

OCEANFIRST FINANCIAL CORP

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

Annual report pursuant to Section 13 of the
Securities Exchange Act of 1934, as amended

For the fiscal year ended December 31, 1999
Commission File No.: 0-27428

OceanFirst Financial Corp.

(exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-3412577
(I.R.S. Employer I.D. No.)

975 Hooper Avenue, Toms River, New Jersey 08753
(Address of principal executive offices)

Registrant's telephone number, including area code: (732) 240-4500

Securities registered pursuant to Section 12(b) of the Act: None Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐ .

Indicate by check mark if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than the directors and executive officers of the registrant, was \$176,646,292, based upon the last sales price as quoted on The Nasdaq Stock Market for March 20, 2000.

The number of shares of Common Stock outstanding as of March 20, 2000 is 12,088,657.

DOCUMENTS INCORPORATED BY REFERENCE

The Annual Report to Stockholders for the year ended December 31, 1999, is incorporated by reference into Part II of this Form 10-K.

The Proxy Statement for the 2000 Annual Meeting of Shareholders is incorporated by reference into Part III of this Form 10-K.

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SIGNATURES

PART I

Item 1. Business

General

OceanFirst Financial Corp.(formerly Ocean Financial Corp.) (the "Company") was organized by the Board of Directors of OceanFirst Bank (formerly Ocean Federal Savings Bank) (the "Bank") for the purpose of acquiring all of the capital stock of the Bank issued in connection with the Bank's conversion from mutual to stock form, which was completed on July 2, 1996. At December 31, 1999, the Company had consolidated total assets of \$1.6 billion and total equity of \$167.5 million. The Company was incorporated under Delaware law and is a savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS"), the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). Currently, the Company does not transact any material business other than through its subsidiary, the Bank.

The Bank was originally founded as a state-chartered building and loan association in 1902, and converted to a federal savings and loan association in 1945. The Bank became a federally chartered mutual savings bank in 1989. The Bank's principal business has been and continues to be attracting retail deposits from the general public in the communities surrounding its branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in single-family, owner-occupied residential mortgage loans within its market area. To a significantly lesser extent, the Bank invests in commercial real estate, multi-family, construction, consumer and commercial loans. The Bank also invests in mortgage-backed securities, securities issued by the U.S. Government and agencies thereof, and other investments permitted by applicable law and regulations. The Bank may periodically sell newly originated 30-year, fixed-rate mortgage loans to the secondary market. Loan sales come from loans held in the Bank's portfolio designated as being held for sale or originated during the period and being so designated. The Bank retains all of the servicing rights of loans sold. The Bank's revenues are derived principally from interest on its loans, and to a lesser extent, interest on its investment and mortgage-backed securities. The Bank also receives income from fees and service charges on loan and deposit products and from the sale of alternative investment products, e.g., mutual funds, annuities and life insurance. The Bank's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, Federal Home Loan Bank ("FHLB") advances and other borrowings and to a lesser extent, investment maturities and proceeds from the sale of loans.

In addition to historical information, this Form 10-K may include certain forward looking statements based on current management expectations. The Company's actual results could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal and state tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in detail herein and in the Company's Annual Report to Stockholders.

Market Area and Competition

The Bank is a community-oriented financial institution, offering a wide variety of financial services to meet the needs of the communities it serves. The Bank conducts its business through an administrative and branch office located in Toms River, Ocean County, New Jersey, and twelve additional branch offices, ten of which are located in Ocean County and with one branch each located in Middlesex and Monmouth Counties, New Jersey. The Bank's deposit gathering base is concentrated in the communities surrounding its offices. While its lending area extends throughout New Jersey, most of the Bank's mortgage loans are secured by properties located in Ocean County and Southern Monmouth County.

The Bank is the oldest and largest community-based financial institution headquartered in Ocean County, New Jersey, which is located along the central New Jersey shore. Ocean County is among the fastest growing population areas in New Jersey and has a significant number of retired residents who have traditionally provided the Bank with a stable source of deposit funds. The economy in the Bank's primary market area is based upon a mixture of service and retail trade. Other employment is provided by a variety of wholesale trade, manufacturing, federal, state and local government, hospitals and utilities. The area is also home to commuters working in New Jersey suburban areas around New York and Philadelphia.

The Bank faces significant competition both in making loans and in attracting deposits. The State of New Jersey has a high density of financial institutions, many of which are branches of significantly larger institutions which have greater financial resources than the Bank, all of which are competitors of the Bank to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, credit unions, mortgage banking companies and insurance companies. Its most direct competition for deposits has historically come from commercial banks, savings banks, savings and loan associations and credit unions. The Bank faces additional competition for deposits from short-term money market funds, other corporate and government securities funds and from other financial service institutions such as brokerage firms and insurance companies.

