	72	1,052	53	1,064	1,064	135	1,076	54
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Total	11,612	11,129	1,026	11,238	478	14,116	13,074	1,486	13,226	529
Commercial loans	7,493	7,493	92	9,512	435	7,097	6,239	1,134	7,318	208

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Consumer loans	954	944	47	962	40	1,329	1,318	70	1,349	64
Total loans	\$ 20,059	19,566	1,165	21,712	953	\$ 22,542	20,631	2,690	21,893	801
<b>Total</b>										
Mortgage loans:										
Residential	\$ 25,586	22,095	954	22,327	1019	\$ 26,291	22,487	1,351	22,702	954
Commercial	2,589	2,585	72	2,598	53	6,101	5,972	135	6,098	66
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Total	28,175	24,680	1,026	24,925	1,072	32,392	28,459	1,486	28,800	1,020
Commercial loans	29,239	23,747	92	26,595	763	26,293	21,223	1134	22,746	603
Consumer loans	2,825	2,257	47	2,348	130	2,911	2,359	70	2,499	133
Total loans	\$ 60,239	50,684	1,165	53,868	1,965	\$ 61,596	52,041	2,690	54,045	1,756

At December 31, 2018, impaired loans consisted of 152 residential, commercial and commercial mortgage loans totaling \$50.7 million, of which 23 loans totaling \$15.1 million were included in nonaccrual loans. At December 31, 2017, impaired loans consisted of 149 residential, commercial and commercial mortgage loans totaling \$52.0 million, of which 24 loans totaling \$20.3 million were included in nonaccrual loans. Specific allocations of the allowance for loan losses attributable to impaired loans totaled \$1.2 million and \$2.7 million at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, impaired loans for which there was no related allowance for loan losses totaled \$31.1 million and \$31.4 million, respectively. The average balances of impaired loans during the years ended December 31, 2018 and 2017 were \$53.9 million and \$54.0 million, respectively.

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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 \$1.26 billion and \$1.71 billion, at December 31, 2018 and 2017, respectively, and undisbursed home equity and personal credit lines of \$233.9 million and \$270.9 million, at December 31, 2018 and 2017, 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.

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 their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by the Credit 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, 2018									
	Residential	Commercial	Multi-family	Construction	Total mortgages	Commercial loans	Consumer loans	Total loans	
Special mention	\$ 5,071	14,496	228	—	19,795	67,396	610	87,801	
Substandard	7,878	13,292	—	6,181	27,351	45,180	1,711	74,242	
Doubtful	—	—	—	—	—	923	—	923	
Loss	—	—	—	—	—	—	—	—	
Total classified and criticized	12,949	27,788	228	6,181	47,146	113,499	2,321	162,966	
Acceptable/Watch	1,086,515	2,271,525	1,339,449	382,818	5,080,307	1,581,522	429,107	7,090,936	
Total outstanding loans	\$ 1,099,464	2,299,313	1,339,677	388,999	5,127,453	1,695,021	431,428	7,253,902	

At December 31, 2017									
	Residential	Commercial mortgages	Multi-family	Construction	Total mortgages	Commercial loans	Consumer loans	Total loans	
Special mention	\$ 4,325	19,172	15	—	23,512	20,738	486	44,736	
Substandard	8,105	25,069	—	—	33,174	29,734	2,491	65,399	
Doubtful	—	—	—	—	—	428	—	428	
Loss	—	—	—	—	—	—	—	—	
Total classified and criticized	12,430	44,241	15	—	56,686	50,900	2,977	110,563	
Acceptable/well	26,917	2,126,815	1,403,870	392,580	5,053,182	1,694,238	470,980	7,218,400	
Total outstanding loans	\$ 1,142,347	2,171,056	1,403,885	392,580	5,109,868	1,745,138	473,957	7,328,963	

### (7) Banking Premises and Equipment

A summary of banking premises and equipment at December 31, 2018 and 2017 is as follows (in thousands):

	2018	2017
Land	\$ 12,440	12,440
Banking premises	58,351	58,523
Furniture, fixtures and equipment	44,602	45,184
Leasehold improvements	35,106	35,240
Construction in progress	1,563	1,036
	152,062	152,423
Less accumulated depreciation and amortization	93,938	89,238
Total banking premises and equipment	\$ 58,124	63,185

On December 13, 2017, the Company completed the sale and leaseback of 12 of its New Jersey banking offices, which had a net book value of \$14.5 million. Net proceeds from the sale totaled \$20.7 million. The net gain on sale of \$6.2 million is being recognized over the 10 year term of the leases as a reduction of rent expense. Depreciation expense for the years ended December 31, 2018, 2017 and 2016 amounted to \$8.0 million, \$9.0 million and \$9.4 million, respectively.

### (8) Intangible Assets

Intangible assets at December 31, 2018 and 2017 are summarized as follows (in thousands):

2018	2017
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Goodwill	\$	411,600	411,600
Core deposit premiums		2,539	3,470
Customer relationship and other intangibles		3,410	4,483
Mortgage servicing rights		629	737
Total intangible assets	\$	418,178	420,290

Amortization expense of intangible assets for the years ended December 31, 2018, 2017 and 2016 is as follows (in thousands):

	2018	2017	2016
Core deposit premiums	\$ 931	1,076	1,300
Customer relationship and other intangibles	1,073	1,474	1,909
Mortgage servicing rights	123	120	182
Total amortization expense of intangible assets	\$ 2,127	2,670	3,391

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

Year ended December 31,	Scheduled Amortization
2019	\$ 1,709
2020	1,415
2021	1,120
2022	825
2023	533

### (9) Deposits

Deposits at December 31, 2018 and 2017 are summarized as follows (in thousands):

	2018	Weighted average interest rate	2017	Weighted average interest rate
Savings deposits	\$ 1,051,922	0.76	\$ 1,083,012	0.77
Money market accounts	1,496,310	0.63	1,532,024	0.36
NOW accounts	2,049,645	0.73	2,011,334	0.46
Non-interest bearing deposits	1,481,753	—	1,452,987	—
Certificates of deposit	750,492	1.58	634,809	0.94
Total deposits	\$ 6,830,122		\$ 6,714,166	

Scheduled maturities of certificates of deposit accounts at December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Within one year	\$ 584,478	424,448
One to three years	119,655	150,280
Three to five years	45,518	56,529
Five years and thereafter	841	3,552
	\$ 750,492	634,809

Interest expense on deposits for the years ended December 31, 2018, 2017 and 2016 is summarized as follows (in thousands):

Years ended December 31,	2018	2017	2016
	\$ 1,923	2,092	1,709

Savings deposits			
NOW and money market accounts	20,450	12,205	10,106
Certificates of deposits	8,320	5,144	5,132
	\$ 30,693	19,441	16,947

**(10) Borrowed Funds**

Borrowed funds at December 31, 2018 and 2017 are summarized as follows (in thousands):

	2018	2017
Securities sold under repurchase agreements	\$ 121,322	143,179
FHLB line of credit	283,000	472,000
FHLB advances	1,037,960	1,127,335
Total borrowed funds	\$ 1,442,282	1,742,514

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At December 31, 2018, FHLB advances were at fixed rates and mature between January 2019 and April 2022, and at December 31, 2017, FHLB advances were at fixed rates and mature between January 2018 and April 2022. These advances are secured by loans receivable and investment securities under a blanket collateral agreement. Scheduled maturities of FHLB advances at December 31, 2018 are as follows (in thousands):

<b>2018</b>	
Due in one year or less	\$ 601,551
Due after one year through two years	359,169
Due after two years through three years	67,240
Due after three years through four years	10,000
Thereafter	—
<b>Total FHLB advances</b>	<b>\$ 1,037,960</b>

Scheduled maturities of securities sold under repurchase agreements at December 31, 2018 are as follows (in thousands):

<b>2018</b>	
Due in one year or less	\$ 121,322
Thereafter	—
<b>Total securities sold under repurchase agreements</b>	<b>\$ 121,322</b>

The following tables set forth certain information as to borrowed funds for the years ended December 31, 2018 and 2017 (in thousands):

	<b>Maximum balance</b>	<b>Average balance</b>	<b>Weighted average interest rate</b>
<b>2018:</b>			
Securities sold under repurchase agreements	\$ 153,715	139,729	1.94
	487,000	259,189	2.09

FHLB line of  
credit

FHLB advances	1,256,525	1,136,988	1.90
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**2017:**

Securities sold under repurchase agreements	\$ 210,702	164,982	1.26
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FHLB line of credit	472,000	179,003	1.17
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FHLB advances	1,288,448	1,237,979	1.78
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Securities sold under repurchase agreements include wholesale borrowing arrangements, as well as arrangements with deposit customers of the Bank to sweep funds into short-term borrowings. The Bank uses available for sale debt securities to pledge as collateral for the repurchase agreements.

