PROVIDENT FINANCIAL SERVICES INC
Form 10-Q
November 09, 2015

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

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

For the quarterly period ended September 30, 2015

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-31566
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 No.)
239 Washington Street, Jersey City, New Jersey	07302
(Address of Principal Executive Offices)	(Zip Code)

(732) 590-9200
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

As of November 1, 2015 there were 83,209,293 shares issued and 65,762,936 shares outstanding of the Registrant's Common Stock, par value $0.01 per share, including 372,817 shares held by the First Savings Bank Directors'

Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

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PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS.
PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
September 30, 2015 (Unaudited) and December 31, 2014
(Dollars in Thousands)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$127,105	$102,484
Short-term investments	1,328	1,278
Total cash and cash equivalents	128,433	103,762
Securities available for sale, at fair value	994,771	1,074,395
Investment securities held to maturity (fair value of $482,495 at September 30, 2015 (unaudited) and $482,473 at December 31, 2014)	471,723	469,528
Federal Home Loan Bank stock	78,974	69,789
Loans	6,430,944	6,085,505
Less allowance for loan losses	60,464	61,734
Net loans	6,370,480	6,023,771
Foreclosed assets, net	10,128	5,098
Banking premises and equipment, net	90,395	92,990
Accrued interest receivable	24,234	25,228
Intangible assets	429,001	404,422
Bank-owned life insurance	181,625	177,712
Other assets	78,824	76,682
Total assets	$8,858,588	$8,523,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$4,083,741	$3,971,487
Savings deposits	982,815	995,347
Certificates of deposit of $100,000 or more	328,734	342,072
Other time deposits	430,323	483,617
Total deposits	5,825,613	5,792,523
Mortgage escrow deposits	24,120	21,649
Borrowed funds	1,760,628	1,509,851
Other liabilities	64,254	55,255
Total liabilities	7,674,615	7,379,278
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 65,378,205 shares outstanding at September 30, 2015 (unaudited) and 64,905,905 outstanding at December 31, 2014	832	832
Additional paid-in capital	999,236	995,053
Retained earnings	495,673	465,276
Accumulated other comprehensive income	2,098	29

Treasury stock	(270,502)	(271,779)
Unallocated common stock held by the Employee Stock Ownership Plan	(43,364)	(45,312)
Common stock acquired by the Directors' Deferred Fee Plan	(6,708)	(7,113)
Deferred compensation – Directors' Deferred Fee Plan	6,708	7,113
Total stockholders' equity	1,183,973	1,144,099
Total liabilities and stockholders' equity	$8,858,588	$8,523,377

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Income
Three and nine months ended September 30, 2015 and 2014 (Unaudited)
(Dollars in Thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest income:				
Real estate secured loans	$44,541	$43,837	$131,424	$122,770
Commercial loans	13,767	13,961	40,875	36,056
Consumer loans	5,646	6,106	17,234	17,637
Securities available for sale and Federal Home Loan Bank Stock	5,672	6,410	17,708	20,155
Investment securities held to maturity	3,368	3,323	10,150	8,899
Deposits, Federal funds sold and other short-term investments	19	15	41	44
Total interest income	73,013	73,652	217,432	205,561
Interest expense:				
Deposits	3,639	4,054	10,851	11,479
Borrowed funds	6,827	6,629	20,432	18,511
Total interest expense	10,466	10,683	31,283	29,990
Net interest income	62,547	62,969	186,149	175,571
Provision for loan losses	1,400	1,500	3,100	3,400
Net interest income after provision for loan losses	61,147	61,469	183,049	172,171
Non-interest income:				
Fees	6,230	6,126	19,465	16,002
Wealth management income	4,750	2,386	12,405	6,984
Bank-owned life insurance	1,247	1,349	3,913	4,228
Net gain on securities transactions	5	487	650	247
Other income	(122)	961	2,922	2,291
Total non-interest income	12,110	11,309	39,355	29,752
Non-interest expense:				
Compensation and employee benefits	24,784	24,947	73,399	69,921
Net occupancy expense	6,186	5,950	19,935	17,662
Data processing expense	3,239	5,029	9,425	10,587
FDIC insurance	1,273	1,141	3,763	3,421
Amortization of intangibles	1,012	976	3,063	1,778
Advertising and promotion expense	598	1,281	2,740	3,427
Other operating expenses	6,522	6,509	20,845	20,898
Total non-interest expense	43,614	45,833	133,170	127,694
Income before income tax expense	29,643	26,945	89,234	74,229
Income tax expense	9,034	7,913	27,027	21,817
Net income	$20,609	$19,032	$62,207	$52,412
Basic earnings per share	$0.33	$0.30	$0.99	$0.88
Weighted average basic shares outstanding	63,034,185	62,440,310	62,868,745	59,670,773
Diluted earnings per share	$0.33	$0.30	$0.99	$0.88
Weighted average diluted shares outstanding	63,198,299	62,559,207	63,029,389	59,804,205

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Three and nine months ended September 30, 2015 and 2014 (Unaudited)
(Dollars in Thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	$20,609	$19,032	$62,207	$52,412
Other comprehensive income (loss), net of tax:				
Unrealized gains and losses on securities available for sale:				
Net unrealized gains (losses) arising during the period	3,678	(3,389)	2,460	6,669
Reclassification adjustment for gains included in net income	—	(288)	(386)	(146)
Total	3,678	(3,677)	2,074	6,523
Unrealized losses on derivatives	(232)	—	(232)	—
Amortization (accretion) related to post-retirement obligations	115	45	227	(618)
Total other comprehensive income (loss)	3,561	(3,632)	2,069	5,905
Total comprehensive income	$24,170	$15,400	$64,276	$58,317

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Nine months ended September 30, 2015 and 2014 (Unaudited)
(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2013	$ 832	$ 1,026,144	$ 427,763	$ (4,851)	$ (390,380)	$ (48,755)	$ (7,205)	$ 7,205	$ 1,010,753
Net income	—	—	52,412	—	—	—	—	—	52,412
Other comprehensive income, net of tax	—	—	—	5,905	—	—	—	—	5,905
Cash dividends declared	—	—	(28,023)	—	—	—	—	—	(28,023)
Distributions from DDFP	—	—	—	—	—	—	69	(69)	—
Purchases of treasury stock	—	—	—	—	(4,401)	—	—	—	(4,401)
Treasury shares issued - Team Capital acquisition	—	(962)	—	—	84,479	—	—	—	83,517
Shares issued dividend reinvestment plan	—	—	—	—	1,019	—	—	—	1,019
Stock option exercises	—	(22)	—	—	166	—	—	—	144
Allocation of ESOP shares	—	46	—	—	—	2,144	—	—	2,190
Allocation of SAP shares	—	5,301	—	—	—	—	—	—	5,301
Allocation of treasury shares	—	(4,253)	—	—	4,253	—	—	—	—
Allocation of stock options	—	225	—	—	—	—	—	—	225
Balance at September 30, 2014	$ 832	$ 1,026,479	$ 452,152	$ 1,054	$ (304,864)	$ (46,611)	$ (7,136)	$ 7,136	$ 1,129,042

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Nine months ended September 30, 2015 and 2014 (Unaudited) (Continued)
(Dollars in Thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2014	$ 832	$ 995,053	$ 465,276	$ 29	$ (271,779)	$ (45,312)	$ (7,113)	$ 7,113	$ 1,144,099
Net income	—	—	62,207	—	—	—	—	—	62,207
Other comprehensive income, net of tax	—	—	—	2,069	—	—	—	—	2,069
Cash dividends declared	—	—	(31,810)	—	—	—	—	—	(31,810)
Distributions from DDFP	—	49	—	—	—	—	405	(405)	49
Purchases of treasury stock	—	—	—	—	(1,946)	—	—	—	(1,946)
Shares issued dividend reinvestment plan	—	75	—	—	994	—	—	—	1,069
Stock option exercises	—	(175)	—	—	2,229	—	—	—	2,054
Allocation of ESOP shares	—	171	—	—	—	1,948	—	—	2,119
Allocation of SAP shares	—	3,863	—	—	—	—	—	—	3,863
Allocation of stock options	—	200	—	—	—	—	—	—	200
Balance at September 30, 2015	$ 832	$ 999,236	$ 495,673	$ 2,098	$ (270,502)	$ (43,364)	$ (6,708)	$ 6,708	$ 1,183,973

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Nine months ended September 30, 2015 and 2014 (Unaudited)
(Dollars in Thousands)

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$62,207	$52,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	10,311	7,752
Provision for loan losses	3,100	3,400
Deferred tax expense	604	667
Increase in cash surrender value of Bank-owned life insurance	(3,913)	(4,228)
Net amortization of premiums and discounts on securities	8,154	7,701
Accretion of net deferred loan fees	(2,752)	(2,376)
Amortization of premiums on purchased loans, net	821	526
Net increase in loans originated for sale	(6,987)	(7,280)
Proceeds from sales of loans originated for sale	7,533	7,864
Proceeds from sales of foreclosed assets	2,897	4,580
ESOP expense	2,119	2,190
Allocation of stock award shares	3,495	5,049
Allocation of stock options	200	225
Net gain on sale of loans	(546)	(584)
Net gain on securities transactions	(650)	(247)
Net gain on sale of premises and equipment	(4)	(5)
Net gain on sale of foreclosed assets	(196)	(497)
Decrease in accrued interest receivable	994	1,828
Increase in other assets	(10,466)	(692)
Increase in other liabilities	8,999	1,501
Net cash provided by operating activities	85,920	79,786
Cash flows from investing activities:		
Proceeds from maturities, calls and paydowns of investment securities held to maturity	27,208	36,062
Purchases of investment securities held to maturity	(31,515)	(58,192)
Proceeds from sales of securities	14,005	24,953
Proceeds from maturities, calls and paydowns of securities available for sale	165,609	157,765
Purchases of securities available for sale	(101,922)	(54,581)
Net increase in Federal Home Loan Bank stock	(9,185)	(11,719)
Net cash and cash equivalents (paid) received in acquisition	(25,613)	68,650
Death benefit proceeds from bank-owned life insurance	776	—
Purchases of loans	(76,486)	(94,464)
Net increase in loans	(275,164)	(45,982)
Proceeds from sales of premises and equipment	19	5
Purchases of premises and equipment	(4,686)	(14,404)
Net cash (used in) provided by investing activities	(316,954)	8,093
Cash flows from financing activities:		
Net increase (decrease) in deposits	33,090	(244,454)

Increase in mortgage escrow deposits	2,471	1,146
Purchases of treasury stock	(1,946)	(4,401)
Cash dividends paid to stockholders	(31,810)	(28,023)

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	Nine months ended September 30, 2015	2014
Shares issued through the dividend reinvestment plan	1,069	1,019
Stock options exercised	2,054	144
Proceeds from long-term borrowings	459,937	404,334
Payments on long-term borrowings	(322,907)	(201,856)
Net increase (decrease) in short-term borrowings	113,747	(28,207)
Net cash provided by (used in) financing activities	255,705	(100,298)
Net increase (decrease) in cash and cash equivalents	24,671	(12,419)
Cash and cash equivalents at beginning of period	103,762	101,224
Cash and cash equivalents at end of period	$128,433	$88,805
Cash paid during the period for:		
Interest on deposits and borrowings	$31,283	$29,910
Income taxes	$30,189	$19,742
Non-cash investing activities:		
Transfer of loans receivable to foreclosed assets	$8,143	$4,535
Acquisition:		
Non-cash assets acquired:		
Investment securities available for sale	$—	$157,635
Loans	—	631,390
Bank-owned life insurance	—	22,319
Goodwill and other intangible assets, net	27,087	50,584
Other assets	112	33,396
Total non-cash assets acquired	$27,199	$895,324
Liabilities assumed:		
Deposits	$—	$769,936
Borrowings	—	112,835
Other Liabilities	366	(2,314)
Total liabilities assumed	$366	$880,457
Common stock issued for acquisitions	$—	$83,517

See accompanying notes to unaudited consolidated financial statements.

PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Note 1. Summary of Significant Accounting Policies
A. Basis of Financial Statement Presentation
The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly owned subsidiary, The Provident Bank (the “Bank,” together with Provident Financial Services, Inc., the “Company”).
In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the periods presented. Actual results could differ from these estimates. The allowance for loan losses, the valuation of securities available for sale and the valuation of deferred tax assets are material estimates that are particularly susceptible to near-term change.
The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results of operations that may be expected for all of 2015.
Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.
These unaudited consolidated financial statements should be read in conjunction with the December 31, 2014 Annual Report to Stockholders on Form 10-K.
B. Earnings Per Share
The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands, except per share amounts):

	Three months ended September 30,					
	2015			2014		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	$20,609			$19,032		
Basic earnings per share:						
Income available to common stockholders	$20,609	63,034,185	$0.33	$19,032	62,440,310	$0.30
Dilutive shares		164,114			118,897	
Diluted earnings per share:						
Income available to common stockholders	$20,609	63,198,299	$0.33	$19,032	62,559,207	$0.30

	Nine months ended September 30,					
	2015			2014		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Net income	$ 62,207			$ 52,412		
Basic earnings per share:						
Income available to common stockholders	$ 62,207	62,868,745	$ 0.99	$ 52,412	59,670,773	$ 0.88
Dilutive shares		160,644			133,432	
Diluted earnings per share:						
Income available to common stockholders	$ 62,207	63,029,389	$ 0.99	$ 52,412	59,804,205	$ 0.88

Anti-dilutive stock options and awards at September 30, 2015 and 2014, totaling 518,433 shares and 1,099,371 shares, respectively, were excluded from the earnings per share calculations.

Note 2. Business Combinations

On April 1, 2015, Beacon Trust Company ("Beacon"), a wholly owned subsidiary of The Provident Bank, completed its acquisition of The MDE Group, Inc. and the equity interests of Acertus Capital Management, LLC (together "MDE"), both Morristown, New Jersey-based registered investment advisory firms that manage assets for affluent and high net-worth clients and their financial advisors. MDE was acquired with both cash and contingent consideration. The Company recognized goodwill of $20.1 million and a customer relationship intangible of $7.0 million related to the acquisition. The Company recognized a contingent consideration liability at its fair value of $2.0 million. The contingent consideration arrangement requires the Company to pay additional cash consideration to MDE’s former stakeholders four years after the closing of the acquisition if certain revenue targets are met. The fair value of the contingent consideration was estimated using a discounted cash flow model. The acquisition agreement limits the total payment to a maximum of $12.5 million, to be determined based on actual future results.

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

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

The Team Capital transaction was accounted for under the acquisition method of accounting. Under this method of accounting, the purchase price has been allocated to the respective assets acquired and liabilities assumed based upon their estimated fair values, net of tax. The excess of consideration paid over the fair value of the net assets acquired has been recorded as goodwill.

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

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

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

Fair Value Measurement of Assets Assumed and Liabilities Assumed

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

Securities Available for Sale

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

Loans

The acquired loan portfolio was valued based on current guidance which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Level 3 inputs were utilized to value the portfolio and included the use of present value techniques employing cash flow estimates and the incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, the Company used its own assumptions in an effort to determine reasonable fair value. Specifically, Management utilized three separate fair value analyses which a market participant would employ in estimating the total fair value adjustment. The three separate fair valuation methodologies used were: 1) interest rate loan fair value analysis; 2) general credit fair value adjustment; and 3) specific credit fair value adjustment.

To prepare the interest rate fair value analysis, loans were grouped by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources and reviewed by Company management for

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reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment.

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

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

Deposits and Core Deposit Premium

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

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

Borrowed Funds

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

Note 3. Investment Securities

At September 30, 2015, the Company had $994.8 million and $471.7 million in available for sale and held to maturity investment securities, respectively. Many factors, including lack of liquidity in the secondary market for certain securities, variations in pricing information, regulatory actions, changes in the business environment or any changes in the competitive marketplace could have an adverse effect on the Company’s investment portfolio which could result in other-than-temporary impairment on certain investment securities in future periods. The total number of held to maturity and available for sale securities in an unrealized loss position as of September 30, 2015 totaled 163, compared with 206 at December 31, 2014. All securities with unrealized losses at September 30, 2015 were analyzed for other-than-temporary impairment. Based upon this analysis, the Company believes that as of September 30, 2015, such securities with unrealized losses do not represent impairments that are other-than-temporary.

Securities Available for Sale

The following tables present the amortized cost, gross unrealized gains, gross unrealized losses and the fair value for securities available for sale at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
US Treasury obligations	$8,008	61	—	8,069
Agency obligations	87,488	386	—	87,874
Mortgage-backed securities	871,044	16,262	(497)	886,809
State and municipal obligations	5,916	89	—	6,005
Corporate obligations	5,517	16	(17)	5,516
Equity securities	397	101	—	498
	$978,370	16,915	(514)	994,771

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	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
US Treasury obligations	$ 8,016	3	(3)	8,016
Agency Obligations	94,871	268	(63)	95,076
Mortgage-backed securities	944,796	15,610	(3,149)	957,257
State and municipal obligations	6,855	147	—	7,002
Corporate obligations	6,526	9	(15)	6,520
Equity securities	397	127	—	524
	$ 1,061,461	16,164	(3,230)	1,074,395

The amortized cost and fair value of securities available for sale at September 30, 2015, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	September 30, 2015	
	Amortized cost	Fair value
Due in one year or less	$ 20,680	20,695
Due after one year through five years	80,278	80,738
Due after five years through ten years	3,683	3,693
Due after ten years	2,288	2,338
	$ 106,929	107,464

Mortgage-backed securities totaling $871.0 million at amortized cost and $886.8 million at fair value are excluded from the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments. Also excluded from the table above are equity securities of $397,000 at amortized cost and $498,000 at fair value.

During the three months ended September 30, 2015, there were no sales of securities from the securities available for sale. For the same period last year, proceeds from the sale of securities available for sale were $9,946,000 resulting in gross gains of $482,000 and no gross losses.

For the nine months ended September 30, 2015, proceeds from the sale of securities available for sale were $14,005,000, resulting in gross gains of $643,000 and no gross losses. For the same period last year, proceeds from the sale of securities available for sale were $24,429,000, resulting in gross gains of $632,000 and gross losses of $404,000. Also, for the nine months ended September 30, 2015, proceeds from calls of securities available for sale totaled $465,000, resulting in gross gains of $2,000 gains and no gross losses. For the nine months ended September 30, 2014, proceeds from calls on securities available for sale totaled $740,000, resulting in gross gains of $2,000 and no gross losses.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Beginning credit loss amount	$—	—	—	1,674
Add: Initial OTTI credit losses	—	—	—	—
Subsequent OTTI credit losses	—	—	—	—
Less: Realized losses for securities sold	—	—	—	1,674

Securities intended or required to be sold	—	—	—	—
Increases in expected cash flows on debt securities	—	—	—	—
Ending credit loss amount	$—	—	—	—

The Company did not incur an OTTI charge on securities for the three and nine months ended September 30, 2015 and 2014. For the three and nine months ended September 30, 2014, the Company realized a $59,000 gain and a $365,000 loss on the sales of previously impaired non-agency mortgage-backed securities, respectively. The Company previously incurred cumulative credit losses of $1.7 million on these securities.

The following tables represent the Company's disclosure regarding securities available for sale with temporary impairment at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	—	—	—	—	—	—
Mortgage-backed securities	47,521	(162)	50,441	(335)	97,962	(497)
State and municipal obligations	—	—	—	—	—	—
Corporate obligations	1,464	(7)	993	(10)	2,457	(17)
	$48,985	(169)	51,434	(345)	100,419	(514)

	December 31, 2014 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. Treasury obligations	$5,937	(3)	—	—	5,937	(3)
Agency obligations	24,404	(40)	5,010	(23)	29,414	(63)
Mortgage-backed securities	55,488	(221)	206,669	(2,928)	262,157	(3,149)
Corporate obligations	3,466	(15)	—	—	3,466	(15)
	$89,295	(279)	211,679	(2,951)	300,974	(3,230)

The temporary loss position associated with certain securities available for sale was the result of changes in market interest rates relative to the coupon of the individual security and changes in credit spreads. The Company does not have the intent to sell securities in a temporary loss position at September 30, 2015, nor is it more likely than not that the Company will be required to sell the securities before their prices recover.

The number of available for sale securities in an unrealized loss position at September 30, 2015 totaled 16, compared with 43 at December 31, 2014. At September 30, 2015, there were three private label mortgage-backed securities in an unrealized loss position, with an amortized cost of $943,000 and an unrealized loss of $7,000. These private label mortgage-backed securities were investment grade at September 30, 2015.

The Company estimates the loss projections for each 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 three and nine months ended September 30, 2015. The Company believes that no other-than-temporary impairment of the securities available for sale portfolio existed for the three and nine months ended September 30, 2015.