Lending Activities

Loan Portfolio Composition. The Bank's loan portfolio consists primarily of conventional first mortgage loans secured by one- to four-family residences. At December 31, 1999, the Bank had total loans outstanding of \$1.054 billion, of which \$917.5 million or 87.04% of total loans, were one- to four-family, residential mortgage loans. The remainder of the portfolio consisted of \$57.1 million of commercial real estate, multi-family and land loans, or 5.42% of total loans; \$7.8 million of real estate construction loans, or .74% of total loans; \$56.0 million of consumer loans, primarily home equity loans and lines of credit, equaling 5.32% of total loans; and \$15.6 million of commercial loans, or 1.48% of total loans. The Bank had no loans held for sale at December 31, 1999. At that same date, 44.61% of the Bank's total loans had adjustable interest rates.

The types of loans that the Bank may originate are subject to federal and state law and regulations. Interest rates charged by the Bank on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by, among other things, economic conditions, monetary policies of the federal government, including the Federal Reserve Board, and legislative tax policies.

The following table sets forth the composition of the Bank's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

	At December 31,									
	1999		1998		1997		1996		1995	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)										
Real estate:										
One- to four-family.....	\$ 917,481	87.04%	\$869,769	89.10%	\$711,548	89.57%	\$628,525	91.05%	\$575,010	92.01%
Commercial real estate, multi-family and land.....	57,142	5.42	42,008	4.30	25,699	3.24	15,634	2.26	14,939	2.39
Construction.....	7,791	.74	6,108	.63	8,748	1.10	9,287	1.35	8,153	1.30
Consumer (1).....	56,040	5.32	51,785	5.31	45,417	5.72	36,860	5.34	26,867	4.30
Commercial loans.....	15,569	1.48	6,483	.66	2,904	.37	-	-	-	-
Total loans.....	1,054,023	100.00%	976,153	100.00%	794,316	100.00%	690,306	100.00%	624,969	100.00%
Less:										
Undisbursed loan funds.....	2,790		1,996		2,867		3,517		2,687	
Unamortized (premium) discount net	(43)		(62)		9		11		12	
Deferred loan fees.....	78		608		1,133		1,302		1,679	
Allowance for loan losses.....	8,223		7,460		6,612		6,021		6,001	
Total loans, net.....	1,042,975		966,151		783,695		679,455		614,590	
Less:										
Mortgage loans held for sale...	-		25,140		-		727		1,894	
Loans receivable, net.....	\$1,042,975		\$941,011		\$783,695		\$678,728		\$612,696	
Total loans:										
Adjustable rate.....	\$ 470,238	44.61%	\$458,809	47.00%	\$475,533	59.87%	\$437,706	63.41%	\$405,485	64.88%
Fixed rate.....	583,785	55.39	517,344	53.00	318,783	40.13	252,600	36.59	219,484	35.12
	\$1,054,023	100.00%	\$976,153	100.00%	\$794,316	100.00%	\$690,306	100.00%	\$624,969	100.00%

(1) Consists primarily of home equity loans and lines of credit, and to a lesser extent, loans on savings accounts, automobile and student loans.

Loan Maturity. The following table shows the contractual maturity of the Bank's total loans at December 31, 1999. There were no loans held for sale at December 31, 1999. The table does not include principal repayments. Principal repayments, including prepayments, on total loans was \$185.7 million, \$182.2 million and \$120.9 million for the years ended December 31, 1999, 1998, and 1997, respectively.

At December 31, 1999			
	One- to Four- Family	Commercial real estate, multi-family and land	Construction
	(In thousands)		
One year or less.....	\$ 28,121	\$ 5,965	\$7,791
After one year:			
More than one year to three years.....	62,568	8,743	-
More than three years to five years.....	64,320	14,432	-
More than five years to 10 years.....	168,012	18,621	-
More than 10 years to 20 years.....	300,582	5,354	-
More than 20 years.....	293,878	4,027	-
Total due after December 31, 2000.....	889,360	51,177	-
Total amount due.....	\$ 917,481	\$ 57,142	\$7,791
Less:			
Undisbursed loan funds.....			
Unamortized premium, net.....			
Deferred loan fees.....			
Allowance for loan losses.....			
Total loans, net.....			
Less: Mortgage loans held for sale.....			
Loans receivable, net.....			
	Consumer	Commercial Loans	Total Loans Receivable
One year or less.....	\$ 6,348	\$ 6,799	\$ 55,024
After one year:			
More than one year to three years.....	11,087	2,854	85,252
More than three years to five years.....	9,937	4,775	93,464
More than five years to 10 years.....	17,374	1,141	205,148
More than 10 years to 20 years.....	11,294	-	317,230
More than 20 years.....	-	-	297,905
Total due after December 31, 2000.....	49,692	8,770	998,999
Total amount due.....	\$ 56,040	\$ 15,569	1,054,023
Less:			
Undisbursed loan funds.....			2,790
Unamortized premium, net.....			(43)
Deferred loan fees.....			78
Allowance for loan losses.....			8,223
Total loans, net.....			1,042,975
Less: Mortgage loans held for sale.....			-
Loans receivable, net.....			\$ 1,042,975