**(11) Benefit Plans**

***Pension and Post-retirement Benefits***

The Bank has a noncontributory defined benefit pension plan covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The pension plan was frozen on April 1, 2003. All participants in the pension plan are 100% vested. The pension plan's assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial. Based on the measurement date of December 31, 2018, no contributions will be made to the pension plan in 2019.

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

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

	Pension			Post-retirement		
	2018	2017	2016	2018	2017	2016
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 31,970	29,533	28,274	22,757	20,805	25,694
Service cost	—	—	—	115	105	150
Interest cost	1,094	1,227	1,247	786	871	1,138
Actuarial loss	—	—	70	18	—	—
Benefits paid	(1,401)	(1,590)	(1,247)	(590)	(560)	(682)
Change in actuarial assumptions	(2,785)	2,800	1,189	(3,058)	1,536	(5,495)
Benefit obligation at end of year	\$ 28,878	31,970	29,533	20,028	22,757	20,805
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 46,870	43,153	41,448	—	—	—
Actual return on plan assets	(2,020)	5,307	2,952	—	—	—
Employer contributions	—	—	—	590	560	682
Benefits paid	(1,401)	(1,590)	(1,247)	(590)	(560)	(682)
Fair value of plan assets at end of year	43,449	46,870	43,153	—	—	—
Funded status at end of year	\$ 14,571	14,900	13,620	(20,028)	(22,757)	(20,805)

For the years ended December 31, 2018 and 2017, the Company, in the measurement of its pension plan and post-retirement obligations updated its mortality assumptions to the RP 2014 mortality table with the fully generational projection scale MP 2018 and MP 2017 issued by The Society of Actuaries ("SOA") in October 2018 and 2017, respectively. The prepaid pension benefits of \$14.6 million and the unfunded post-retirement healthcare and life insurance benefits of \$20.0 million at December 31, 2018 are included in other assets and other liabilities, respectively, in the Consolidated Statements of Financial Condition.

The components of accumulated other comprehensive loss (gain) related to the pension plan and other post-retirement benefits, on a pre-tax basis, at December 31, 2018 and 2017 are summarized in the following table (in thousands):

Pension	Post-retirement
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	2018	2017	2018	2017
Unrecognized prior service cost	\$ —	—	—	—
Unrecognized net actuarial loss (gain)	12,300	11,091	(7,425)	(4,781)
Total accumulated other comprehensive loss (gain)	\$ 12,300	11,091	(7,425)	(4,781)

Net periodic benefit (increase) cost for the years ending December 31, 2018, 2017 and 2016, included the following components (in thousands):

	Pension			Post-retirement		
	2018	2017	2016	2018	2017	2016
Service cost	\$ —	—	—	115	105	150
Interest cost	1,094	1,227	1,247	786	871	1,138
Return on plan assets	(2,769)	(2,550)	(2,449)	—	—	—
Amortization of:						
Net loss (gain)	795	920	943	(396)	(677)	—
Unrecognized prior service cost	—	—	—	—	—	—
Net periodic benefit (increase) cost	\$ (880)	(403)	(259)	505	299	1,288

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The weighted average actuarial assumptions used in the plan determinations at December 31, 2018, 2017 and 2016 were as follows:

	Pension		2016	2018	2017	Post-retirement
	2018	2017				2016
Discount rate	4.25	3.50	4.25	4.25	3.50	4.25
Rate of compensation increase	—	—	—	—	—	—
Expected return on plan assets	6.00	6.00	6.00	—	—	—
Medical and life insurance benefits cost rate of increase	—	—	—	6.00	6.00	6.00

The Company provides its actuary with certain rate assumptions used in measuring the benefit obligation. The most significant of these is the discount rate used to calculate the period-end present value of the benefit obligations, and the expense to be included in the following year's financial statements. A lower discount rate will result in a higher benefit obligation and expense, while a higher discount rate will result in a lower benefit obligation and expense. The discount rate assumption was determined based on a cash flow-yield curve model specific to the Company's pension and post-retirement plans. The Company compares this rate to certain market indices, such as long-term treasury bonds, or the Citigroup pension liability indices, for reasonableness. A discount rate of 4.25% was selected for the December 31, 2018 measurement date.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A 1% change in the assumed health care cost trend rate would have had the following effects on post-retirement benefits at December 31, 2018 (in thousands):

	1% increase	1% decrease
Effect on total service cost and interest cost	\$ 160	130
Effect on post-retirement benefits obligation	\$ 3,200	2,600

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

	Pension	Post-retirement
2019	\$ 1,528	\$ 682
2020	1,566	708
2021	1,621	770
2022	1,645	828
2023	1,712	834

The weighted-average asset allocation of pension plan assets at December 31, 2018 and 2017 were as follows:

Asset Category	2018	2017
Domestic	34%	38%



## equities

Foreign equities	<del>1%</del>	<del>1%</del>
Fixed income	<del>5%</del>	<del>4%</del>
Real estate	2%	2%
Cash	<del>—%</del>	<del>—%</del>
Total	<del>100</del>	<del>100</del>

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

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Asset Category	Target	Allowable Range
Domestic equities	3%	30-41%
Foreign equities	1%	5-13%
Fixed income	5%	40-65%
Real estate	2%	0-4%
Cash	—%	—%
Total	100	

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

The following tables present the assets that are measured at fair value on a recurring basis by level within the U.S. GAAP fair value hierarchy as reported on the statements of net assets available for Plan benefits at December 31, 2018 and 2017, respectively. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Fair value measurements at December 31, 2018				
(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Group annuity contracts	\$ 100	—	100	—
Mutual funds:				
Fixed income	15,252	15,252	—	—
International equity	4,649	4,649	—	—
Large U.S. equity	1,224	1,224	—	—
Small/Mid U.S. equity	772	772	—	—
Total mutual funds	21,897	21,897	—	—
Pooled separate accounts	21,452	—	21,452	—
Total investments	\$ 43,449	21,897	21,552	—

Fair value measurements at December 31, 2017				
(in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
Group annuity contracts	\$ 120	—	120	—
Mutual funds:				
Fixed income	13,725	13,725	—	—

International equity	5,110	5,110	—	—
Large U.S. equity	1,431	1,431	—	—
Small/Mid U.S. equity	950	950	—	—
Total mutual funds	21,216	21,216	—	—
Pooled separate accounts	25,534	—	25,534	—
Total investments	\$ 46,870	21,216	25,654	—

**401(k) Plan**

The Bank has a 401(k) plan covering substantially all employees of the Bank. For 2018, 2017 and 2016, the Bank matched 25% of the first 6% contributed by the participants. The contribution percentage is determined by the Board of Directors in its sole discretion. The Bank's aggregate contributions to the 401(k) Plan for 2018, 2017 and 2016 were \$973,000, \$890,000 and \$850,000, respectively.

**Supplemental Executive Retirement Plan**

The Bank maintains a non-qualified supplemental retirement plan for certain senior officers of the Bank. This plan was frozen as of April 1, 2003. The Supplemental Executive Retirement Plan, which is unfunded, provides benefits in excess of the

benefits permitted to be paid by the pension plan under provisions of the tax law. Amounts expensed under this supplemental retirement plan amounted to \$82,000, \$91,000 and \$96,000 for the years 2018, 2017 and 2016, respectively. At December 31, 2018 and 2017, \$2.0 million and \$2.0 million, respectively, were recorded in other liabilities on the Consolidated Statements of Financial Condition for this supplemental retirement plan. In connection with this supplemental retirement plan, an increase of \$119,000, a decrease of \$120,000, and a decrease of \$30,000, net of tax, were recorded in other comprehensive income (loss) for 2018, 2017 and 2016, respectively.