Investment Securities Held to Maturity

The following tables present the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for investment securities held to maturity at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$5,195	15	(1)	5,209
Mortgage-backed securities	1,821	78	—	1,899
State and municipal obligations	454,446	11,870	(1,213)	465,103
Corporate obligations	10,261	32	(9)	10,284
	$471,723	11,995	(1,223)	482,495

	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	$6,813	17	(20)	6,810
Mortgage-backed securities	2,816	123	—	2,939
State and municipal obligations	449,410	13,814	(986)	462,238
Corporate obligations	10,489	29	(32)	10,486
	$469,528	13,983	(1,038)	482,473

The Company generally purchases securities for long-term investment purposes, and differences between amortized cost and fair values may fluctuate during the investment period. For the three and nine months ended September 30, 2015, the Company recognized gross gains of $5,000 and no gross losses, respectively, related to calls of certain securities in the held to maturity portfolio, with proceeds from the calls totaling $7,984,000 and $21,204,000 for the three and nine months ended September 30, 2015, respectively. There were no sales of securities from the held to maturity portfolio for the three and nine months ended September 30, 2015.

For the three and nine months ended September 30, 2014, the Company recognized gross gains of $5,000 and $20,000, and no gross losses, respectively, related to calls of certain securities in the held to maturity portfolio, with proceeds from the calls totaling $3,566,000 and $12,376,000, respectively. In addition, for the three and nine months ended September 30, 2014, the Company recognized a gross loss of $3,000, and no gross gain, related to the sale of a security in the held to maturity portfolio, with the proceeds from the sale totaling $524,000. The sale of this security was in response to credit deterioration of the issuer.

The amortized cost and fair value of investment securities in the held to maturity portfolio at September 30, 2015 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	September 30, 2015	
	Amortized cost	Fair value
Due in one year or less	$8,385	8,456
Due after one year through five years	53,201	54,296
Due after five years through ten years	214,416	221,661
Due after ten years	193,900	196,183
	$469,902	480,596

Mortgage-backed securities totaling $1.8 million at amortized cost and $1.9 million at fair value are excluded from the table above as their expected lives are likely to be shorter than the contractual maturity date due to principal prepayments.

The following tables represent the Company's disclosure on investment securities held to maturity with temporary impairment at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Agency obligations	$—	—	280	(1)	280	(1)
State and municipal obligations	61,156	(690)	19,244	(523)	80,400	(1,213)
Corporate obligations	1,711	(7)	499	(2)	2,210	(9)
	$62,867	(697)	20,023	(526)	82,890	(1,223)

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

Based upon the review of the held to maturity securities portfolio, the Company believes that as of September 30, 2015, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The review of the portfolio for other-than-temporary impairment considers the percentage and length of time the fair value of an investment is below book value, as well as general market conditions, changes in interest rates, credit risks, whether the Company has the intent to sell the securities and whether it is more likely than not that the Company would be required to sell the securities before their prices recover.

The number of held to maturity securities in an unrealized loss position at September 30, 2015 totaled 147, compared with 163 at December 31, 2014. The decrease in the number of securities in an unrealized loss position at September 30, 2015, was largely due to a decrease in market interest rates from December 31, 2014. All temporarily impaired investment securities were investment grade at September 30, 2015.

Note 4. Loans Receivable and Allowance for Loan Losses

Loans receivable at September 30, 2015 and December 31, 2014 are summarized as follows (in thousands):

	September 30, 2015	December 31, 2014
Mortgage loans:		
Residential	$1,256,893	1,251,445
Commercial	1,775,999	1,694,359
Multi-family	1,193,204	1,041,582
Construction	302,302	221,102
Total mortgage loans	4,528,398	4,208,488
Commercial loans	1,324,244	1,262,422
Consumer loans	575,714	611,467
Total gross loans	6,428,356	6,082,377
Purchased credit-impaired ("PCI") loans	3,671	4,510
Premiums on purchased loans	5,711	5,307
Unearned discounts	(44)	(53)
Net deferred fees	(6,750)	(6,636)
Total loans	$6,430,944	6,085,505

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

	September 30, 2015						
	30-59 Days	60-89 Days	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans Receivable	Recorded Investment > 90 days accruing
Mortgage loans:							
Residential	$5,755	7,330	11,876	24,961	1,231,932	1,256,893	—
Commercial	1,853	275	2,736	4,864	1,771,135	1,775,999	—
Multi-family	775	—	847	1,622	1,191,582	1,193,204	—
Construction	—	—	2,096	2,096	300,206	302,302	—
Total mortgage loans	8,383	7,605	17,555	33,543	4,494,855	4,528,398	—
Commercial loans	440	1,010	17,892	19,342	1,304,902	1,324,244	—
Consumer loans	2,224	1,080	4,187	7,491	568,223	575,714	—
Total gross loans	$11,047	9,695	39,634	60,376	6,367,980	6,428,356	—

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

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 amounts of these non-accrual loans were $39.6 million and $53.9 million at September 30, 2015 and December 31, 2014, respectively. Included in non-accrual loans were $15.9 million and $8.4 million of loans which were less than 90 days past due at September 30, 2015 and December 31, 2014, respectively. There were no loans 90 days or greater past due and still accruing interest at September 30, 2015, or December 31, 2014.

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, all amounts due under the contractual terms of the loan agreement will not be collected. 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 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 losses 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; (2) if a loan is collateral dependent, the fair value of collateral; or (3) the fair value of the loan. Additionally, if impaired loans have risk characteristics in common, those loans may be aggregated and historical statistics may be used as a means of measuring those impaired loans.

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

A specific allocation of the allowance for loan losses is established for each collateral dependent 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 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 September 30, 2015, there were 148 impaired loans totaling $67.9 million. Included in this total were 123 TDRs related to 121 borrowers totaling $47.9 million that were performing in accordance with their restructured terms and which continued to accrue interest at September 30, 2015. At December 31, 2014, there were 147 impaired loans totaling $85.4 million. Included in this total were 123 TDRs to 120 borrowers totaling $54.8 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2014.

The following table summarizes loans receivable by portfolio segment and impairment method, excluding PCI loans (in thousands):

	September 30, 2015			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$48,809	16,678	2,402	67,889
Collectively evaluated for impairment	4,479,589	1,307,566	573,312	6,360,467
Total gross loans	$4,528,398	1,324,244	575,714	6,428,356
	December 31, 2014			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	$66,548	16,463	2,384	85,395
Collectively evaluated for impairment	4,141,940	1,245,959	609,083	5,996,982

Total gross loans	$4,208,488	1,262,422	611,467	6,082,377

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

	September 30, 2015					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	$2,184	91	106	2,381	—	2,381
Collectively evaluated for impairment	29,438	24,985	3,633	58,056	27	58,083
Total gross loans	$31,622	25,076	3,739	60,437	27	60,464

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

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.

The following tables present the number of loans modified as TDRs during the three and nine months ended September 30, 2015 and 2014 and their balances immediately prior to the modification date and post-modification as of September 30, 2015 and 2014:

	For the three months ended					
	September 30, 2015			September 30, 2014		
Troubled Debt Restructuring	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Mortgage loans:						
Residential	1	$ 258	$ 256	4	$ 742	$ 774
Total mortgage loans	1	258	256	4	742	774
Commercial loans	—	—	—	1	—	367
Consumer loans	—	—	—	2	393	165
Total restructured loans	1	$ 258	$ 256	7	$ 1,135	$ 1,306

Troubled Debt Restructuring	For the nine months ended September 30, 2015 Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	September 30, 2014 Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Mortgage loans:						
Residential	6	$ 2,192	2,184	12	$ 2,705	$ 2,443
Commercial	—	—	—	1	865	866
Construction	1	2,600	2,096			
Total mortgage loans	7	4,792	4,280	13	3,570	3,309
Commercial loans	4	6,659	6,903	2	300	665
Consumer loans	2	123	115	2	393	165
Total restructured loans	13	$ 11,574	$ 11,298	17	$ 4,263	$ 4,139

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 three and nine months ended September 30, 2015 and 2014 exceeded the carrying amounts of such loans. There were charge-offs recorded on two collateral dependent impaired loans of $312,000 for the three and nine months ended September 30, 2015, which are included in the preceding tables. There were no charge-offs recorded on collateral dependent impaired loans for 2014. The allowance for loan losses associated with the TDRs presented in the preceding tables totaled $0 and $117,000 for the three months ended September 30, 2015 and 2014, respectively, and were included in the allowance for loan losses for loans individually evaluated for impairment. For the nine months ended September 30, 2015 and 2014, the allowance for loan losses associated with the TDRs presented in the preceding tables totaled $82,000 and $426,000, respectively, and were included in the allowance for loan losses for loans individually evaluated for impairment.

For the three and nine months ended September 30, 2015, the TDRs presented in the preceding tables had a weighted average modified interest rate of approximately 3.00% and 5.26%, respectively, compared to a rate of 3.00% and 5.71% prior to modification, respectively. For the three and nine months ended September 30, 2014, the TDRs had weighted average modified interest rate of approximately 5.50% and 4.90%, respectively, compared to a rate of 6.50% and 5.70% prior to modification, respectively.

There were no payment defaults (90 days or more past due) at the quarter ended September 30, 2015 and 2014 related to loans modified as TDRs within the previous 12 months from September 30, 2015 and 2014.

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

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

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

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

PCI loans declined $839,000 to $3.7 million at September 30, 2015, from $4.5 million at December 31, 2014, largely due to the full repayment and greater than projected cash flows on certain PCI loans. This resulted in a $129,000 and a $349,000 increase in interest income for the three and nine months ended September 30, 2015, due to the acceleration of accretable and non-accretable discount on these loans.