The following table sets forth at December 31, 1999, the dollar amount of total loans receivable contractually due after December 31, 2000, and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2000		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate loans:			
One- to four-family.....	\$512,743	\$376,617	\$889,360
Commercial real estate, multi-family and land.....	23,739	27,438	51,177
Consumer.....	24,834	24,858	49,692
Commercial loans.....	4,487	4,283	8,770
	-----	-----	-----
Total loans receivable.....	\$565,803	\$433,196	\$998,999
	=====	=====	=====

Origination, Sale, Servicing and Purchase of Loans. The Bank's residential mortgage lending activities are conducted primarily by commissioned loan representatives in the exclusive employment of the Bank and through the Bank's branch offices. The Bank originates both adjustable-rate and fixed-rate loans. The Bank's ability to originate loans is dependent upon the relative customer demand for fixed-rate or adjustable-rate mortgage loans, which is affected by the current and expected future level of interest rates. The Bank may periodically sell part of the 30-year, fixed-rate mortgage loans that it originates and retain for portfolio ARM loans and shorter term fixed-rate loans with maturities of 15 years or less. The Bank retains all servicing of the loans sold. See "- Loan Servicing." At December 31, 1999 there were no loans categorized as held for sale. In the past, the Bank has also originated loans through commitments negotiated with correspondent mortgage origination firms.

The following table sets forth the Bank's loan originations, purchases, sales, principal repayments and loan activity for the periods indicated.

	For the Year December 31,		
	1999	1998	1997
	(In thousands)		
Total loans:			
Beginning balance.....	\$ 976,153	\$ 794,316	\$ 690,306
	-----	-----	-----
Loans originated:			
One- to four-family.....	240,873	287,842	182,519
Commercial real estate, multi-family and land.....	28,130	27,354	16,709
Construction.....	6,552	4,826	4,743
Consumer.....	28,516	28,203	22,982
Commercial.....	9,780	3,981	3,177
	-----	-----	-----
Total loans originated.....	313,851	352,206	230,130
	-----	-----	-----
Loans purchased	-	29,207	-
	-----	-----	-----
Total.....	1,290,004	1,175,729	920,436
Less:			
Principal repayments.....	185,695	182,170	120,905
Sales of loans.....	49,177	16,414	2,752
Transfer to REO.....	1,109	992	2,463
	-----	-----	-----
Total loans.....	\$ 1,054,023	\$ 976,153	\$ 794,316
	=====	=====	=====

One- to Four-Family Mortgage Lending. The Bank offers both fixed-rate and adjustable-rate mortgage loans secured by one- to four-family residences with maturities up to 30 years. Substantially all of such loans are secured by property located in the Bank's primary market area. Loan originations are generally obtained from commissioned loan representatives and their contacts with the local real estate industry, members of the local communities and the Bank's existing or past customers.

At December 31, 1999, the Bank's total loans outstanding were \$1.054 billion, of which \$917.5 million, or 87.04%, were one- to four-family residential mortgage loans, primarily single-family and owner-occupied. To a lesser extent, the Bank also makes mortgage loans secured by seasonal second homes. The average size of the Bank's one- to four-family mortgage loan was approximately \$94,000 at December 31, 1999. The Bank currently offers a number of ARM loan programs with interest rates which adjust every one-, three-, five- or ten-years. The Bank's ARM loans generally provide for periodic (not less than 2%) and overall (not more than 6%) caps on the increase or decrease in the interest rate at any adjustment date and over the life of the loan. The interest rate on these loans is indexed to the applicable one-, three-, five- or ten-year U.S. Treasury constant maturity yield, with a repricing margin which ranges generally from 2.75% to 3.25% above the index. The Bank also offers three-, five-, and seven-year ARM loans which operate as fixed-rate loans for three, five, or seven years and then convert to one-year ARM loans for the remainder of the term. The ARM loans are then indexed to a margin of generally 2.75% to 3.25% above the one-year U.S. Treasury constant maturity yield.

Generally, ARM loans pose credit risks different than risks inherent in fixed-rate loans, primarily because as interest rates rise, the payments of the borrower rise, thereby increasing the potential for delinquency and default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. In order to minimize risks, borrowers of one-year ARM loans with a loan-to-value ratio of 75% or less are qualified at the fully-indexed rate (the applicable U.S. Treasury index plus the margin, rounded to the nearest one-eighth of one percent), and borrowers of one-year ARM loans with a loan-to-value ratio over 75% are qualified at the higher of the fully indexed rate or the initial rate plus the 2% annual interest rate cap. The Bank does not originate ARM loans which provide for negative amortization.