***Retirement Plan for the Board of Directors of Provident Bank***

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

The plan further provides that, in the event of a change in control (as defined in the plan), the undistributed balance of a director's accrued benefit will be distributed to him or her within 60 days of the change in control. The Bank paid \$10,000, \$12,500, and \$17,500 to former board members under this plan for each of the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018 and 2017, \$139,000 and \$142,000, respectively, were recorded in other liabilities on the Consolidated Statements of Financial Condition for this retirement plan. An increase of \$3,000, a decrease of \$1,000, and a decrease of \$3,000, net of tax, were recorded in other comprehensive income (loss) for 2018, 2017 and 2016, respectively, in connection with this plan.

***Employee Stock Ownership Plan***

The ESOP is a tax-qualified plan designed to invest primarily in the Company's common stock that provides employees with the opportunity to receive a funded retirement benefit from the Bank, based primarily on the value of the Company's common stock. The ESOP purchased 4,769,464 shares of the Company's common stock at an average price of \$17.09 per share with the proceeds of a loan from the Company to the ESOP. The outstanding loan principal at December 31, 2018, was \$36.8 million. Shares of the Company's common stock pledged as collateral for the loan are released from the pledge for allocation to participants as loan payments are made.

For the years ending December 31, 2018 and 2017, 243,527 shares and 242,254 shares from the ESOP were released, respectively. Unallocated ESOP shares held in suspense totaled 1,737,009 at December 31, 2018, and had a fair value of \$41.9 million. ESOP compensation expense for the years ended December 31, 2018, 2017 and 2016 was \$4.5 million, \$4.6 million and \$3.7 million, respectively.

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

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

The Supplemental DC Plan provides for a phantom stock allocation for qualified contributions that may not be accrued in the qualified ESOP and for matching contributions that may not be accrued in the qualified 401(k) Plan due to tax law limitations. Under the Supplemental 401(k) provision, the estimated expense for the years ending December 31, 2018, 2017 and 2016 was \$18,000, \$17,500 and \$14,500, respectively, and included the matching contributions plus interest credited at an annual rate equal to the ten-year bond-equivalent yield on U.S. Treasury securities. Under the Supplemental ESOP provision,



the estimated expense for the years ending December 31, 2018, 2017 and 2016 was \$121,000, \$105,000 and \$93,000, respectively. The phantom equity is treated as equity awards (expensed at the time of allocation) and not liability awards which would require periodic adjustment to market, as participants do not have an option to take their distribution in cash.

#### ***The Amended and Restated Long-Term Incentive Plan***

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

#### ***Stock Awards***

As a general rule, restricted stock grants are held in escrow for the benefit of the award recipient until vested. Awards outstanding generally vest in three annual installments, commencing one year from the date of the award.

Additionally, certain awards are three-year performance vesting awards, which may or may not vest depending upon the attainment of certain corporate financial targets. Expense attributable to stock awards amounted to \$6.0 million, \$5.0 million and \$3.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

	Restricted Stock Awards		
	2018	2017	2016
Outstanding at beginning of year	660,783	547,698	591,746
Granted	296,411	288,519	351,836
Forfeited	(56,296)	(62,677)	(178,632)
Vested	(249,799)	(112,757)	(217,252)
Outstanding at the end of year	651,099	660,783	547,698

As of December 31, 2018, unrecognized compensation cost relating to unvested restricted stock totaled \$6.2 million. This amount will be recognized over a remaining weighted average period of 1.7 years.

#### ***Stock Options***

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

A summary of the status of the granted but unexercised stock options as of December 31, 2018, 2017 and 2016, and changes during the year is presented below:

	2018		2017		2016	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding at beginning of year	507,556	16.84	703,669	\$ 14.70	1,084,686	\$ 15.32

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Granted	43,124.58		42,857	26.31	76,327	18.70
Exercised	(79,801)		(238,370)	12.22	(368,838)	16.92
Forfeited	—		—	—	(82,006)	16.42
Expired	—		(500)	17.94	(6,500)	18.55
Outstanding at the end of year	470,979	18.36	507,656	\$ 16.84	703,669	\$ 14.70

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The total fair value of options vesting during 2018, 2017 and 2016 was \$189,000, \$168,000 and \$247,000, respectively.

Compensation expense of approximately \$128,000, \$72,000 and \$10,000 is projected for 2019, 2020 and 2021, respectively, on stock options outstanding at December 31, 2018.

The following table summarizes information about stock options outstanding at December 31, 2018:

<u>Range of exercise prices</u>	Options Outstanding			Options Exercisable	
	Number of options outstanding	Average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$10.34-15.23	161,938	3.38 years	\$ 14.50	161,938	\$ 14.50
\$16.38-26.31	309,641	6.41 years	\$ 20.03	204,905	\$ 18.28

The stock options outstanding and stock options exercisable at December 31, 2018 have an aggregate intrinsic value of \$3.0 million and \$2.8 million, respectively.

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

Compensation expense related to the Company's stock option plan totaled \$190,000, \$203,000 and \$172,000 for 2018, 2017 and 2016, respectively.

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

	For the year ended December 31,		
	2018	2017	2016
Expected dividend yield	3.23%	2.89%	3.64%
Expected volatility	20.65%	20.34%	20.71%
Risk-free interest rate	2.65%	2.05%	1.21%
Expected option life	8 years	8 years	8 years

The weighted average fair value of options granted during 2018, 2017 and 2016 was \$4.29, \$4.20 and \$2.26 per option, respectively.

## (12) Income Taxes

The Tax Cuts and Jobs Act ("Tax Act") was signed into law on December 22, 2017. Included as part of the law, was a permanent reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018. Based upon the change in the tax rate, the Company revalued its net deferred tax asset at December 31, 2017. As a result of the enactment of the Tax Act, the Company recognized an additional tax expense of \$3.9 million for the year ended December 31, 2017.





The current and deferred amounts of income tax expense (benefit) for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

	Years ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ 41,578	4,163	32,506
State	2,493	1,731	1,314
Total current	44,071	5,894	33,820
Deferred:			
Federal	(17,302)	39,003	2,606
State	(1,239)	1,631	554
Total deferred	(18,541)	40,634	3,160
	\$ 25,530	46,528	36,980

The Company recorded a deferred tax benefit of (\$2.4) million, (\$1.4) million and (\$3.0) million during 2018, 2017 and 2016, respectively, related to the unrealized (loss) gain on securities available for sale, which is reported in accumulated other comprehensive income (loss), net of tax. Additionally, the Company recorded a deferred tax expense (benefit) of \$379,000, (\$315,000) and \$2.3 million in 2018, 2017 and 2016, respectively, related to the amortization of post-retirement benefit obligations, which is reported in accumulated other comprehensive income (loss), net of tax.

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

	Years ended December 31,		
	2018	2017	2016
Tax expense at statutory rates <sup>(1)</sup>	\$ 30,223	49,167	43,674
Increase (decrease) in taxes resulting from:			
State tax, net of federal income tax benefit	1,002	2,185	1,215
Tax-exempt interest income	(2,839)	(5,097)	(5,286)
Bank-owned life insurance	(1,158)	(2,343)	(1,915)
Enactment of Tax Act	—	3,912	—

Other, net	(1,698)	(1,296)	(708)
	\$ 25,530	46,528	36,980

(1) The statutory tax rate for 2018 was 21% and 35% for 2017 and 2016.

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The net deferred tax asset is included in other assets in the consolidated statements of financial condition. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Deferred tax assets:		
Allowance for loan losses	\$ 13,968	14,884
Post-retirement benefit	7,481	7,265
Deferred compensation	1,371	1,382
Purchase accounting adjustments	1,562	1,242
Depreciation	215	2,284
SERP	694	651
ESOP	1,929	2,000
Stock-based compensation	4,464	4,066
Non-accrual interest	867	839
Unrealized loss on securities	3,599	1,180
State NOL	—	18
Federal NOL	363	270
Pension liability adjustments	1,358	1,495
Other	2,164	2,561
Total gross deferred tax assets	40,035	40,137
Deferred tax liabilities:		
Deferred REIT dividend	—	22,264
Pension expense	7,322	6,857
Deferred loan costs	4,872	4,043
Investment securities, principally due to accretion of discounts	93	79

Intangibles	1,159	775
Originated mortgage servicing rights	165	184
Total gross deferred tax liabilities	13,611	34,202
Net deferred tax asset	\$ 26,424	5,935

Retained earnings at December 31, 2018 includes approximately \$51.8 million for which no provision for income tax has been made. This amount represents an allocation of income to bad debt deductions for tax purposes only. Events that would result in taxation of these reserves include the failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to stockholders. At December 31, 2018, the Company had an unrecognized tax liability of \$14.1 million with respect to this reserve.