The following table summarizes the changes in the accretable yield for PCI loans during the three and nine months ended September 30, 2015 (in thousands):

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2015	2014	2015	2014
Beginning balance	$609	$773	$695	$—
Acquisition	—	—	—	810
Accretion	(220)	(314)	(683)	(351)
Reclassification from non-accretable discount	172	136	549	136
Ending balance	$561	$595	$561	$595

The activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015 and 2014 was as follows (in thousands):

Three months ended September 30,	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
2015						
Balance at beginning of period	$31,824	22,840	4,570	59,234	390	59,624
Provision charged to operations	569	1,604	(411)	1,762	(362)	1,400
Recoveries of loans previously charged-off	3	762	352	1,117	—	1,117
Loans charged-off	(774)	(130)	(772)	(1,676)	(1)	(1,677)
Balance at end of period	$31,622	25,076	3,739	60,437	27	60,464
2014						
Balance at beginning of period	$31,040	27,079	4,381	62,500	1,375	63,875
Provision charged to operations	54	1,114	442	1,610	(110)	1,500
Recoveries of loans previously charged-off	120	404	172	696	—	696
Loans charged-off	(538)	(1,755)	(448)	(2,741)	—	(2,741)
Balance at end of period	$30,676	26,842	4,547	62,065	1,265	63,330

Nine months ended September 30,	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
2015						
Balance at beginning of period	$31,977	24,381	4,881	61,239	495	61,734
Provision charged to operations	1,924	926	718	3,568	(468)	3,100
Recoveries of loans previously charged-off	139	1,636	819	2,594	—	2,594
Loans charged-off	(2,418)	(1,867)	(2,679)	(6,964)	—	(6,964)
Balance at end of period	$31,622	25,076	3,739	60,437	27	60,464
2014						
Balance at beginning of period	$34,144	24,107	4,929	63,180	1,484	64,664
Provision charged to operations	(1,300)	4,108	811	3,619	(219)	3,400
Recoveries of loans previously charged-off	277	945	1,022	2,244	—	2,244
Loans charged-off	(2,445)	(2,318)	(2,215)	(6,978)	—	(6,978)

Balance at end of period	$ 30,676	26,842	4,547	62,065	1,265	63,330

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The following table presents loans individually evaluated for impairment by class and loan category, excluding PCI loans (in thousands):

	September 30, 2015					December 31, 2014				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance										
Mortgage loans:										
Residential	$12,066	8,782	—	9,018	353	14,942	10,629	—	11,138	357
Commercial	22,517	22,062	—	22,681	670	4,971	4,708	—	4,713	—
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	2,096	2,096	—	798	15	—	—	—	—	—
Total	36,679	32,940	—	32,497	1,038	19,913	15,337	—	15,851	357
Commercial loans	16,672	14,666	—	14,955	221	2,718	2,179	—	1,823	4
Consumer loans	1,357	885	—	914	37	1,250	830	—	870	28
Total impaired loans	$54,708	48,491	—	48,366	1,296	23,881	18,346	—	18,544	389
Loans with an allowance recorded										
Mortgage loans:										
Residential	$15,260	14,614	1,959	14,489	375	15,523	14,906	2,367	15,106	555
Commercial	1,255	1,255	225	1,399	49	37,555	36,306	2,329	36,674	914
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Total	16,515	15,869	2,184	15,888	424	53,078	51,212	4,696	51,780	1,469
Commercial loans	3,035	2,012	91	5,354	141	15,990	14,283	2,318	15,967	390
Consumer loans	1,527	1,517	106	1,535	56	1,565	1,554	113	1,578	80
Total impaired loans	$21,077	19,398	2,381	22,777	621	70,633	67,049	7,127	69,325	1,939
Total impaired loans										
Mortgage loans:										
Residential	$27,326	23,396	1,959	23,507	728	30,465	25,535	2,367	26,244	912

Commercial	23,772	23,317	225	24,080	719	42,526	41,014	2,329	41,387	914
Multi-family	—	—	—	—	—	—	—	—	—	—
Construction	2,096	2,096	—	798	15	—	—	—	—	—
Total	53,194	48,809	2,184	48,385	1,462	72,991	66,549	4,696	67,631	1,826
Commercial loans	19,707	16,678	91	20,309	362	18,708	16,462	2,318	17,790	394
Consumer loans	2,884	2,402	106	2,449	93	2,815	2,384	113	2,448	108
Total impaired loans	$75,785	67,889	2,381	71,143	1,917	94,514	85,395	7,127	87,869	2,328

Specific allocations of the allowance for loan losses attributable to impaired loans totaled $2,381,000 and $7,127,000 at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2014, impaired loans for which there was no related allowance for loan losses totaled $48,491,000 and $18,346,000, respectively. The average balance of impaired loans during the nine months ended September 30, 2015 was $71,143,000.

The Company utilizes an internal nine-point risk rating system to summarize its loan portfolio into categories with similar characteristics. Loans deemed to be “acceptable quality” (pass) 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, and their reports are presented directly to both the Audit and Risk Committees of the Board of Directors.

Loans receivable by credit quality risk rating indicator, excluding PCI loans, are as follows (in thousands):

	At September 30, 2015							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	$7,330	30,815	1,094	—	39,239	75,052	1,080	115,371
Substandard	11,876	39,882	1,355	2,096	55,209	35,402	4,130	94,741
Doubtful	—	—	—	—	—	27	—	27
Loss	—	—	—	—	—	—	—	—
Total classified and criticized	19,206	70,697	2,449	2,096	94,448	110,481	5,210	210,139
Pass/Watch	1,237,687	1,705,302	1,190,755	300,206	4,433,950	1,213,763	570,504	6,218,217
Total	$1,256,893	1,775,999	1,193,204	302,302	4,528,398	1,324,244	575,714	6,428,356

	At December 31, 2014							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	$4,331	18,414	851	—	23,596	45,599	2,509	71,704
Substandard	17,222	53,454	322	2,600	73,598	32,828	3,938	110,364
Doubtful	—	1,063	—	—	1,063	29	—	1,092
Loss	—	—	—	—	—	—	—	—
Total classified and criticized	21,553	72,931	1,173	2,600	98,257	78,456	6,447	183,160
Pass/Watch	1,229,892	1,621,428	1,040,409	218,502	4,110,231	1,183,966	605,020	5,899,217
Total	$1,251,445	1,694,359	1,041,582	221,102	4,208,488	1,262,422	611,467	6,082,377

Note 5. Deposits

Deposits at September 30, 2015 and December 31, 2014 are summarized as follows (in thousands):

	September 30, 2015	December 31, 2014
Savings	$982,815	995,347
Money market	1,492,935	1,496,466
NOW	1,447,566	1,425,424
Non-interest bearing	1,143,240	1,049,597
Certificates of deposit	759,057	825,689
Total deposits	$5,825,613	5,792,523

Note 6. Components of Net Periodic Benefit Cost

The Bank has a noncontributory defined benefit pension plan (the "Plan") covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003, the date on which the Plan was frozen. All participants in the Plan are

100% vested. The Plan's assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial. In an effort to lower and reduce the volatility of its future pension costs, the Company offered a lump sum pension distribution option to its vested terminated employees in the quarter ended June 30, 2014. In the quarter ended June 30, 2014, the Plan paid $4.3 million to those employees that elected to receive lump sum pension distributions and the Company realized an associated charge of $1.3 million. This charge was a pro rata share of the unrecognized losses recorded in other comprehensive income.

In addition to pension benefits, certain 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 became or will become 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 10 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 10 years of service as of December 31, 2006.

Net periodic benefit (increase) cost for pension benefits and other post-retirement benefits for the three and nine months ended September 30, 2015 and 2014 includes the following components (in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	Pension benefits		Other post-retirement benefits		Pension benefits		Other post-retirement benefits	
	2015	2014	2015	2014	2015	2014	2015	2014
Service cost	$—	—	42	42	$—	—	126	126
Interest cost	284	284	280	272	852	988	842	816
Expected return on plan assets	(632)	(837)	—	—	(1,898)	(2,625)	—	—
Amortization of prior service cost	—	—	—	(1)	—	—	—	(3)
Amortization of the net loss	193	127	—	(51)	581	313	—	(153)
Net periodic benefit (increase) cost	$(155)	(426)	322	262	$(465)	(1,324)	968	786

In its consolidated financial statements for the year ended December 31, 2014, the Company previously disclosed that it does not expect to contribute to the Plan in 2015. As of September 30, 2015, no contributions have been made to the Plan.

The net periodic benefit (increase) cost for pension benefits and other post-retirement benefits for the three and nine months ended September 30, 2015 were calculated using the actual January 1, 2015 pension valuation and the other post-retirement benefits valuations.

Note 7. Impact of Recent Accounting Pronouncements

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

In August 2014, the FASB issued ASU No. 2014-14, "Receivables - Troubled Debt Restructurings by Creditors: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The amendments in this update affect creditors that hold government guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration and the U.S. Department of Veterans Affairs. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (i) the loan has a government guarantee that is not separable from the loan before foreclosure; (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expect ed to be recovered from the guarantor. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company's adoption of this ASU did not have a significant impact on its consolidated financial statements.

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

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

Note 8. 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:

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

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

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

Assets and Liabilities 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 September 30, 2015 and December 31, 2014.

Securities Available for Sale

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

Derivatives

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives not designated in qualifying hedging relationships are not speculative and result from a service the Company provides to certain qualifying commercial borrowers in a loan related transaction and are not used to manage interest rate risk in the Company's assets or liabilities. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of the swap transactions are recognized directly in earnings.

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

The fair value of the Company's derivatives are determined using discounted cash flow 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 September 30, 2015 and December 31, 2014.

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

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated selling costs of up to 6%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case basis, to comparable assets based on the appraisers' market knowledge and experience, and are classified as Level 3. When an asset is acquired, the excess of the loan balance over fair value, less estimated 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 as of September 30, 2015 and December 31, 2014.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair values as of September 30, 2015 and December 31, 2014, by level within the fair value hierarchy:

	Fair Value Measurements at Reporting Date Using:			
(In thousands)	September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured on a recurring basis:				
Securities available for sale:				
US Treasury obligations	$8,069	8,069	—	—
Agency obligations	87,874	87,874	—	—
Mortgage-backed securities	886,809	—	886,809	—
State and municipal obligations	6,005	—	6,005	—
Corporate obligations	5,516	—	5,516	—
Equity securities	498	498	—	—
Total securities available for sale	994,771	96,441	898,330	—
Derivative assets	6,642	—	6,642	—
	$1,001,413	96,441	904,972	—
Derivative liabilities	$6,959	—	6,959	—
Measured on a non-recurring basis:				
Loans measured for impairment based on the fair value of the underlying collateral	$11,455	—	—	11,455
Foreclosed assets	10,128	—	—	10,128
	$21,583	—	—	21,583

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

$28,184	—	—	28,184

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2015.

Other Fair Value Disclosures

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

Cash and Cash Equivalents

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

Investment Securities Held to Maturity

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

Federal Home Loan Bank of New York ("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 and estimated selling costs. The Company classifies the estimated fair value of its non-performing loan portfolio as Level 3.

Deposits

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

Borrowed Funds

The fair value of borrowed funds was estimated by discounting future cash flows using rates available for debt with similar terms and maturities and 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.

The following tables present the Company's financial instruments at their carrying and fair values as of September 30, 2015 and December 31, 2014. Fair values are presented by level within the fair value hierarchy.