The Bank's fixed-rate mortgage loans currently are made for terms from 10 to 30 years. At December 31, 1999, the Bank had commitments for the origination of fixed-rate mortgage loans totaling \$17.4 million. The normal terms for such commitments provide for a maximum of 90 days rate lock upon receipt of a 1.0% fee charged on the mortgage amount. The Bank may periodically sell part of the 30-year, fixed-rate residential mortgage loans that it originates. The Bank retains the servicing on all loans sold. The Bank generally retains for its portfolio shorter term, fixed-rate loans with maturities of 15 years or less, and certain longer term fixed-rate loans, generally consisting of loans to facilitate the sale of REO, loans to officers, directors or employees of the Bank and "jumbo", non-conforming loans as determined by applicable FNMA and FHLMC guidelines. The Bank may retain all or most of its longer term fixed rate loans after considering volume and yield and after evaluating interest rate risk and capital management considerations. The retention of 30-year fixed-rate mortgage loans may increase the level of interest rate risk carried by the Bank, as the rates on these loans will not adjust during periods of rising interest rates and the loans can be subject to substantial increases in prepayments during periods of falling interest rates.

The Bank's policy is to originate one- to four-family residential mortgage loans in amounts up to 80% of the lower of the appraised value or the selling price of the property securing the loan and up to 97% of the appraised value or selling price if private mortgage insurance is obtained. Mortgage loans originated by the Bank include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without

the Bank's consent. Due-on-sale clauses are an important means of adjusting the rates on the Bank's fixed-rate mortgage loan portfolio and the Bank has generally exercised its rights under these clauses.

Commercial Real Estate, Multi-Family and Land Lending. The Bank originates commercial real estate loans that are secured by properties generally used for business purposes such as small office buildings or retail facilities located in the Bank's primary market area. The Bank's underwriting procedures provide that commercial real estate loans may be made in amounts up to 80% of the appraised value of the property. The Bank currently originates commercial real estate loans with terms of up to twenty five years with fixed or adjustable rates which are indexed to a margin above the one-, three-, or five-year U.S. Treasury constant maturity yield. In reaching its decision on whether to make a commercial real estate loan, the Bank considers the net operating income of the property and the borrower's expertise, credit history, profitability and the term and quantity of leases. The Bank has generally required that the properties securing commercial real estate loans have debt service coverage ratios of at least 130%. Generally, properties securing a loan are appraised by an independent appraiser and title insurance is required on all first mortgage loans. The Bank typically requires the personal guarantee of the principal borrowers for all commercial real estate loans. The Bank's commercial real estate loan portfolio at December 31, 1999 was \$52.0 million, or 4.94% of total loans. The largest commercial real estate loan in the Bank's portfolio at December 31, 1999 was a performing loan for which the Bank had an outstanding carrying balance of \$2.5 million, which was secured by a first mortgage on an owner-occupied 38,000 square foot commercial building. The average size of the Bank's commercial real estate loans at December 31, 1999 was approximately \$314,000.

The Bank originates multi-family mortgage loans generally secured by buildings with five or more housing units located in the Bank's primary market area. As a result of market conditions in its primary market area, the Bank currently originates multi-family loans on a limited and highly selective basis. In reaching its decision on whether to make a multi-family loan, the Bank considers the qualifications of the borrower as well as the underlying property. Some of the factors to be considered are: the net operating income of the mortgaged premises before debt service and depreciation; the debt service ratio; and the ratio of loan amount to appraised value. Pursuant to the Bank's current underwriting policies, a multi-family adjustable-rate mortgage loan may only be made in an amount up to 75% of the appraised value of the underlying property to a maximum amount of generally \$4 million. In addition, the Bank generally requires a debt service ratio of 120%. Properties securing a loan are appraised by an independent appraiser and title insurance is required on all loans. The Bank's multi-family loan portfolio at December 31, 1999, totaled \$5.1 million. The Bank's largest multi-family loan at December 31, 1999, had an outstanding balance of \$2.1 million and was secured by a 125-unit affordable-housing apartment complex located in Toms River, New Jersey. To a significantly lesser extent, the Bank also originates land loans, although no such loans were outstanding at December 31, 1999.

Loans secured by commercial real estate and multi-family residential properties are generally larger and involve a greater degree of risk than one- to four- family residential mortgage loans. Because payments on loans secured by multi- family properties are often dependent on successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks through its underwriting policies, which require such loans to be qualified at origination on the basis of the property's income and debt coverage ratio.

Construction Lending. At December 31, 1999, construction loans totaled \$7.8 million, or .74%, of the Bank's total loans outstanding. The Bank originates single-family construction loans primarily on a construction/permanent basis with such loans converting to an amortizing loan following the completion of the construction phase. Most of the Bank's construction loans are made to individuals building their

primary residence, while, to a lesser extent, loans are made to developers known to the Bank in order to build single-family houses under contract for sale, which loans become due and payable over terms not exceeding 18 months. The current policy of the Bank is to charge interest rates on its construction loans which float at margins which are generally .5% to 1.5% above the prime rate (as published in the Wall Street Journal). The Bank's construction loans increase the interest rate sensitivity of its earning assets. At December 31, 1999, the Bank had 35 construction loans, with the largest loan commitment being approximately \$900,000. At December 31, 1999, all of the Bank's construction lending portfolio consisted of loans secured by property located in the State of New Jersey, for the purpose of constructing one- to four-family homes. The Bank may originate construction loans to individuals and contractors on approved building lots in amounts up to 75% of the appraised value of the land and the building. The terms to maturity of the Bank's construction/permanent loans are similar to the Bank's other one- to four-family mortgage products. The Bank requires an appraisal of the property, credit reports, and financial statements on all principals and guarantors, among other items, for all construction loans.