As a result of the Beacon Trust acquisition in 2011, the Company acquired federal net operating loss carryforwards. There are approximately \$1.7 million of net operating loss ("NOL") carryforwards available to offset future taxable income as of December 31, 2018. If not utilized, these carryforwards will expire in 2031. Pursuant to the Tax Act, NOLs created after December 31, 2017 may be carried forward indefinitely and utilization is subject to 80% of taxable income. The federal NOLs are subject to a combined annual Code Section 382 limitation in the amount of approximately \$197,000. Management has determined that it is more likely than not that it will realize the net deferred tax asset based upon the nature and timing of the items listed above. In order to fully realize the net deferred tax asset, the Company will need to generate future taxable income. Management has projected that the Company will generate sufficient taxable income to utilize the net deferred tax asset; however, there can be no assurance that such levels of taxable income will be generated.

The Company's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company did not have any liabilities for uncertain tax positions or any known unrecognized tax benefits at December 31, 2018 and 2017.

The Company and its subsidiaries file a consolidated U.S. Federal income tax return. For tax periods prior to December 31, 2018, 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. As a result of the newly enacted legislation that New Jersey effectuated on July 1, 2018, beginning in 2019, the Company will be required to file a combined New Jersey state income tax return. Also, the Company and its subsidiaries file a combined New York State income tax return on apportioned and allocated income. The Company, through its bank subsidiary, files a Pennsylvania Mutual Thrift Institution Tax return. The Company's Federal and New York State income tax returns are open for examination from 2016, the New Jersey State income tax returns are open for examination from 2015, and the Pennsylvania Mutual Thrift Institutions return is open from 2015. During the fourth quarter of 2017, the Internal Revenue Service completed its examination of the Company's 2014 Federal tax return. The completion of the examination did not have a material impact on the Company's effective income tax rate. The examination of the Company's 2016 and 2015 New York State tax returns was completed in the first quarter of 2019, and did not have a material impact on the Company's effective income tax rate.

### **(13) Lease Commitments**

The approximate future minimum rental commitments, exclusive of taxes and other related charges, for all significant non-cancellable operating leases at December 31, 2018, are summarized as follows (in thousands):

Year ending December 31,		
2019	\$	8,012
2020		7,562
2021		5,352
2022		3,808
2023		3,383
Thereafter		10,733
	\$	38,850

Rental expense was \$10.5 million, \$8.8 million and \$8.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

### **(14) Commitments, Contingencies and Concentrations of Credit Risk**

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

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 or results of operations.

A substantial portion of the Bank's loans are secured by real estate located in New Jersey. Accordingly, the collectability of a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes in local real estate market conditions and general business environment.

### **(15) Regulatory Capital Requirements**

FDIC regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2018, the Bank is required to maintain: (1) a Tier 1 capital to total assets leverage ratio of 4.0%; (2) a common equity Tier 1 capital to risk-based assets ratio of 4.5%; (3) a Tier 1 capital to risk-based assets ratio of 6.0%; and (4) a total capital to risk-based assets ratio of 8.0%. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital

conservation buffer requirement was effective on January 1, 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer during the calendar year 2018 was 1.875% and increased to 2.5% on January 1, 2019.

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

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the FDIC about capital components, risk weightings and other factors. As of December 31, 2018 and 2017, the Bank exceeded all minimum capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank’s capital classification.

The Company is regulated as a bank holding company, and as such, is subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board (“FRB”). The FRB has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for the Bank. As of December 31, 2018 and 2017, the Company was “well capitalized” under FRB guidelines. Regulations of the FRB provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under the prompt corrective action provisions discussed above, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of such an undercapitalized bank. If the undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the FRB may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution without the prior approval of the FRB.

The following table shows the Company’s actual capital amounts and ratios as of December 31, 2018 and 2017, compared to the FRB minimum capital adequacy requirements and the FRB requirements for classification as a well-capitalized institution (dollars in thousands).

	Actual capital		FRB minimum capital adequacy requirements		FRB minimum capital adequacy requirements with capital conservation buffer		To be well-capitalized under prompt corrective action provisions
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of December 31, 2018							
Tier 1 leverage capital	\$ 953,768	12.24	\$ 372,458	4.50	\$ 372,458	4.50	\$ 465,573
Common equity Tier 1 risk-based capital	953,768	12.54	342,277	4.50	484,893	6.38	494,400
Tier 1 risk-based capital	953,768	12.54	456,370	6.00	598,985	7.88	608,493
Total risk-based capital	1,009,475	13.27	608,493	8.00	751,108	9.88	760,616



Total  
risk-based  
capital

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	Actual capital		FRB minimum capital adequacy requirements		FRB minimum capital adequacy requirements with capital conservation buffer		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
As of December 31, 2017								
Tier 1 leverage capital	\$ 887,924	9.65	\$ 367,999	4.00	\$ 367,999	4.00	\$ 459,999	5.00
Common equity Tier 1 risk-based capital	887,924	11.87	336,736	4.50	430,260	5.75	486,381	6.50
Tier 1 risk-based capital	887,924	11.87	448,981	6.00	542,502	7.25	598,623	8.00
Total risk-based capital	948,119	12.67	598,642	8.00	692,157	9.25	748,278	10.00

The following table shows the Bank's actual capital amounts and ratios as of December 31, 2018 and 2017, compared to the FDIC minimum capital adequacy requirements and the FDIC requirements for classification as a well-capitalized institution (dollars in thousands).

	Actual capital		FDIC minimum capital adequacy requirements		FDIC minimum capital adequacy requirements with Capital Conservation buffer		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
As of December 31, 2018								
Tier 1 leverage capital	\$ 917,659	9.86	\$ 372,443	4.00	\$ 372,443	4.00	\$ 465,553	5.00
Common equity Tier 1 risk-based capital	917,659	12.06	342,279	4.50	484,895	6.38	494,403	6.50
Tier 1 risk-based capital	917,659	12.06	456,372	6.00	598,988	7.88	608,496	8.00

capital

Total risk-based capital	673,366	12.80	608,496	8.00	751,113	9.88	760,620	10.00	
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	Actual capital		FDIC minimum capital adequacy requirements		FRB minimum capital adequacy requirements with capital conservation buffer		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
As of December 31, 2017								
Tier 1 leverage capital	\$ 834,084	11.07	\$ 367,986	4.00	\$ 367,986	4.00	\$ 459,985	5.00
Common equity Tier 1 risk-based capital	834,084	11.15	336,721	4.50	430,254	5.75	486,374	6.50
Tier 1 risk-based capital	834,084	11.15	448,961	6.00	542,494	7.25	598,615	8.00
Total risk-based capital	834,430	11.95	598,615	8.00	692,148	9.25	748,268	10.00

### (16) Fair Value Measurements

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

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

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

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- Unadjusted quoted market prices in active markets that are accessible
- Level 1: at the measurement date for identical, unrestricted assets or liabilities;
- Quoted prices in markets that are not active, or inputs that are observable
- Level 2: either directly or indirectly, for substantially the full term of the asset or liability; and
- Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).
- Level 3:

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

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

***Assets Measured at Fair Value on a Recurring Basis***

The valuation techniques described below were used to measure fair value of financial instruments in the table below on a recurring basis as of December 31, 2018 and December 31, 2017.

***Available for Sale Debt Securities***

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

***Equity Securities, at Fair Value***

The Company holds equity securities that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

***Derivatives***

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

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

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

***Assets Measured at Fair Value on a Non-Recurring Basis***

The valuation techniques described below were used to estimate fair value of financial instruments measured on a non-recurring basis as of December 31, 2018 and 2017.