			Fair Value Measurements at September 30, 2015 Using:		
(Dollars in thousands)	Carrying value	Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$128,433	128,433	128,433	—	—
Securities available for sale:					
US Treasury obligations	8,069	8,069	8,069	—	—
Agency obligations	87,874	87,874	87,874	—	—
Mortgage-backed securities	886,809	886,809	—	886,809	—
State and municipal obligations	6,005	6,005	—	6,005	—
Corporate obligations	5,516	5,516	—	5,516	—
Equity securities	498	498	498	—	—
Total securities available for sale	$994,771	994,771	96,441	898,330	—
Investment securities held to maturity:					
Agency obligations	5,195	5,209	5,209	—	—
Mortgage-backed securities	1,821	1,899	—	1,899	—
State and municipal obligations	454,446	465,103	—	465,103	—
Corporate obligations	10,261	10,284	—	10,284	—
Total securities held to maturity	$471,723	482,495	5,209	477,286	—
FHLBNY stock	78,974	78,974	78,974	—	—
Loans, net of allowance for loan losses	6,370,480	6,442,760	—	—	6,442,760
Asset derivative	6,642	6,642	—	6,642	—
Financial liabilities:					
Deposits other than certificates of deposits	$5,066,556	5,066,556	5,066,556	—	—
Certificates of deposit	759,057	761,817	—	761,817	—
Total deposits	$5,825,613	5,828,373	5,066,556	761,817	—
Borrowings	1,760,628	1,785,775	—	1,785,775	—
Liability derivative	6,959	6,959	—	6,959	—

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(Dollars in thousands)	Carrying value	Fair value	Fair Value Measurements at December 31, 2014 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$103,762	103,762	103,762	—	—
Securities available for sale:					
US Treasury obligations	8,016	8,016	8,016	—	—
Agency obligations	95,076	95,076	95,076	—	—
Mortgage-backed securities	957,257	957,257	—	957,257	—
State and municipal obligations	7,002	7,002	—	7,002	—
Equity securities	524	524	524	—	—
Total securities available for sale	$1,074,395	1,074,395	103,616	970,779	—
Investment securities held to maturity:					
US Treasury obligations	$8,016	8,016	8,016	—	—
Agency obligations	6,813	6,810	6,810	—	—
Mortgage-backed securities	2,816	2,939	—	2,939	—
State and municipal obligations	449,410	462,238	—	462,238	—
Corporate obligations	10,489	10,486	—	10,486	—
Total securities held to maturity	$469,528	482,473	6,810	475,663	—
FHLBNY stock	69,789	69,789	69,789	—	—
Loans, net of allowance for loan losses	6,023,771	6,104,558	—	—	6,104,558
Asset Derivative	2,046	2,046	—	2,046	—
Financial liabilities:					
Deposits other than certificates of deposits	$4,966,834	4,966,834	4,966,834	—	—
Certificates of deposit	825,689	830,233	—	830,233	—
Total deposits	$5,792,523	5,797,067	4,966,834	830,233	—
Borrowings	1,509,851	1,516,966	—	1,516,966	—
Liability Derivative	2,052	2,052	—	2,052	—

Note 9. Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive (loss) income both gross and net of tax, for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three months ended September 30,					
	2015			2014		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Components of Other Comprehensive Income (Loss):						
Unrealized gains and losses on securities available for sale:						
Net gains (losses) arising during the period	$6,146	(2,468)	3,678	(5,200)	1,811	(3,389)
Reclassification adjustment for gains included in net income	—	—	—	(487)	199	(288)
Total	6,146	(2,468)	3,678	(5,687)	2,010	(3,677)
Unrealized losses on derivatives (cash flow hedges)	(388)	156	(232)	—	—	—
Amortization related to post-retirement obligations	193	(78)	115	76	(31)	45
Total other comprehensive income (loss)	$5,951	(2,390)	3,561	(5,611)	1,979	(3,632)

	Nine months ended September 30,					
	2015			2014		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Components of Other Comprehensive Income (Loss):						
Unrealized gains and losses on securities available for sale:						
Net gains arising during the period	$4,111	(1,651)	2,460	11,275	(4,606)	6,669
Reclassification adjustment for (gains) included in net income	(645)	259	(386)	(247)	101	(146)
Total	3,466	(1,392)	2,074	11,028	(4,505)	6,523
Unrealized (losses) on derivatives (cash flow hedges)	(388)	156	(232)	—	—	—
Amortization (accretion) related to post-retirement obligations	379	(152)	227	(1,045)	427	(618)
Total other comprehensive income (loss)	$3,457	(1,388)	2,069	9,983	(4,078)	5,905

The following tables present the changes in the components of accumulated other comprehensive income, net of tax, for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Changes in Accumulated Other Comprehensive Income by Component, net of tax						
	For the three months ended September 30,						
	2015				2014		
	Unrealized Gains on Securities Available for Sale	Post Retirement Obligations	Unrealized (losses) on Derivatives (cash flow hedges)	Accumulated Other Comprehensive Income	Unrealized Gains on Securities Available for Sale	Post Retirement Obligations	Accumulated Other Comprehensive Income
Balance at June 30,	$6,139	(7,602)	—	(1,463)	7,401	(2,715)	4,686
Current - period other comprehensive income (loss)	3,678	115	(232)	3,561	(3,677)	45	(3,632)
Balance at September 30,	$9,817	(7,487)	(232)	2,098	3,724	(2,670)	1,054

	Changes in Accumulated Other Comprehensive Income by Component, net of tax						
	For the nine months ended September 30,						
	2015				2014		
	Unrealized Gains on Securities Available for Sale	Post Retirement Obligations	Unrealized (losses) on Derivatives (cash flow hedges)	Accumulated Other Comprehensive Income	Unrealized Gains on Securities Available for Sale	Post Retirement Obligations	Accumulated Other Comprehensive Income
Balance at December 31	$7,743	(7,714)	—	29	$(2,799)	(2,052)	(4,851)
Current - period other comprehensive income	2,074	227	(232)	2,069	6,523	(618)	5,905
Balance at September 30,	$9,817	(7,487)	(232)	2,098	$3,724	(2,670)	1,054

The following tables summarize the reclassifications out of accumulated other comprehensive income to the consolidated statements of income for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Reclassifications Out of Accumulated Other Comprehensive Income ("AOCI")		
	Amount reclassified from AOCI for the three months ended September 30,		Affected line item in the Consolidated Statement of Income
	2015	2014	
Details of AOCI:			
Securities available for sale:			
Realized net gains on the sale of securities available for sale	$—	$487	Net gain on securities transactions
	—	(199)	Income tax expense
	—	288	Net of tax
Post-retirement obligations:			
Amortization of actuarial losses	193	76	Compensation and employee benefits (1)
	(78)	(31)	Income tax expense

	115	45	Net of tax
Total reclassifications	$ 115	$ 333	Net of tax

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	Reclassifications Out of Accumulated Other Comprehensive Income		
	Amount reclassified from AOCI for the nine months ended September 30,		Affected line item in the Consolidated Statement of Income
	2015	2014	
Details of AOCI:			
Securities available for sale:			
Realized net gains (losses) on the sale of securities available for sale	$ 645	$ 247	Net gain on securities transactions
	(259)	(101)	Income tax expense
	386	146	Net of tax
Post-retirement obligations:			
Amortization of actuarial losses	581	160	Compensation and employee benefits (1)
	(233)	(65)	Income tax expense
	348	95	Net of tax
Realized loss related to lump sum pension settlement	—	(1,336)	Compensation and employee benefits
	—	546	Income tax expense
	—	(790)	Net of tax
Total reclassifications	$ 734	$ (1,030)	Net of tax

(1) This item is included in the computation of net periodic benefit cost. See Note 6. Components of Net Periodic Benefit Cost.

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Note 10. Derivative and Hedging Activities

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

Non-designated Hedges. Derivatives not designated in qualifying hedging relationships are not speculative and result from a service the Company provides to certain qualifying commercial borrowers in a loan related transaction and, therefore, are not used to manage interest rate risk in the Company’s assets or liabilities. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. The Company implemented this program during the quarter ended September 30, 2014. As of September 30, 2015, the Company had 17 interest rate swaps with an aggregate notional amount of $248.3 million related to this program.

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended September 30, 2015, such derivatives were used to hedge the variable cash outflows associated with Federal Home Loan Bank borrowings. The ineffective portion of the change in fair value of the derivatives are recognized directly in earnings. The Company implemented this program during the quarter ended September 30, 2015. During the three and nine months ended September 30, 2015, the Company’s did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s debt. During the next twelve months, the Company estimates that $431,000 will be reclassified as an increase to interest expense. As of September 30, 2015, the Company had one outstanding interest rate derivative with a notional amount of $40 million that was designated as a cash flow hedge of interest rate risk.

The table below presents the fair value of the Company’s derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition at September 30, 2015 and December 31, 2014 (in thousands):

	At September 30, 2015			
	Asset Derivatives		Liability Derivatives	
	Consolidated Statements of Financial Condition	Fair Value	Consolidated Statements of Financial Condition	Fair Value
Derivatives not designated as a hedging instruments:				
Interest rate products	Other assets	$6,634	Other liabilities	$6,572
Credit contracts	Other assets	8		—
Total derivatives not designated as hedging instruments		$6,642		$6,572
Derivatives designated as a a hedging instrument:				

Interest rate products	Other assets	$—	Other liabilities	$387
Total derivatives designated as a hedging instrument		$—		$387

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	At December 31, 2014			
	Asset Derivatives		Liability Derivatives	
	Consolidated Statements of Financial Condition	Fair Value	Consolidated Statements of Financial Condition	Fair Value
Derivatives not designated as a hedging instruments:				
Interest rate products	Other assets	$2,040	Other liabilities	$2,052
Credit contracts	Other assets	6		—
Total derivatives not designated as hedging instruments		$2,046		$2,052

The tables below present the effect of the Company’s derivative financial instruments on the Consolidated Statements of Income during the three and nine months ended September 30, 2015 (in thousands).

		Gain (loss) recognized in Income on derivatives	
	Consolidated Statements of Income	Three months ended September 30, 2015	Nine months ended September 30, 2015
Derivatives not designated as a hedging instruments:			
Interest rate products	Other income	$(335)	$75
Credit contracts	Other income	2	1
Total		$(333)	$76
Derivatives designated as a hedging instruments:			
Hedge advances	Other income	$(17)	$(17)
Hedge counterparty	Other income	(38)	(38)
Total		$(55)	$(55)

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

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

As of September 30, 2015, the termination value of derivatives in a net liability position, which includes accrued interest, was $7.1 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties, and has posted collateral of $6.7 million against its obligations under these agreements. If the Company had breached any of these provisions at September 30, 2015, it could have been required to settle its obligations under the agreements at the termination value.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward Looking Statements

Certain statements contained herein are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as “may,” “will,” “believe,” “expect,” “estimate,” “anticipate,” “continue,” or similar terms or variations on those terms, or the negative o those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those set forth in Item 1A of the Company's Annual Report on Form 10-K or supplemented by its quarterly reports on Form 10-Q and, those related to the economic environment, particularly in the market areas in which 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.