Construction lending, by its nature, entails additional risks compared to one- to four-family mortgage lending, attributable primarily to the fact that funds are advanced upon the security of the project under construction prior to its completion. As a result, construction lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower or guarantor to repay the loan. Because of these factors, the analysis of prospective construction loan projects requires an expertise that is different in significant respects from that which is required for residential mortgage lending. The Bank has attempted to address these risks through its underwriting procedures.

Consumer Loans. The Bank also offers consumer loans. At December 31, 1999, the Bank's consumer loans totaled \$56.0 million, or 5.32% of the Bank's total loan portfolio. Of that amount, home equity loans comprised \$31.6 million, or 56.4%; home equity lines of credit comprised \$21.8 million, or 38.9%; loans on savings accounts totaled \$928,000, or 1.7%; and automobile, student and overdraft line of credit loans totaled \$1.7 million, or 3.0%.

The Bank originates home equity loans secured by one- to four-family residences. These loans are originated as either adjustable-rate or fixed-rate loans with terms ranging from 10 to 20 years. Home equity loans are typically made on owner-occupied, one- to four-family residences and generally to the Bank's first mortgage customers. These loans are subject to a 80% loan-to-value limitation, including any other outstanding mortgages or liens.

The Bank also offers a variable rate home equity line of credit which extends a credit line based on the applicant's income and equity in the home. Generally, the credit line, when combined with the balance of the first mortgage lien, may not exceed 80% of the appraised value of the property at the time of the loan commitment. Home equity lines of credit are secured by a mortgage on the underlying real estate. The Bank presently charges no origination fees for these loans, but may in the future charge origination fees for its home equity lines of credit. A borrower is required to make monthly payments of principal and interest, at a minimum of \$50, based upon a 10 or 15 year amortization period. Generally, the adjustable rate of interest charged is the prime rate of interest (as published in the Wall Street Journal) plus a range of 0.0% to 1.25%. The loans have an 18% lifetime cap on interest rate adjustments.

Commercial Lending. At December 31, 1999, commercial loans totaled \$15.6 million, or 1.48% of the Bank's total loans outstanding. During 1996, a Commercial Lending group was established within the Bank. The group's primary function is to service the business communities' banking and financing needs in the Bank's primary market area. The Commercial Lending group originates both commercial loans (including loans for working capital; fixed asset purchases; and acquisition, receivable and inventory financing) and commercial mortgage loans (including acquisition, construction, expansion and refinancing of owner occupied and investment properties). Credit facilities such as lines of credit and term loans will be used to facilitate these requests. In all cases, the Bank will review and analyze financial history and capacity, collateral value, strength and character of the principals, and general payment history of the borrower and principals in coming to a credit decision.

A well-defined credit policy has been approved by the Bank's Board of Directors. This policy discourages high risk credits, while focusing on quality underwriting, sound financial strength, and close management and Board monitoring. Commercial business lending, both secured and unsecured, is generally considered to involve a higher degree of risk than secured residential real estate lending. Risk of loss on a commercial business loan is dependent largely on the borrower's ability to remain financially able to repay the loan out of ongoing operations. If the Bank's estimate of the borrower's financial ability is inaccurate, the Bank may be confronted with a loss of principal on the loan. The Bank's largest commercial loan at December 31, 1999 had an outstanding balance of \$2.5 million and was secured by corporate assets. The average size of the Bank's commercial loans at December 31, 1999 was approximately \$75,000.

Loan Approval Procedures and Authority. The Board of Directors establishes the loan approval policies of the Bank. The Board of Directors has authorized the approval of loans secured by real estate up to \$2.0 million and unsecured loans up to \$1.0 million by various employees of the Bank, on a scale which requires approval by personnel with progressively higher levels of responsibility as the loan amount increases. A minimum of two employees' signatures are required to approve residential loans over \$240,000. Loans secured by real estate in amounts over \$2.0 million and unsecured loans over \$1.0 million require approval by the Loan Committee of the Board of Directors. Loans in excess of \$4.0 million require approval by the Board of Directors. Pursuant to OTS regulations, loans to one borrower generally cannot exceed 15% of the Bank's unimpaired capital, which at December 31, 1999 amounted to \$21.2 million. At December 31, 1999, the Bank's maximum loan exposure to a single borrower was \$8.0 million.

Loan Servicing. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, making inspections as required of mortgaged premises, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The Bank also services mortgage loans for others. All of the loans currently being serviced for others are loans which have been sold by the Bank. At December 31, 1999, the Bank was servicing \$159.6 million of loans for others. For the years ended December 31, 1999, 1998 and 1997, loan servicing fees totaled \$403,000, \$105,000 and \$529,000, respectively.