***Collateral Dependent Impaired Loans***

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraisers' market knowledge and experience, as well as adjustments for estimated costs to sell between 5% and 10%. The Company classifies these loans as Level 3 within the fair value hierarchy.

***Foreclosed Assets***

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs, which range between 5% and 10%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case basis, to comparable assets based on the appraisers' market knowledge and experience, and are classified as Level 3. When an asset is acquired, the excess of the loan balance over fair value less estimated selling costs is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

There were no changes to the valuation techniques for fair value measurements during the years ended December 31, 2018 and 2017.

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The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair value as of December 31, 2018 and 2017, by level within the fair value hierarchy (in thousands).

	December 31, 2018	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Measured on a recurring basis:</b>				
Available for sale debt securities:				
Mortgage-backed securities	\$ 1,034,969	—	1,034,969	—
State and municipal obligations	2,912	—	2,912	—
Corporate obligations	25,198	—	25,198	—
Total available for sale debt securities	\$ 1,063,079	—	1,063,079	—
Equity Securities	635	635	—	—
Derivative assets	15,634	—	15,634	—
	\$ 1,079,348	635	1,078,713	—
Derivative liabilities	\$ 14,766	—	14,766	—
<b>Measured on a non-recurring basis:</b>				
Loans measured for impairment based on the fair value of the underlying collateral	\$ 4,285	—	—	4,285
Foreclosed assets	1,565	—	—	1,565
	\$ 5,850	—	—	5,850

	December 31, 2017	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Measured on a recurring basis:</b>				

Available for sale  
debt securities:

Agency obligations	\$	19,005	19,005	—	—
Mortgage-backed securities	988,367	—	—	988,367	—
State and municipal obligations	3,388	—	—	3,388	—
Corporate obligations	26,394	—	—	26,394	—
Total available for sale debt securities	\$	1,037,154	19,005	1,018,149	—
Equity Securities	658	—	658	—	—
Derivative assets	7,219	—	—	7,219	—
	\$	1,045,031	19,663	1,025,368	—
Derivative liabilities	\$	6,315	—	6,315	—

**Measured on a  
non-recurring  
basis:**

Loans measured for impairment based on the fair value of the underlying collateral	\$	6,971	—	—	6,971
Foreclosed assets	6,864	—	—	—	6,864
	\$	13,835	—	—	13,835

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2018 and 2017.



### **Other Fair Value Disclosures**

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

#### **Cash and Cash Equivalents**

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

#### **Held to Maturity Debt Securities**

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

#### **FHLBNY Stock**

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

#### **Loans**

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

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

#### **Deposits**

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

#### **Borrowed Funds**

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

**Commitments to Extend Credit and Letters of Credit**

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

**Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Significant assets and liabilities that are not considered financial assets or liabilities include goodwill and other intangibles, deferred tax assets and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

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The following tables present the Company's financial instruments at their carrying and fair values as of December 31, 2018 and December 31, 2017. Fair values are presented by level within the fair value hierarchy.

<u>(Dollars in thousands)</u>	Carrying value	Fair Value Measurements at December 31, 2018 Using:			
		Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 142,661	142,661	142,661	—	—
Available for sale debt securities:					
Mortgage-backed securities	1,034,969	1,034,969	—	1,034,969	—
State and municipal obligations	2,912	2,912	—	2,912	—
Corporate obligations	25,198	25,198	—	25,198	—
Total available for sale debt securities	\$ 1,063,079	1,063,079	—	1,063,079	—
Held to maturity debt securities:					
Agency obligations	\$ 4,989	4,896	4,896	—	—
Mortgage-backed securities	187	190	—	190	—
State and municipal obligations	463,801	464,363	—	464,363	—
Corporate obligations	10,448	10,291	—	10,291	—
Total held to maturity debt securities	\$ 479,425	479,740	4,896	474,844	—
FHLB NY stock	68,813	68,813	68,813	—	—
Equity Securities	635	635	635	—	—
Loans, net of allowance for loan losses	7,195,026	7,104,380	—	—	7,104,380
Derivative assets	15,634	15,634	—	15,634	—
<b>Financial liabilities:</b>					
	\$ 6,079,630	6,079,630	6,079,630	—	—

Deposits other than certificates of deposits					
Certificates of deposit	750,492	746,753	—	746,753	—
Total deposits	\$ 6,830,122	6,826,383	6,830,122	746,753	—
Borrowings	1,442,282	1,431,001	—	1,431,001	—
Derivative liabilities	14,766	14,766	—	14,766	—

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<u>(Dollars in thousands)</u>	Carrying value	Fair Value Measurements at December 31, 2017 Using:			
		Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 190,834	190,834	190,834	—	—
Available for sale debt securities:					
Agency obligations	19,005	19,005	19,005	—	—
Mortgage-backed securities	988,367	988,367	—	988,367	—
State and municipal obligations	3,388	3,388	—	3,388	—
Corporate obligations	26,394	26,394	—	26,394	—
Total available for sale debt securities	\$ 1,037,154	1,037,154	19,005	1,018,149	—
Held to maturity debt securities:					
Agency obligations	\$ 4,308	4,221	4,221	—	—
Mortgage-backed securities	382	396	—	396	—
State and municipal obligations	462,942	470,484	—	470,484	—
Corporate obligations	10,020	9,938	—	9,938	—
Total held to maturity debt securities	\$ 477,652	485,039	4,221	480,818	—
FHLB NY stock	81,184	81,184	81,184	—	—
Equity Securities	658	658	658	—	—
Loans, net of allowance for loan losses	7,265,523	7,217,705	—	—	7,217,705
Derivative assets	7,219	7,219	—	7,219	—
<b>Financial liabilities:</b>					
	\$ 6,079,357	6,079,357	6,079,357	—	—

Deposits other than certificates of deposits					
Certificates of deposit	634,809	632,744	—	632,744	—
Total deposits	\$ 6,714,166	6,712,102	1,079,357	632,744	—
Borrowings	1,742,514	1,739,102	—	1,739,102	—
Derivative liabilities	6,315	6,315	—	6,315	—

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**(17) Selected Quarterly Financial Data (Unaudited)**

The following tables are a summary of certain quarterly financial data for the years ended December 31, 2018 and 2017.

	2018 Quarters Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	\$ 86,331	88,315	91,261	93,922
Interest expense	13,054	14,035	15,475	16,589
Net interest income	73,277	74,280	75,786	77,333
Provision for loan losses	5,400	15,500	1000	1,800
Net interest income after provision for loan losses	67,877	58,780	74,786	75,533
Non-interest income	13,307	13,837	15,916	15,616
Non-interest expense	46,910	48,806	46,659	49,360
Income before income tax expense	34,274	23,811	44,043	41,789
Income tax expense	6,361	4,568	8,575	6,026
Net income	\$ 27,913	19,243	35,468	35,763
Basic earnings per share	\$ 0.43	\$ 0.30	\$ 0.55	\$ 0.55
Diluted earnings per share	\$ 0.43	\$ 0.30	\$ 0.54	\$ 0.55

	2017 Quarters Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	\$ 77,913	80,443	81,894	83,596
Interest expense	10,878	11,388	11,682	11,696
Net interest income	67,035	69,055	70,212	71,900
	1,500	1,700	500	1,900

Provision for loan losses					
Net interest income after provision for loan losses	65,535	67,355	69,712	70,000	
Non-interest income	12,465	14,819	15,112	13,301	
Non-interest expense	46,124	47,340	46,280	48,078	
Income before income tax expense	31,876	34,834	38,544	35,223	
Income tax expense	8,368	10,451	11,969	15,740	
Net income	\$ 23,508	24,383	26,575	19,483	
Basic earnings per share	\$ 0.37	\$ 0.38	\$ 0.41	\$ 0.30	
Diluted earnings per share	\$ 0.37	\$ 0.38	\$ 0.41	\$ 0.30	



**(18) Earnings Per Share**

The following is a reconciliation of the outstanding shares used in the basic and diluted earnings per share calculations.