Acquisitions

On April 1, 2015, Beacon Trust Company ("Beacon"), a wholly owned subsidiary of The Provident Bank, completed its acquisition of The MDE Group, Inc. and the equity interests of Acertus Capital Management, LLC (together "MDE"), both Morristown, New Jersey-based registered investment advisory firms that manage assets for affluent and high net-worth clients and their financial advisors. MDE was acquired with both cash and contingent consideration. The Company recognized goodwill of $20.1 million and a customer relationship intangible of $7.0 million related to the acquisition. The Company recognized a contingent consideration liability at its fair value of $2.0 million. The contingent consideration arrangements require the Company to pay additional cash consideration to MDE's former stakeholders in four years if certain revenue targets are met. The fair value of the contingent consideration was estimated using a probability-weighted discounted cash flow model. The acquisition agreement limits the total payment to a maximum of $12.5 million, to be determined based on actual future results.

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

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

Critical Accounting Policies

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

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

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

The Company's evaluation of the adequacy of the allowance for loan losses includes a review of all loans on which the collectibility of principal may not be reasonably assured. For residential mortgage and consumer loans, this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.

As part of the evaluation of the adequacy of the allowance for loan losses, each quarter management prepares an analysis that categorizes the entire loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating.

When assigning a risk rating to a loan, management utilizes a nine point internal risk rating system. Loans deemed to be “acceptable quality” are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans deemed to be of “questionable quality” are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial and construction loans are rated individually and each lending officer is responsible for risk rating loans in their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and the Credit Administration Department. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party, and periodically by the Credit Committee in the credit renewal or approval. In addition, the Bank requires an annual review be performed for commercial and commercial real estate loans above certain dollar thresholds, depending on loan type, to help determine the appropriate risk rating.

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

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

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

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

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

- Cost factors, such as increased labor costs, cost of materials and other operating costs.
- Overall financial performance, such as declining cash flows and decline in revenue or earnings.
- Other relevant entity-specific events, such as changes in management, strategy or customers, litigation and contemplation of bankruptcy.
- Reporting unit events, such as selling or disposing a portion of a reporting unit and a change in composition of assets.

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

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

The Company's available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in Stockholders' Equity. Estimated fair values are based on market quotations or matrix pricing as discussed in Note 8 to the consolidated financial statements. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Management conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. In this evaluation, if such a decline were deemed other-than-temporary, Management would measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. The fair value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the fair value of fixed-rate securities decreases and as interest rates fall, the fair value of fixed-rate securities increases. The Company determines if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If either exists, the decline in value is considered other-than-temporary. In its evaluations, the Company did not recognize an other-than-temporary impairment charge on securities for the three and nine months ended September 30, 2015 and 2014.

The determination of whether deferred tax assets will be realizable is predicated on the reversal of existing deferred tax liabilities, utilization against carryback years and estimates of future taxable income. Such estimates are subject to management's judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. At September 30, 2015, the Company maintained a valuation allowance of $242,000, related to unused capital loss carryforwards.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2015 AND DECEMBER 31, 2014

Total assets increased $335.2 million to $8.86 billion at September 30, 2015, from $8.52 billion at December 31, 2014, primarily due to a $345.4 million increase in total loans and a $24.6 million increase in intangible assets, partially offset by a $68.2 million decrease in total investments.

Total loans increased $345.4 million, or 5.7%, to $6.43 billion at September 30, 2015, from $6.09 billion at December 31, 2014. Loan originations totaled $1.98 billion and loan purchases totaled $76.5 million for the nine months ended September 30, 2015. The loan portfolio had net increases of $151.5 million in multi-family mortgage loans, $81.4 million in commercial mortgage loans, $81.2 million in construction loans, $61.5 million in commercial loans and $5.5 million in residential mortgage loans, partially offset by a $35.9 million net decrease in consumer loans. Commercial real estate, commercial and construction loans represented 71.5% of the loan portfolio at September 30, 2015, compared to 69.4% at December 31, 2014.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated "Alt-A" mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50% on a limited basis. The balance of these "Alt-A" loans at September 30, 2015 was $6.2 million. Of this total, 7 loans totaling $1.4 million were 90 days or more delinquent. These loans were allocated total loss reserves of $97,883.

The Company participates in loans originated by other banks, including participations designated as Shared National Credits (“SNCs”). The Company’s gross commitments and outstanding balances as a participant in SNCs were $201.4 million and $121.3 million, respectively, at September 30, 2015. No SNCs were 90 days or more delinquent at September 30, 2015.

The Company had outstanding junior lien mortgages totaling $250.5 million at September 30, 2015. Of this total, 21 loans totaling $1.6 million were 90 days or more delinquent. These 21 loans were allocated total loss reserves of $404,365.

At September 30, 2015, the Company had outstanding indirect marine loans totaling $20.6 million. There were three loans totaling$707,000 that were 90 days or more delinquent at September 30, 2015. Marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The following table sets forth information regarding the Company’s non-performing assets as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Mortgage loans:		
Residential	$11,876	17,222
Commercial	2,736	20,026
Multi-family	847	322
Construction	2,096	—
Total mortgage loans	17,555	37,570
Commercial loans	17,892	12,342
Consumer loans	4,187	3,944
Total non-performing loans	39,634	53,856
Foreclosed assets	10,128	5,098
Total non-performing assets	$49,762	58,954

The following table sets forth information regarding the Company’s 60-89 day delinquent loans as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Mortgage loans:		
Residential	$7,330	4,331
Commercial	275	30
Total mortgage loans	7,605	4,361
Commercial loans	1,010	371
Consumer loans	1,080	2,509
Total 60-89 day delinquent loans	$9,695	7,241

At September 30, 2015, the allowance for loan losses totaled $60.5 million, or 0.94% of total loans, compared with $61.7 million, or 1.01% of total loans at December 31, 2014. The decline in this ratio was largely the result of an overall improvement in asset quality, including continued declines in non-performing and delinquent loans. Total non-performing loans were $39.6 million, or 0.62% of total loans at September 30, 2015, compared to $53.9 million, or 0.88% of total loans at December 31, 2014. The $14.2 million decrease in non-performing loans consisted of a $17.3 million decrease in non-performing residential mortgages and a $5.3 million decrease in non-performing commercial mortgage loans, partially offset by a $5.6 million increase in non-performing commercial loans, a $2.1 million increase in non-performing construction loans, a $526,000 increase in non-performing multi-family loans and a $243,000 increase in non-performing consumer loans. Non-performing loans do not include $3.7 million of purchased credit impaired ("PCI") loans acquired from Team Capital.

At September 30, 2015, the Company held $10.1 million of foreclosed assets, compared with $5.1 million at December 31, 2014. Foreclosed assets at September 30, 2015, consisted of $5.4 million of commercial real estate and $4.7 million of residential real estate.

Non-performing assets totaled $49.8 million, or 0.56% of total assets at September 30, 2015, compared to $59.0 million, or 0.69% of total assets at December 31, 2014.

Total investments decreased $68.2 million, or 4.2%, to $1.55 billion at September 30, 2015, from $1.61 billion at December 31, 2014, largely due to principal repayments on mortgage-backed securities, maturities of municipal and agency bonds and sales of certain mortgage-backed securities, partially offset by purchases of mortgage-backed and municipal securities.

For the nine months ended September 30, 2015, intangible assets increased $24.6 million, primarily related to the acquisition of MDE, partially offset by scheduled amortization.

Total deposits increased $33.1 million during the nine months ended September 30, 2015, to $5.83 billion. Total core deposits, which consist of savings and demand deposit accounts, increased $99.7 million to $5.07 billion at September 30, 2015, while time deposits decreased $66.6 million to $759.1 million at September 30, 2015. The increase in core deposits was largely attributable to a $93.6 million increase in non-interest bearing demand deposits and a $22.1 million increase in interest bearing demand deposits. These increases were partially offset by a $12.5 million and a $3.5 million decrease in savings and money market deposits, respectively. At September 30, 2015, non-interest bearing deposits totaled $1.14 billion, compared to $1.05 billion at December 31, 2014. Core deposits represented 87.0% of total deposits at September 30, 2015, compared to 85.7% at December 31, 2014.

Borrowed funds increased $250.8 million, or 16.6%, during the nine months ended September 30, 2015, to $1.76 billion. Borrowed funds represented 19.9% of total assets at September 30, 2015, an increase from 17.7% at December 31, 2014.

Stockholders’ equity increased $39.9 million, or 3.5%, during the nine months ended September 30, 2015, to $1.18 billion, due to net income earned for the period and an increase in unrealized gains on securities available for sale, partially offset by dividends paid to stockholders. Common stock repurchases made in connection with withholding to cover income taxes on stock-based compensation for the nine months ended September 30, 2015 totaled 106,521 shares at an average cost of $18.28 per share. At September 30, 2015, 3.3 million shares remained eligible for repurchase under the current authorization. Book value per share and tangible book value per share at September 30, 2015 were $18.11 and $11.55, respectively, compared with $17.63 and $11.40, respectively, at December 31, 2014.

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.

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

As of September 30, 2015, the Bank and the Company exceeded all current minimum regulatory capital requirements as follows:

	September 30, 2015					
	Required			Actual		
	Amount	Ratio		Amount	Ratio	
	(Dollars in thousands)					
Bank:						
Tier 1 leverage capital	$334,179	4.00	%	$691,972	8.28	%
Common equity Tier 1 risk-based capital	292,880	4.50		691,972	10.63	
Tier 1 risk-based capital	390,506	6.00		691,972	10.63	
Total risk-based capital	520,675	8.00		752,591	11.56	
Company:						
Tier 1 leverage capital	$334,177	4.00	%	$759,688	9.09	%
Common equity Tier 1 risk-based capital	292,872	4.50		759,688	11.67	
Tier 1 risk-based capital	390,496	6.00		759,688	11.67	
Total risk-based capital	520,661	8.00		820,152	12.60	

COMPARISON OF OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

General. The Company reported net income of $20.6 million, or $0.33 per basic and diluted share, for the three months ended September 30, 2015, compared to net income of $19.0 million, or $0.30 per basic and diluted share for the three months ended September 30, 2014. For the nine months ended September 30, 2015, the Company reported net income of $62.2 million, or $0.99 per basic and diluted share, compared to net income of $52.4 million, or $0.88 per basic and diluted share, for the same period last year.