Delinquencies and Classified Assets. The Board of Directors performs a monthly review of all delinquent loan totals which includes loans sixty days or more past due, and the detail of each loan thirty days or more past due that were originated within the past year. In addition, management prepares a quarterly list of all classified loans and a narrative report of classified commercial, commercial real estate, multi-family, land and construction loans. The procedures taken by the Bank with respect to delinquencies vary depending on the nature of the loan and period of delinquency. When a borrower fails to make a required payment on a loan, the Bank takes a number of steps to have the borrower cure

the delinquency and restore the loan to current status. The Bank generally sends the borrower a written notice of non-payment after the loan is first past due. In the event payment is not then received, additional letters and phone calls generally are made. If the loan is still not brought current and it becomes necessary for the Bank to take legal action, which typically occurs after a loan is delinquent at least 90 days or more, the Bank will commence foreclosure proceedings against any real property that secures the loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or an acceptable workout accommodation is not agreed upon before the foreclosure sale, the real property securing the loan generally is sold at foreclosure.

The Bank's Internal Asset Classification Committee, which is chaired by an officer who reports directly to the Audit Committee of the Board of Directors, reviews and classifies the Bank's assets quarterly and reports the results of its review to the Board of Directors. The Bank classifies assets in accordance with certain regulatory guidelines established by the OTS which are applicable to all savings associations. At December 31, 1999, the Bank had \$4.4 million of assets, including all REO, classified as Substandard, \$201,000 of assets classified as Doubtful and no assets classified as Loss. Loans and other assets may also be placed on a watch list as "Special Mention" assets. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated "Special Mention." Special Mention assets totaled \$1.6 million at December 31, 1999, and consisted primarily of loans secured by single-family, owner-occupied residences. These loans are classified as Special Mention due to past delinquencies or other identifiable weaknesses. At December 31, 1999, the largest loan classified as Special Mention had a balance of \$160,000 and the largest loan classified as Substandard had a balance of \$908,000. The \$908,000 represented the total due from a commercial relationship consisting of a commercial line of credit for \$300,000 and a commercial real estate loan for \$608,000. Both loans were current as to principal and interest at December 31, 1999, but were classified as substandard due to the borrower's experience with declining sales. The loans are secured by commercial real estate and all corporate assets. The second largest loan classified as substandard had a balance of \$235,000.

Non-Accrual Loans and REO

The following table sets forth information regarding non-accrual loans and REO. The Bank had no troubled-debt restructured loans and 7 REO properties at December 31, 1999. It is the policy of the Bank to cease accruing interest on loans 90 days or more past due or in the process of foreclosure. For the years ended December 31, 1999, 1998, 1997, 1996 and 1995, respectively, the amount of interest income that would have been recognized on nonaccrual loans if such loans had continued to perform in accordance with their contractual terms was \$52,000, \$270,000, \$278,000, \$345,000 and \$428,000.

	December 31,				
	1999	1998	1997	1996	1995
	----	----	----	----	----
	(Dollars in Thousands)				
Non-accrual loans:					
Real estate:					
One- to four-family.....	\$ 2,401	\$ 4,605	\$ 5,062	\$ 7,148	\$ 8,296
Commercial real estate, multi-family and land.....	362	574	382	122	154
Construction.....	-	-	-	314	-
Consumer.....	222	245	110	113	221
	-----	-----	-----	-----	-----
Total.....	2,985	5,424	5,554	7,697	8,671
REO, net(1).....	292	43	1,198	1,555	1,367
	-----	-----	-----	-----	-----
Total non-performing assets.....	\$ 3,277	\$ 5,467	\$ 6,752	\$ 9,252	\$ 10,038
	=====	=====	=====	=====	=====
Allowance for loan losses as a percent of total loans receivable (2).....	.78%	.76%	.83%	.88%	.97%
Allowance for loan losses as a percent of total non-performing loans (3).....	275.48	137.54	119.03	78.23	69.21
Non-performing loans as a percent of total loans receivable(2)(3).....	.28	.56	.70	1.12	1.40
Non-performing assets as a percent of total assets(3).....	.21	.35	.45	.71	.97

(1) REO balances are shown net of related loss allowances.

(2) Total loans includes loans receivable and mortgage loans held for sale, less undisbursed loan funds, deferred loan fees and unamortized premiums and discounts.

(3) Non-performing assets consist of non-performing loans and REO. Non-performing loans consist of all loans 90 days or more past due and other loans in the process of foreclosure.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in its loan portfolio and the general economy. The allowance for loan losses is maintained at an amount management considers sufficient to provide for estimated losses based on evaluating known and inherent risks in the loan portfolio based upon management's continuing analysis of the factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, current and anticipated economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, and the determination of the existence and realizable value of the collateral and guarantees securing the loan. Additions to the allowance are charged to earnings. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to make additional provisions for loan losses based upon information available to them at the time of their examination. Although management uses the best information available, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control. As of December 31, 1999 and 1998, the Bank's allowance for loan losses was .78% and .76%, respectively, of total loans. The Bank had non-accrual loans of \$3.0 million and \$5.4 million at December 31, 1999 and

1998, respectively. The Bank will continue to monitor and modify its allowances for loan losses as conditions dictate.