(Dollars in thousands, except per share data)

	2018	2017	2016
Net income	\$ 118,387	93,949	87,802
Basic weighted average common shares outstanding	64,942,886	64,384,851	63,643,622
Plus:			
Dilutive shares	160,211	194,371	208,364
Diluted weighted average common shares outstanding	65,103,097	64,579,222	63,851,986
Earnings per share:			
Basic	\$ 1.82	1.46	1.38
Diluted	\$ 1.82	1.45	1.38

Anti-dilutive stock options and awards totaling 443,748 shares, 369,772 shares and 432,895 shares at December 31, 2018, 2017 and 2016, respectively, were excluded from the earnings per share calculations.

**(19) Parent-only Financial Information**

The condensed financial statements of Provident Financial Services, Inc. (parent company only) are presented below:

**Condensed Statements of Financial Condition**

(Dollars in Thousands)

	December 31, 2018	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$ 7,569	16,921
Available for sale debt securities, at fair value	635	658
Investment in subsidiary	1,322,871	1,244,670
Due from subsidiary—SAP	(7,996)	(4,419)
ESOP loan	36,756	41,419
Other assets	92	(37)
Total assets	\$ 1,359,927	1,299,212
<b>Liabilities and Stockholders' Equity</b>		
Other liabilities	\$ 947	551
Total stockholders' equity	1,358,980	1,298,661
Total liabilities and stockholders' equity	\$ 1,359,927	1,299,212

**Condensed Statements of Operations**

(Dollars in Thousands)

	For the Years Ended December 31,		
	2018	2017	2016
Dividends from subsidiary	\$ 53,604	59,980	45,369
Interest income	1,657	1,839	1,995
Investment gain	2,294	17	15
Total income	57,555	61,836	47,379
Non-interest expense	1,049	1,021	902
Total expense	1,049	1,021	902
	56,506	60,815	46,477

Income before income tax expense				
Income tax expense	692		312	414
Income before undistributed net income of subsidiary	55,814		60,503	46,063
Earnings in excess of dividends (equity in undistributed net income) of subsidiary	62,573		33,446	41,739
Net income	\$	118,387	93,949	87,802

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**Condensed Statements of Cash Flows**

(Dollars in Thousands)

	For the Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 118,387	93,949	87,802
Adjustments to reconcile net income to net cash provided by operating activities			
Earnings in excess of dividends (equity in undistributed net income) of subsidiary	(62,573)	(33,446)	(41,739)
ESOP allocation	4,516	4,600	3,706
SAP allocation	6,046	4,963	3,812
Stock option allocation	190	203	172
Decrease in due from subsidiary—SAP	3,577	1,415	465
Increase in other assets	(18,598)	(34,919)	(8,177)
Increase (decrease) in other liabilities	396	(114)	(70)
Net cash provided by operating activities	51,941	36,651	45,971
Cash flows from investing activities:			
Net decrease in ESOP loan	4,663	4,552	3,901
Net cash provided by investing activities	4,663	4,552	3,901

Cash flows from financing activities:			
Purchases of treasury stock	(13,172)	(443)	(1,557)
Purchase of employee restricted shares to fund statutory tax withholding	(1,896)	(778)	(1,225)
Cash dividends paid	(53,604)	(59,980)	(45,369)
Shares issued dividend reinvestment plan	1,709	2,114	1,652
Stock options exercised	1,007	2,954	6,198
Net cash used in financing activities	(65,956)	(56,133)	(40,301)
Net (decrease) increase in cash and cash equivalents	(9,352)	(14,930)	9,571
Cash and cash equivalents at beginning of period	16,921	31,851	22,280
Cash and cash equivalents at end of period	\$ 7,569	16,921	31,851

**(20) Other Comprehensive Loss**

The following table presents the components of other comprehensive loss both gross and net of tax, for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	For the Years Ended December 31,								
	2018			2017			2016		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
<b>Components of Other Comprehensive Loss:</b>									
<b>Unrealized losses on available for sale debt securities:</b>									
Net losses arising during the period	\$ (8,425)	2,296	(6,129)	(3,612)	1,449	(2,163)	(7,405)	2,974	(4,431)
Reclassification adjustment for gains included in net income	—	—	—	—	—	—	(50)	20	(30)
Total	(8,425)	2,296	(6,129)	(3,612)	1,449	(2,163)	(7,455)	2,994	(4,461)
<b>Unrealized gains on derivatives (cash flow hedges)</b>									
Amortization related to post-retirement obligations	1,678	(457)	1,221	(1,475)	586	(889)	5,628	(2,260)	3,368
Total other comprehensive loss	(6,443)	1,756	(4,687)	(4,454)	1,781	(2,673)	(1,423)	572	(851)

The following table presents the changes in the components of accumulated other comprehensive loss, net of tax, for the years ended December 31, 2018 and 2017, including the reclassification of unrealized gains on equity securities due to the adoption of ASU No. 2016-01 for the year ended December 31, 2018 (in thousands):

Changes in Accumulated Other Comprehensive Loss by Component, net of tax								
For the Years Ended December 31,								
2018				2017				
Unrealized Losses on Available for Sale Securities	Post-Retirement Obligations	Unrealized Gains on Derivatives (cash flow hedges)	Other Comprehensive Loss	Unrealized Losses on Available for Sale Debt Securities	Post-Retirement Obligations	Unrealized Gains on Derivatives (cash flow hedges)	Other Comprehensive Loss	
Balance at the	\$ (3,292)	(4,846)	673	(7,465)	(510)	(3,056)	169	(3,397)

beginning of the period									
Current period change in other comprehensive (loss) income	(6,129)	1,221	221	(4,687)	(2,163)	(889)	379	(2,673)	
Reclassification of unrealized gains on equity securities due to the adoption of ASU No. 2016-01	(184)	—	—	(184)	(619)	(901)	125	(1,395)	
Balance at the end of the period	\$	(9,605)	(3,625)	894	(12,336)	(3,292)	(4,846)	673	(7,465)

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The following table summarizes the reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2018, 2017 and 2016 (in thousands):

<b>Reclassifications Out of Accumulated Other Comprehensive Income (Loss)</b>					<b>Affected line item in the Consolidated Statement of Income</b>
<b>Amount reclassified from AOCI for the years ended December 31,</b>					
<b>2018</b>	<b>2017</b>	<b>2016</b>			
<b>Details of AOCI:</b>					
<b>Securities available for sale:</b>					
Realized net gains on the sale of securities available for sale	\$	—	—	50	Net gain on securities transactions
	—	—	(20)		Income tax expense
	—	—	30		Net of tax
<b>Post-retirement obligations:</b>					
Amortization of actuarial losses	399	243	943		Compensation and employee benefits <sup>(1)</sup>
	(109)	(64)	(379)		Income tax expense
	290	179	564		Net of tax
<b>Total reclassifications</b>	<b>\$</b>	<b>290</b>	<b>179</b>	<b>594</b>	Net of tax

(1) This item is included in the computation of net periodic benefit cost. See Note 11. Benefit Plans



**Note 21. Derivative and Hedging Activities**

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities.

**Non-designated Hedges.** Derivatives not designated in qualifying hedging relationships are not speculative and result from a service the Company provides to certain qualified commercial borrowers in loan related transactions and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. The Company executes interest rate swaps with qualified commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third-party, such that the Company minimizes its net risk exposure resulting from such transactions. The interest rate swap agreement which the Company executes with the commercial borrower is collateralized by the borrower's commercial real estate financed by the Company. The collateral exceeds the maximum potential amount of future payments under the credit derivative. As these interest rate swaps do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. For the years ended December 31, 2018 and 2017, the Company had 62 and 48 interest rate swaps with an aggregate notional amount of \$1.01 billion and \$718.5 million, respectively..

Additionally, at December 31, 2018 and 2017, the Company had seven and two credit derivatives, respectively, with aggregate notional amounts of \$66.8 million and \$15.8 million, respectively, from participations in interest rate swaps provided to external lenders as part of loan participation arrangements; therefore, they are not used to manage interest rate risk in the Company's assets or liabilities. At December 31, 2018 and December 31, 2017, the fair value of these credit derivatives were \$251,000 and \$1,000, respectively.