Results of operations for the three and nine months ended September 30, 2015 were driven by year-over-year growth in both average loans outstanding and average non-interest bearing deposits, growth in non-interest income and further improvement in asset quality. These factors helped mitigate the impact of compression in the net interest margin.

During the three and nine months ended September 30, 2015 and 2014, the Company incurred non-recurring items associated with the April 1, 2015 acquisition of MDE and the May 30, 2014 acquisition of Team Capital. The prior year periods were further impacted by a non-cash charge resulting from the recognition of a pro rata portion of unrealized losses related to lump sum distributions from the Company's frozen pension plan.

Net Interest Income. Total net interest income decreased $422,000 to $62.5 million for the quarter ended September 30, 2015, from $63.0 million for the quarter ended September 30, 2014. For the nine months ended September 30, 2015, total net interest income increased $10.6 million, or 6.0%, to $186.1 million, from $175.6 million for the same period in 2014. Interest income for the third quarter of 2015 decreased $639,000 to $73.0 million, from $73.7 million for the same period in 2014. For the nine months ended September 30, 2015, interest income increased $11.9 million to $217.4 million, from $205.6 million for the nine months ended September 30, 2014. Interest expense decreased $217,000, or 2.0%, to $10.5 million for the quarter ended September 30, 2015, from $10.7 million for the quarter ended September 30, 2014. For the nine months ended September 30, 2015, interest expense increased $1.3 million to $31.3 million, from $30.0 million for the nine months ended September 30, 2014. The decline in net interest income for the quarter ended September 30, 2015 was primarily due to compression in the net interest margin, which outpaced the impact of growth in interest-earning assets, while the improvement in net interest income for the nine months ended September 30, 2015 was largely attributable to growth in average loans outstanding resulting from loans acquired from Team Capital and organic originations and increases in average non-interest bearing demand deposits, partially offset by period-over-period compression in the net interest margin.

The net interest margin for the quarter ended September 30, 2015, decreased 17 basis points to 3.13%, compared with 3.30% for the quarter ended September 30, 2014. The weighted average yield on interest-earning assets decreased 20 basis points to 3.66% for the quarter ended September 30, 2015, compared with 3.86% for the quarter ended

September 30, 2014, while the weighted average cost of interest bearing liabilities decreased 3 basis points to 0.65% for the quarter ended September 30, 2015, compared with 0.68% for the third quarter of 2014. The average cost of interest bearing deposits for the quarter ended September 30, 2015 was 0.31%, compared with 0.34% for the same period last year. Average non-interest bearing demand deposits totaled $1.15 billion for the quarter ended September 30, 2015, compared with $1.03 billion for the quarter ended September 30, 2014. The average cost of borrowed funds for the quarter ended September 30, 2015 was 1.61%, compared with 1.87% for the same period last year.

For the nine months ended September 30, 2015, the net interest margin decreased 9 basis points to 3.18%, compared with 3.27% for the nine months ended September 30, 2014. The weighted average yield on interest-earning assets declined 12 basis points to 3.72% for the nine months ended September 30, 2015, compared with 3.84% for the nine months ended September 30, 2014, while the weighted average cost of interest bearing liabilities decreased 3 basis points to 0.66% for the nine months ended September 30, 2015, compared with 0.69% for the same period in 2014. The average cost of interest bearing deposits for the nine months ended September 30, 2015 was 0.31%, compared with 0.34% for the nine months ended September 30, 2014. Average non-interest bearing demand deposits totaled $1.10 billion for the nine months ended September 30, 2015, compared with $934.4 million for the nine months ended September 30, 2014. The average cost of borrowings for the nine months ended September 30, 2015 was 1.73%, compared with 1.90% for the same period last year.

Interest income on loans secured by real estate increased $704,000 to $44.5 million for the three months ended September 30, 2015, from $43.8 million for the three months ended September 30, 2014. Commercial loan interest income decreased $194,000, or 1.4%, to $13.8 million for the three months ended September 30, 2015, from $14.0 million for the three months ended September 30, 2014. Consumer loan interest income decreased $460,000 to $5.6 million for the three months ended September 30, 2015, from $6.1 million for the three months ended September 30, 2014. For the three months ended September 30, 2015, the average balance of total loans increased $409.5 million to $6.28 billion, from $5.87 billion for the same period in 2014, primarily due to organic loan originations. The average loan yield for the three months ended September 30, 2015, decreased 28 basis points to 4.02%, from 4.30% for the same period in 2014.

Interest income on loans secured by real estate increased $8.7 million to $131.4 million for the nine months ended September 30, 2015, from $122.8 million for the nine months ended September 30, 2014. Interest income on commercial loans increased $4.8 million, or 13.4%, to $40.9 million for the nine months ended September 30, 2015, from $36.1 million for the nine months ended September 30, 2014. Consumer loan interest income decreased $403,000 to $17.2 million for the nine months ended September 30, 2015, from $17.6 million for the nine months ended September 30, 2014. For the nine months ended September 30, 2015, the average balance of total loans increased $670.6 million, or 12.2%, to $6.15 billion, from $5.48 billion for the same period in 2014, due to loans added from the Team Capital acquisition and organic originations. The average loan yield for the nine months ended September 30, 2015, decreased 18 basis points to 4.09%, from 4.27% for the same period in 2014.

The average yield on total securities decreased to 2.26% for the three months ended September 30, 2015, compared with 2.32% for the same period in 2014. For the nine months ended September 30, 2015, the average yield on total securities was 2.33%, compared with 2.37% for the same period in 2014.

Interest income on investment securities held to maturity increased $45,000, or 1.4%, to $3.4 million for the quarter ended September 30, 2015, compared to the same period last year. Average investment securities held to maturity increased $15.1 million, to $473.4 million for the quarter ended September 30, 2015, from $458.3 million for the same period last year. For the nine months ended September 30, 2015, interest income on investment securities held to maturity increased $1.3 million to $10.2 million from the same period in 2014. The average balance of investment securities held to maturity increased $69.0 million, to $473.6 million for the nine months ended September 30, 2015, from $404.6 million for the same period last year.

Interest income on securities available for sale and FHLBNY stock decreased $738,000, or 11.5%, to $5.7 million for the quarter ended September 30, 2015, from $6.4 million for the quarter ended September 30, 2014. The average balance of securities available for sale and FHLBNY stock decreased $98.2 million to $1.10 billion for the three months ended September 30, 2015, from $1.20 billion for the same period in 2014. For the nine months ended September 30, 2015, interest income on securities available for sale and FHLBNY stock decreased $2.4 million to $17.7 million, from $20.2 million for the nine months ended September 30, 2014. The average balance of securities available for sale and FHLBNY stock decreased $86.9 million, or 7.2%, to $1.12 billion for the nine months ended September 30, 2015, from $1.20 billion for the same period in 2014.

Interest expense on deposit accounts decreased $415,000, or 10.2%, to $3.6 million for the quarter ended September 30, 2015, from $4.1 million for the quarter ended September 30, 2014. For the nine months ended September 30, 2015, interest expense on deposit accounts declined $628,000, or 5.5%, to $10.9 million, from $11.5 million for the nine months ended September 30, 2014. The average cost of interest bearing deposits decreased to 0.31% for both the three and nine months ended September 30, 2015, from 0.34% for both the three and nine months ended September 30, 2014, respectively. The average balance of interest bearing core deposit accounts decreased $15.3 million, to $3.92 billion for the quarter ended September 30, 2015, from $3.94 billion for the quarter ended September 30, 2014. For the nine months ended September 30, 2015, average interest bearing core deposits increased $205.6 million, to $3.93 billion, from $3.72 billion for the same period in 2014. Average time deposit account balances decreased $80.5 million, to $773.5 million for the quarter ended September 30, 2015, from $854.0 million for the same period in

2014. For the nine months ended September 30, 2015, average time deposits decreased $23.6 million, or 2.9%, to $792.2 million, from $815.8 million for the same period in 2014.

Interest expense on borrowed funds increased $198,000, or 3.0%, to $6.8 million for the quarter ended September 30, 2015, from $6.6 million for the quarter ended September 30, 2014. For the nine months ended September 30, 2015 interest expense on borrowed funds increased $1.9 million, or 10.4%, to $20.4 million, from $18.5 million for the nine months ended September 30, 2014. The average cost of borrowings decreased to 1.61% and 1.73% for the three and nine months ended September 30, 2015, respectively, from 1.87% and 1.90% for the three and nine months ended September 30, 2014, respectively. Average borrowings increased $281.9 million, or 20.1%, to $1.68 billion for the quarter ended September 30, 2015, from $1.40 billion for the quarter ended September 30, 2014. For the nine months ended September 30, 2015, average borrowings increased $279.8 million, or 21.5%, to $1.58 billion, from $1.30 billion for the nine months ended September 30, 2014.

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 recorded provisions for loan losses of $1.4 million and $3.1 million for the three and nine months ended September 30, 2015, respectively. This compared with provisions for loan losses of $1.5 million and $3.4 million recorded for the three and nine months ended September 30, 2014, respectively. For the three and nine months ended September 30, 2015, the Company had net charge-offs of $560,000 and $4.4 million, respectively, compared with net charge-offs of $2.0 million and $4.7 million, respectively, for the same periods in 2014. At September 30, 2015, the Company’s allowance for loan losses was $60.5 million, or 0.94% of total loans, compared with $61.7 million, or 1.01% of total loans at December 31, 2014.

Non-Interest Income. Non-interest income totaled $12.1 million for the quarter ended September 30, 2015, an increase of $801,000, or 7.1%, compared to the same period in 2014. Wealth management income increased $2.4 million, to $4.8 million for the three months ended September 30, 2015, compared to $2.4 million for the same period in 2014. The increase in wealth management income was primarily attributable to fees earned from assets under management acquired in the MDE transaction. Other income decreased $1.1 million for the three months ended September 30, 2015, compared to the same period in 2014, primarily due to an $809,000 decrease in revenue associated with loan-level interest rate swap transactions, combined with a $209,000 decrease in net gains recognized on loan sales. In addition, net gains on securities transactions decreased $482,000 for the three months ended September 30, 2015, compared to the same period in 2014.