The following table sets forth activity in the Bank's allowance for estimated loan losses for the periods set forth in the table.

	At or for the Year Ended				
	1999	1998	1997	1996	1995
	-----	-----	-----	-----	-----
	(Dollars in thousands)				
Balance at beginning of year.....	\$ 7,460	\$ 6,612	\$ 6,021	\$ 6,001	\$ 5,608
	-----	-----	-----	-----	-----
Charge-offs:					
Real Estate:					
One- to four-family.....	114	63	328	599	510
Commercial real estate, multi-family and land.....	58	-	-	30	28
Construction.....	-	-	-	-	-
Consumer.....	37	2	9	63	30
Commercial.....	32	-	-	-	-
	-----	-----	-----	-----	-----
Total.....	241	65	337	692	568
Recoveries.....	104	13	28	12	11
	-----	-----	-----	-----	-----
Net charge-offs.....	137	52	309	680	557
	-----	-----	-----	-----	-----
Provision for loan losses.....	900	900	900	700	950
	-----	-----	-----	-----	-----
Balance at end of year.....	\$ 8,223	\$ 7,460	\$ 6,612	\$ 6,021	\$ 6,001
	=====	=====	=====	=====	=====
Ratio of net charge-offs during the year to average net loans outstanding during the year.....	.01%	.01%	.05%	.11%	.09%
	=====	=====	=====	=====	=====

The following table sets forth the Bank's percent of allowance for loan losses to total allowance and the percent of loans to total loans in each of the categories listed at the dates indicated (Dollars in thousands).

At December 31,									
1999			1998			1997			
Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	
One- to four-family	\$2,577	31.34%	87.04%	\$2,824	37.86%	89.10%	\$2,485	37.58%	89.57%
Commercial real estate, multi- family and land	1,352	16.44	5.42	993	13.30	4.30	591	8.94	3.24
Construction	38	.46	.74	31	.42	.63	44	.67	1.10
Consumer	543	6.60	5.32	505	6.77	5.31	471	7.12	5.72
Commercial	622	7.57	1.48	220	2.95	.66	58	.88	.37
Unallocated	3,091	37.59	-	2,887	38.70	-	2,963	44.81	-
Total	\$8,223	100.00%	100.00%	\$7,460	100.00%	100.00%	\$6,612	100.00%	100.00%

At December 31,						
1996			1995			
Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	Amount	Percent of Allowance to Total Loans	Percent of Loans in Each Category to Total Loans	
One- to four-family	\$2,659	44.16%	91.05%	\$2,790	46.49%	92.01%
Commercial real estate, multi- family and land	330	5.48	2.26	556	9.27	2.39
Construction	75	1.25	1.35	41	.68	1.30
Consumer	324	5.38	5.34	273	4.55	4.30
Commercial	-	-	-	-	-	-
Unallocated	2,633	43.73	-	2,341	39.01	-
Total	\$6,021	100.00%	100.00%	\$6,001	100.00%	100.00%

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, certificates of deposit of insured banks and savings institutions, bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in commercial paper, investment-grade corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. Additionally, the Bank must maintain minimum levels of investments that qualify as liquid assets under OTS regulations. See "Regulation and Supervision - Federal Savings Institution Regulation - Liquidity." Historically, the Bank has maintained liquid assets above the minimum OTS requirements and at a level considered to be adequate to meet its normal daily activities.

The investment policy of the Bank as established by the Board of Directors attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and complement the Bank's lending activities. Specifically, the Bank's policies generally limit investments to government and federal agency-backed securities and other non-government guaranteed securities, including corporate debt obligations, that are investment grade. The Bank's policies provide that all investment purchases must be approved by two officers (either the Vice President/Treasurer, Executive Vice President/Chief Financial Officer or the President and Chief Executive Officer) and be ratified by the Board of Directors.

Investment and mortgage-backed securities identified as held to maturity are carried at cost, adjusted for amortization of premium and accretion of discount, which are recognized as adjustments to interest income. Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Bank has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale. Securities available for sale include securities that management intends to use as part of its asset/liability management strategy. Such securities are carried at fair value and unrealized gains and losses, net of related tax effect, are excluded from earnings, but are included as a separate component of stockholders' equity. At December 31, 1999, all of the Bank's investment and mortgage-backed securities were classified as available for sale.

Mortgage-backed Securities. Mortgage-backed securities represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which, in general, are passed from the mortgage originators, through intermediaries that pool and repackage the participation interests in the form of securities, to investors such as the Bank. Such intermediaries may be private issuers, or agencies including FHLMC, FNMA and GNMA that guarantee the payment of principal and interest to investors. Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages can be composed of either fixed- or ARM loans.