**Cash Flow Hedges of Interest Rate Risk.** The Company's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the years ended December 31, 2018, 2017 and 2016, such derivatives were used to hedge the variable cash outflows associated with FHLBNY borrowings. As of December 31, 2018, the Company had two outstanding interest rate derivatives with an aggregate notional amount of \$60.0 million that was designated as a cash flow hedge of interest rate risk. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2018, 2017 and 2016, the Company's did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's debt. During the next twelve months, the Company estimates that \$640,125 will be reclassified as a decrease to interest expense. The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition as of December 31, 2018 and 2017 (in thousands):

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As of December 31, 2018				
Asset Derivatives			Liability Derivatives	
	Consolidated Statements of Fair Value Financial Condition		Consolidated Statements of Financial Condition	Fair Value
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	14,154	Other liabilities	\$ 14,766
Credit contracts	Other assets	251	Other liabilities	—
Total derivatives not designated as hedging instruments	\$	14,405		\$ 14,766
Derivatives designated as hedging instruments:				
Interest rate products	Other assets	1,229	Other liabilities	\$ —
Total derivatives designated as hedging instruments	\$	1,229		\$ —

As of December 31, 2017				
Asset Derivatives			Liability Derivatives	
	Consolidated Statements of Fair Value Financial Condition		Consolidated Statements of Financial Condition	Fair Value
Derivatives not designated as hedging instruments:				
Interest rate products	Other assets	6,303	Other liabilities	\$ 6,315
Credit contracts	Other assets		Other liabilities	—
Total derivatives	\$	6,304		\$ 6,315

not designated  
as hedging  
instruments

Derivatives  
designated as  
hedging  
instruments:

Interest rate products	Other assets	\$ 915	Other liabilities	\$	—
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Total  
derivatives  
designated as  
hedging  
instruments

	\$	915	\$	—
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The table below presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016 (in thousands).

		Gain (loss) recognized in Income on derivatives For the Year Ended December 31,		
Consolidated Statements of Income		2018	2017	2016
Derivatives not designated as a hedging instruments:				
Interest rate products	Other income	\$ (414)	(422)	186
Credit contracts	Other income	63	2	120
Total derivatives not designated as hedging instruments		\$ (351)	(420)	306
Derivatives designated as a hedging instruments:				
Interest rate products	Interest expense	312	(205)	(394)
Total derivatives designated as a hedging instruments		\$ 312	(205)	(394)

The Company has agreements with certain of its dealer counterparties that contain a provision that if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

In addition, the Company has agreements with certain of its dealer counterparties that contain a provision that if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of December 31, 2018, the Company had five dealer counterparties, only two of which was the Company in a net liability position. The termination value for this net liability position, which includes accrued interest, was \$3.8 million at December 31, 2018. The Company has minimum collateral posting thresholds with certain of its derivative counterparties, and has posted collateral of \$3.0 million against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2018, it could have been required to settle its obligations under the agreements at the termination value.

**Note 22. Revenue Recognition**

On January 1, 2018, the Company adopted ASU 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606. In connection with the adoption of Topic 606, the Company performed an assessment of all revenue streams, the related contracts with customers and the underlying performance obligations in those contracts. This guidance does not apply to revenue associated with financial instruments, including interest income on loans and investments, which comprise the majority of the Company's revenue. For the years ended December 31, 2018, 2017 and 2016 the out-of-scope revenue related to financial instruments were 86%, 85% and 85% of the Company's total revenue, respectively. Revenue-generating activities that are within the scope of Topic 606, are components of non-interest income. These revenue streams can generally be classified into wealth management revenue and banking service charges and other fees. The adoption of this standard did not change the current measurement or recognition of revenue. As such, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2018, 2017 and 2016:

	December 31,		
<i>(in-thousands)</i>	2018	2017	2016
<b>Non-interest income</b>			
In-scope of Topic 606:			
<b>Wealth management fees</b>	\$ 17,957	17,604	17,556
<b>Banking service charges and other fees:</b>			
Service charges on deposit accounts	13,330	13,120	12,541
Debit card and ATM fees	5,997	5,757	5,802
<b>Total banking service charges and other fees</b>	19,327	18,877	18,343
Total in-scope non-interest income	37,284	36,481	35,899
Total out-of-scope non-interest income	21,392	19,216	19,494
Total non-interest income	\$ 58,676	55,697	55,393

Wealth management fee income represents fees earned from customers as consideration for asset management, investment advisory and trust services. The Company's performance obligation is generally satisfied monthly and the resulting fees are recognized monthly based upon the month-end market value of the assets under management and the

applicable fee rate. The monthly accrual of wealth management fees is recorded in other assets on the Company's Consolidated Statements of Financial Condition. Fees are received from the customer either on a quarterly or monthly basis. The Company does not earn performance-based incentives. To a lesser extent, optional services such as tax return preparation and estate settlement are also available to existing customers. The Company's performance obligation for these transaction-based services are generally satisfied, and related revenue recognized, at either a point in time when the service is completed, or in the case of estate settlement, over a relatively short period of time, as each service component is completed.

Banking service charges on deposit accounts include overdraft service fees, account analysis fees and other deposit related fees. These fees are generally transaction-based, or time-based services. The Company's performance obligation for these services are generally satisfied, and revenue recognized, at the time the transaction is completed, or the service rendered. Fees for these services are generally received from the customer either at the time of transaction, or monthly. Debit card and ATM fees are generally transaction-based. Debit card revenue is primarily comprised of interchange fees earned when a customer's Company card is processed through a card payment network. ATM fees are largely generated when a Company cardholder uses a non-Company ATM, or a non-Company cardholder uses a Company ATM. The Company's performance obligation for these services is satisfied when the service is rendered. Payment is generally received at time of transaction or monthly.

Out-of-scope non-interest income primarily consists of Bank-owned life insurance and net fees on loan level interest rate swaps, along with gains and losses on the sale of loans and foreclosed real estate, loan prepayment fees and loan servicing fees. None of these revenue streams are subject to the requirements of Topic 606.

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**Note 23. Subsequent Events**

On January 22, 2019, Beacon announced the signing of a definitive agreement to acquire New York City-based Tirschwell & Loewy, Inc., an independent registered investment adviser. The transaction is subject to the satisfaction of customary closing conditions and is anticipated to close in the second quarter of 2019.

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

None.

**Item 9A. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Christopher Martin, the Company's Principal Executive Officer, and Thomas M. Lyons, the Company's Principal Accounting Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2018. Based upon their evaluation, they each found that the Company's disclosure controls and procedures were effective as of that date.

***Management's Report on Internal Control Over Financial Reporting***

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

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

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013).

Based on the assessment management believes that, as of December 31, 2018, the Company's internal control over financial reporting is effective based on those criteria.

***Report of Independent Registered Public Accounting Firm***

The Company's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. This report appears on page 57 of this Annual Report on Form 10-K.

***Changes in Internal Control Over Financial Reporting***

During the last quarter of the year under report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

Information required by this item regarding directors, executive officers and corporate governance is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 25, 2019.

**Item 11. Executive Compensation**

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 25, 2019.

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

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 25, 2019.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Set forth below is information as of December 31, 2018 regarding equity compensation plans categorized by those plans that have been approved by the Company's stockholders. There are no plans that have not been approved by the Company's stockholders.

<u>Plan</u>	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights(1)	Weighted Average Exercise Price(2)	Number of Securities Remaining Available For Issuance Under Plan (3)
Equity compensation plans approved by stockholders	470,979	\$ 18.36	1,457,429
Total	470,979	\$ 18.36	1,457,429

2.Consists of outstanding stock options to purchase 470,979 shares of common stock granted under the Company's stock-based compensation plans.

3.The weighted average exercise price reflects an exercise price of \$10.40 for 1,349 stock options granted in 2009; an exercise price of \$10.34 for 12,114 stock options granted in 2010; an exercise price of \$14.50 for 44,052 stock options granted in 2011; an exercise price of \$14.88 for 42,542 stock options and an exercise price of \$14.68 for 10,000 stock options granted in 2012; an exercise price of \$15.23 for 51,881 stock options granted in 2013; an exercise price of \$16.38 for 80,760 stock options granted in 2014; an exercise price of \$18.34 for 65,972 stock options granted in 2015; an exercise price of \$18.70 for 76,327 stock options granted in 2016; an exercise price of \$26.31 for 42,857 stock options granted in 2017; and an exercise price of \$25.58 for 43,123 stock options granted in 2018 under the Company's stock-based compensation plans.