For the nine months ended September 30, 2015, non-interest income totaled $39.4 million, an increase of $9.6 million, or 32.3%, compared to the same period in 2014. Wealth management income increased $5.4 million, to $12.4 million for the nine months ended September 30, 2015, largely due to $4.7 million of fees resulting from the MDE acquisition, combined with $675,000 of increased fee income from the Company's existing wealth business. Fee income increased $3.5 million to $19.5 million for the nine months ended September 30, 2015, compared with the same period in 2014, largely due to a $1.8 million increase in prepayment fees on commercial loans, an $822,000 increase in ATM and debit card revenue and a $631,000 increase in overdraft fees. Also contributing to the increase in non-interest income, other income increased $631,000 for the nine months ended September 30, 2015, compared with the same period in 2014, primarily due to $1.5 million of fees recognized on loan level interest rate swaps, partially offset by a non-recurring $486,000 net gain recognized on the prepayment of FHLB borrowings acquired from Team Capital in the prior year period and a $261,000 decrease in net gains recognized on the sale of foreclosed real estate. Net gains on securities transactions for the nine months ended September 30, 2015, increased $403,000 compared to the same period in 2014.

Non-Interest Expense. For the three months ended September 30, 2015, non-interest expense decreased $2.2 million to $43.6 million, compared to the three months ended September 30, 2014. Data processing expense decreased $1.8 million to $3.2 million for the three months ended September 30, 2015, compared to $5.0 million for the same period in 2014, principally due to $2.1 million of non-recurring core system contract termination costs related to the Team Capital acquisition recognized in the third quarter of 2014, partially offset by increased software maintenance costs in the current quarter. Advertising and promotion expense decreased $683,000 to $598,000 for the quarter ended September 30, 2015, compared to $1.3 million for the same quarter in 2014, largely due to post-merger promotional activities within the former Team Capital marketplace in the third quarter of 2014. In addition, compensation and benefits expense decreased $163,000 to $24.8 million for the three months ended September 30, 2015, compared to the three months ended September 30, 2014, primarily due to $922,000 of severance and retention expense associated with the Team Capital acquisition in the third quarter of 2014 and a decrease in stock-based compensation expense. These decreases were partially offset by increases in salary expense associated with the addition of former MDE employees, annual merit increases and increased employee medical and retirement benefit costs. Partially offsetting these decreases in non-interest expense, net occupancy costs increased $236,000, to $6.2 million for the quarter ended September 30, 2015, compared to the same quarter in 2014, due to increases in depreciation expense and real estate taxes, partially offset by lower facility maintenance costs. Also, FDIC insurance costs increased $132,000 to $1.3 million for the three months ended September 30, 2015, compared to the same period in 2014, due to an increase in total assets subject to assessment.

Non-interest expense for the nine months ended September 30, 2015 was $133.2 million, an increase of $5.5 million from the nine months ended September 30, 2014. Compensation and benefits expense increased $3.5 million to $73.4 million for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, due to increased salary expense associated with new employees from both Team Capital and MDE, additional salary expense associated with annual merit increases and an increase in the accrual for incentive compensation, partially offset by lower stock based compensation, severance and pension costs. Net occupancy costs increased $2.3 million, to $19.9 million for the nine months ended September 30, 2015, compared to the same period in 2014, principally due to additional facilities costs related to Team Capital and increased depreciation expense. The amortization of intangibles increased $1.3 million for the nine months ended September 30, 2015, compared with the same period in 2014, primarily due to increases in both the core deposit intangible and customer relationship intangible amortization related to the Team Capital and MDE acquisitions, respectively. Partially offsetting these increases in non-interest expense, data processing expense decreased $1.2 million to $9.4 million for the nine months ended September 30, 2015, compared to $10.6 million for the same period in 2014, principally due to $2.1 million of non-recurring core system contract termination costs related to the Team Capital acquisition in 2014, partially offset by increased software maintenance costs and telecommunication expenses. Also, advertising and promotion expense decreased $687,000 to $2.7 million for the nine months ended September 30, 2015, compared to $3.4 million for the same period in 2014, largely due to post-merger promotional activities within the former Team Capital marketplace in 2014.

Income Tax Expense. For the three and nine months ended September 30, 2015, the Company's income tax expense was $9.0 million and $27.0 million, respectively, compared with $7.9 million and $21.8 million, for the three and nine months ended September 30, 2014, respectively. The increase in income tax expense was a function of growth in pre-tax income for the three and nine months ended September 30, 2015. The Company's effective tax rate was 30.5% and 30.3% for the three and nine months ended September 30, 2015, respectively, compared with 29.4% for both the three and nine months ended September 30, 2014, respectively, as a greater portion of income was derived from taxable sources in the current year periods.

Item 3. 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 mortgage loans at origination. Commercial real estate loans generally have interest rates that reset in five years, and other commercial loans such as construction loans and commercial lines of credit reset with changes in the Prime rate, the Federal Funds rate or LIBOR. Investment securities purchases generally have maturities of five years or less, and mortgage-backed securities have weighted average lives 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. 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 FHLBNY 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 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 a twelve-month net interest income projection model as of September 30, 2015 (dollars in thousands):

Change in Interest Rates in Basis Points (Rate Ramp)	Net Interest Income Dollar Amount	Dollar Change	Percent Change
-100	$245,655	$(3,804)	(1.5)%
Static	249,459	—	—
+100	246,836	(2,623)	(1.1)
+200	244,008	(5,451)	(2.2)
+300	241,752	(7,707)	(3.1)

The preceding table indicates that, as of September 30, 2015, in the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, net interest income would decrease 3.1%, or $7.7 million. In the event of a 100 basis point decrease in interest rates, net interest income would decrease 1.5%, or $3.8 million over the same period.

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 result of the economic value of equity model as of September 30, 2015 (dollars in thousands):

	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
Change in Interest Rates (Basis Points)	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
-100	$1,352,244	$58,582	4.5 %	14.9 %	3.4 %
Flat	1,293,662	—	—	14.4	—
+100	1,256,729	(36,933)	(2.9)	14.1	(2.0)
+200	1,205,330	(88,332)	(6.8)	13.6	(5.1)
+300	1,143,636	(150,026)	(11.6)	13.1	(8.9)

The preceding table indicates that as of September 30, 2015, in the event of an immediate and sustained 300 basis point increase in interest rates, the present value of equity is projected to decrease 11.6%, or $150.0 million. If rates were to decrease 100 basis points, the model forecasts a 4.5%, or $58.6 million, increase in the present value of equity.

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

Item 4. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of management, including the Principal Executive Officer and the Principal Financial Officer, the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) were evaluated at the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures are effective. There has been no change in the Company’s internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal actions and claims arising in the normal course of 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.

Item 1A. Risk Factors

There have been no material changes to the risk factors that were previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

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)
July 1, 2015 through July 31, 2015	786	19.17	786	3,346,164
August 1, 2015 through August 31, 2015	—	—	—	3,346,164
September 1, 2015 through September 30, 2015	—	—	—	3,346,164
Total	786	19.17	786	

(1) On October 24, 2007, the Company's Board of Directors approved the purchase of up to 3,107,077 shares of its common stock under a seventh general repurchase program which commenced upon completion of the previous repurchase program. The repurchase program has no expiration date.

(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 previous repurchase program. The repurchase program has no expiration date.

Item 3. Defaults Upon Senior Securities.
Not Applicable

Item 4. Mine Safety Disclosures
Not Applicable

Item 5. Other Information.
None

Item 6. Exhibits.
The following exhibits are filed herewith:

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	Form of Amended and Restated Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain executive officers. (Filed as an exhibit to the Company’s December 31, 2009 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010 /File No. 001-31566.)
10.3	Amended and Restated Employee Savings Incentive Plan, as amended. (Filed as an exhibit to the Company’s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
10.4	Employee Stock Ownership Plan (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) and Amendment No. 1 to the Employee Stock Ownership Plan (Filed as an exhibit to the Company’s June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566).
10.5	Supplemental Executive Retirement Plan of The Provident Bank. (Filed as an exhibit 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.)
10.6	Amended and Restated Supplemental Executive Savings Plan. (Filed as an exhibit to the Company’s December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the

	Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
10.7	Retirement Plan for the Board of Managers of The Provident Bank. (Filed as an exhibit 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.)
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10.12	Provident Financial Services, Inc. 2003 Stock Option Plan. (Filed as an exhibit to the Company’s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/File No. 001-31566.)
10.13	Provident Financial Services, Inc. 2003 Stock Award Plan. (Filed as an exhibit to the Company’s Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/ File No. 001-31566.)
10.14	Provident Financial Services, Inc. 2008 Long-Term Equity Incentive Plan. (Filed as an exhibit to the Company’s Proxy Statement for the 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 14, 2008/File No. 001-31566), as amended and restated. (Filed as an exhibit to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 14, 2014/File No. 001-31566.)
10.15	Change in Control 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.)
10.16	Omnibus Incentive Compensation Plan. (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.)
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10.18	Form of Three-Year Change in Control Agreement between Provident Financial Services, Inc. and each of Messrs. Blum, Kuntz, Lyons, Nesci and Raimonde. (Filed as an exhibit to the Company’s December 31, 2012 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013/File No. 001-31566.)
10.19	Written Description of Provident Financial Services, Inc.’s 2014 Cash Incentive Plan. (Filed as an exhibit to the Company’s December 31, 2013 Annual Report to Stockholders on Form

	10-K filed with the Securities and Exchange Commission on March 3, 2014/File No. 001-31566.)
10.20	Agreement and Plan of Merger by and among Provident Financial Services, Inc., The Provident Bank and Team Capital Bank, dated December 19, 2013. (Filed as an exhibit to the Company's December 19, 2013 Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2013/File No. 001-31566.)
10.21	Written Description of Provident Financial Services, Inc.’s 2015 Cash Incentive Plan. (Filed as an exhibit to the Company’s December 31, 2014 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2015/File No. 001-31566.)
10.22	Provident Financial Services, Inc. Executive Annual Incentive Plan. (Filed as an exhibit to the Company’s Proxy Statement for the 2015 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 13, 2015/File No. 001-31566).
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.

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101	The following materials from the Company’s Quarterly Report to Stockholders on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Changes in Stockholder’s Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

			PROVIDENT FINANCIAL SERVICES, INC.
Date:	November 9, 2015	By:	/s/ Christopher Martin Christopher Martin Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date:	November 9, 2015	By:	/s/ Thomas M. Lyons Thomas M. Lyons Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	November 9, 2015	By:	/s/ Frank S. Muzio Frank S. Muzio Senior Vice President and Chief Accounting Officer

Exhibit Index

The following exhibits are filed herewith:

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	Form of Amended and Restated Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain executive officers. (Filed as an exhibit to the Company's December 31, 2009 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010 /File No. 001-31566.)
10.3	Amended and Restated Employee Savings Incentive Plan, as amended. (Filed as an exhibit to the Company's June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
10.4	Employee Stock Ownership Plan (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) and Amendment No. 1 to the Employee Stock Ownership Plan (Filed as an exhibit to the Company's June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566).
10.5	Supplemental Executive Retirement Plan of The Provident Bank. (Filed as an exhibit 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.)
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