4.Represents the number of available shares that may be granted as stock options and other stock awards under the Company's stock-based compensation plans.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the Annual Meeting of Stockholders to be held on April 25, 2019.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed for the



Annual Meeting of Stockholders to be held on April 25, 2019.

**PART IV****Item 15. Exhibits and Financial Statement Schedules**

The exhibits and financial statement schedules filed as a part of this Annual Report on Form 10-K are as follows:

(a)(1) Financial Statements

	Page Number
<u>Report of Independent Registered Public Accounting Firm</u>	56
<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</u>	57
<u>Consolidated Statements of Financial Condition, December 31, 2018 and 2017</u>	58
<u>Consolidated Statements of Income, Years Ended December 31, 2018, 2017 and 2016</u>	59
<u>Consolidated Statements of Comprehensive Income, Years Ended December 31, 2018, 2017 and 2016</u>	60
<u>Consolidated Statements of Changes in Stockholders' Equity, Years Ended December</u>	61

31, 2018, 2017  
and 2016

Consolidated  
Statements of  
Cash Flows,  
Years Ended 64  
December 31,

2018, 2017 and  
2016

Notes to  
Consolidated 66  
Financial  
Statements.

(a)(2) Financial Statement Schedules

No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

(a)(3) Exhibits

3.1 Certificate of Incorporation  
of Provident Financial  
Services, Inc. (Filed as an  
exhibit to the Company's  
Registration Statement on  
Form S-1, and any  
amendments thereto, with  
the Securities and  
Exchange  
Commission/Registration  
No. 333-98241.)

3.2 Amended and Restated  
Bylaws of Provident  
Financial Services, Inc.  
(Filed as an exhibit to the  
Company's December 31,  
2011 Annual Report to  
Stockholders on Form  
10-K filed with the  
Securities and Exchange  
Commission on February  
29, 2012/File No.  
001-31566.)

4.1 Form of Common Stock  
Certificate of Provident  
Financial Services, Inc.  
(Filed as an exhibit to the  
Company's Registration  
Statement on Form S-1,  
and any amendments

thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)

- 10.1 Employment Agreement by and between Provident Financial Services, Inc and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company's September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/ File No. 001-31566.)

- 10.2 Change in Control Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated as of December 16, 2015. (Filed as Exhibit 10.2 to the Company's December 31, 2015 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016/File No. 001-31566.)

- 10.3 Form of Three-Year Change in Control Agreement between Provident Financial Services, Inc. and each of Messrs. Blum, Kuntz and Lyons dated as of December 16, 2015. (Filed as Exhibit 10.3 to the Company's December 31, 2015 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016/File No. 001-31566.)

10.4 Form of Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain senior officers.(Filed as Exhibit 10.4 to the Company's December 31, 2015 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016/File No. 001-31566.)

10.5 Form of One-Year Change in Control Agreement between Provident Financial Services, Inc. and certain senior officers. (Filed as Exhibit 10.5 to the Company's December 31, 2015 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016/File No. 001-31566.)

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- 10.6 Supplemental Executive Retirement Plan of Provident Bank. (Filed as Exhibit 10.5 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
- 10.7 Retirement Plan for the Board of Managers of Provident Bank. (Filed as Exhibit 10.7 to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009 /File No. 001-31566.)
- 10.8 Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan. (Filed as Exhibit 10.9 to the Company's

- December 31,  
2008 Annual  
Report to  
Stockholders on  
Form 10-K filed  
with the  
Securities and  
Exchange  
Commission on  
March 2,  
2009/File No.  
001-31566.)
- First Savings  
Bank Directors'  
Deferred Fee  
Plan, as amended.  
(Filed as Exhibit  
10.10 to the  
Company's  
September 30,  
10.9 2004 Quarterly  
Report on Form  
10-Q filed with  
the Securities and  
Exchange  
Commission on  
November 9,  
2004/File No.  
001-31566.)
- Provident Bank  
Non-Qualified  
Supplemental  
Defined  
Contribution  
Plan. (Filed as an  
exhibit to the  
10.1 Company's May  
27, 2010 Current  
Report on Form  
8-K filed with the  
Securities and  
Exchange  
Commission on  
June 3, 2010/File  
No. 001-31566.)
- 10.11 Provident  
Financial  
Services, Inc.  
Amended and

Restated the  
Long-Term  
Equity Incentive  
Plan. (Filed as an  
appendix to the  
Company's Proxy  
Statement for the  
2014 Annual  
Meeting of  
Stockholders  
filed with the  
Securities and  
Exchange  
Commission on  
March 14,  
2014/File No.  
001-31566.)

10.12 Omnibus  
Incentive  
Compensation  
Plan. (Filed as  
Exhibit 10.19 to  
the Company's  
December 31,  
2011 Annual  
Report to  
Stockholders on  
Form 10-K filed  
with the  
Securities and  
Exchange  
Commission on  
February 29,  
2012/File No.  
001-31566.)

10.13 Provident  
Financial  
Services, Inc.  
Executive Annual  
Incentive Plan  
(Filed as an  
appendix to the  
Company's Proxy  
Statement for the  
Annual Meeting  
of Stockholders  
filed with the  
Securities and  
Exchange  
Commission on



March 13,  
2015/File No.  
001-31566.)

- 21 Subsidiaries of  
the Registrant.
- 23 Consent of  
KPMG LLP.
- 31.1 Certification of  
Chief Executive  
Officer pursuant  
to Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.
- 31.2 Certification of  
Chief Financial  
Officer pursuant  
to Section 302 of  
the  
Sarbanes-Oxley  
Act of 2002.
- 32 Certification of  
Chief Executive  
Officer and Chief  
Financial Officer  
pursuant to  
Section 906 of  
the  
Sarbanes-Oxley  
Act of 2002.
- 101 The following materials from the Company's Annual Report to Stockholders on Form 10-K for the year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the

Consolidated  
 Statements of  
 Operations,  
 (iii) the  
 Consolidated  
 Statements of  
 Comprehensive  
 Income, (iv) the  
 Consolidated  
 Statements of  
 Changes in  
 Stockholder's  
 Equity, (v) the  
 Consolidated  
 Statements of  
 Cash Flows and  
 (vi) the Notes to  
 Consolidated  
 Financial  
 Statements.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	

XBRL  
Taxonomy  
Extension  
Presentation  
Linkbase  
Document

**Item 16. Form 10-K Summary**

Not applicable.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PROVIDENT  
FINANCIAL  
SERVICES, INC.**

Date: March 1, 2019 By: /s/ CHRISTOPHER MARTIN  
**Christopher Martin  
Chairman,  
President and  
Chief Executive  
Officer**

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

By: /s/ CHRISTOPHER MARTIN <b>Christopher Martin, Chairman, President and Chief Executive Officer (Principal Executive Officer)</b>	By: /s/ THOMAS M. LYONS <b>Thomas M. Lyons, Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)</b>
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Date: March 1, 2019	Date: March 1, 2019
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By: /s/ FRANK S. MUZIO  
**Frank S. Muzio,  
Executive Vice  
President and Chief  
Accounting Officer  
(Principal Accounting Officer)**

Date: March 1, 2019

By: /s/ ROBERT ADAMO <b>Robert Adamo, Director</b>	By: /s/ THOMAS W. BERRY <b>Thomas W. Berry, Director</b>
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Date: March 1, 2019	Date: March 1, 2019
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By: /s/ LAURA L. BROOKS <b>Laura L. Brooks,</b>	By: /s/ JAMES P. DUNIGAN <b>James P. Dunigan,</b>
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<b>Director</b>	<b>Director</b>
Date: March 1, 2019	Date: March 1, 2019
By: /s/ FRANK L. FEKETE Frank L. Fekete, Director	By: /s/ TERENCE GALLAGHER Terence Gallagher, Director
Date: March 1, 2019	Date: March 1, 2019
By: /s/ MATTHEW K. HARDING Matthew K. Harding, Director	By: /s/ CARLOS HERNANDEZ Carlos Hernandez, Director
Date: March 1, 2019	Date: March 1, 2019
By: /s/ JOHN PUGLIESE John Pugliese, Director	
Date: March 1, 2019	