The actual maturity of a mortgage-backed security varies, depending on when the mortgagors repay or prepay the underlying mortgages. Prepayments of the underlying mortgages may shorten the life of the security, thereby affecting its yield to maturity and the related market value of the mortgage-backed security. The prepayments of the underlying mortgages depend on many factors, including the type of mortgages, the coupon rates, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages, general levels of market interest rates, and general economic conditions. GNMA mortgage-backed securities that are backed by assumable Federal Housing Authority ("FHA") or the Department of Veterans Affairs ("VA") loans generally have a longer life than conventional non-

assumable loans underlying FHLMC and FNMA mortgage-backed securities. During periods of falling mortgage interest rates, prepayments generally increase, as opposed to periods of increasing interest rates when prepayments generally decrease. If the interest rate of underlying mortgages significantly exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages. Prepayment experience is more difficult to estimate for adjustable-rate mortgage-backed securities.

The Bank has significant investments in mortgage-backed securities and has utilized such investments to complement its mortgage lending activities. At December 31, 1999, mortgage-backed securities totaled \$346.2 million, or 21.8% of total assets, including \$193.3 million in collateralized mortgage obligations, all of which were classified as available for sale. The Bank invests in a large variety of mortgage-backed securities, including ARM, balloon and fixed-rate mortgage-backed securities, the majority of which are directly insured or guaranteed by FHLMC, GNMA and FNMA. At December 31, 1999, the mortgage-backed securities portfolio had a weighted average interest rate of 6.54%.

The Bank also purchases short-term, straight sequential or planned amortization class collateralized mortgage obligations ("CMOs"). CMOs are securities created by segregating or portioning cash flows from mortgage pass-through securities or from pools of mortgage loans. CMOs provide a broad range of mortgage investment vehicles by tailoring cash flows from mortgages to meet the varied risk and return preferences of investors. These securities enable the issuer to "carve up" the cash flows from the underlying securities and thereby create multiple classes of securities with different maturity and risk characteristics. The Bank invests in U.S. Government and agency-backed CMOs and privately issued CMOs, all of which have agency-backed collateral. Prior to purchasing mortgage-backed securities, each security is tested for Federal Financial Institutions Examination Council ("FFIEC") qualification. Generally, the Bank will only purchase mortgage-backed securities which pass the FFIEC test.

CMOs issued by FHLMC, FNMA, GNMA and private interests amounted to \$53,518,000, \$13,064,000, \$8,901,000 and \$117,794,000, respectively, at December 31, 1999 and \$15,705,000, \$9,699,000, \$0 and \$111,763,000, respectively, at December 31, 1998. The privately issued CMOs have generally been underwritten by large investment banking firms with the timely payment of principal and interest on these securities supported (credit enhanced) in varying degrees by either insurance issued by a financial guarantee insurer, letters of credit or subordination techniques. Substantially all such securities are triple "A" rated by one or more of the nationally recognized securities rating agencies. The privately-issued CMOs are subject to certain credit-related risks normally not associated with U.S. Government Agency CMOs. Among such risks is the limited loss protection generally provided by the various forms of credit enhancements as losses in excess of certain levels are not protected. Furthermore, the credit enhancement itself is subject to the creditworthiness of the enhancer. Thus, in the event a credit enhancer does not fulfill its obligations, the CMO holder could be subject to risk of loss similar to a purchaser of a whole loan pool. Management believes that the credit enhancements are adequate to protect the Company from losses and has, therefore, not provided an allowance for losses on its privately-issued CMOs.

At December 31, 1999 the Bank had outstanding privately-issued CMOs from three issuers, Residential Funding Corp., Countrywide Home Loans, Inc., and PNC Mortgage Securities Corp., each in excess of ten percent of stockholders equity. The aggregate book and market values of these privately-issued CMOs were \$48.2 million and \$46.8 million, \$21.6 million and \$20.6 million, and \$20.3 million and \$19.1 million, respectively, at December 31, 1999.

The following table sets forth the Bank's mortgage-backed securities activities for the periods indicated.

	For the Year Ended December 31,		
	1999	1998	1997
		(In thousands)	
Beginning balance.....	\$381,840	\$457,148	\$395,542
Mortgage-backed securities purchased.....	97,251	181,095	248,917
Less: Principal repayments	(120,460)	(204,359)	(164,291)
Mortgage-backed securities sold.....	-	(48,824)	(19,149)
Amortization of premium.....	(1,145)	(3,230)	(3,504)
Change in net unrealized gain (loss) on mortgage-backed securities available for sale.....	(11,304)	10	(367)
Ending balance.....	\$346,182	\$381,840	\$457,148

The following table sets forth certain information regarding the amortized cost and market value of the Bank's mortgage-backed securities at the dates indicated.

	At December 31,					
	1999		1998		1997	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Mortgage-backed securities:						
FHLMC.....	\$65,111	\$ 64,484	\$106,762	\$107,166	\$245,414	\$245,559
FNMA.....	48,424	47,852	74,027	74,434	109,873	109,991
GNMA.....	41,467	40,569	63,041	63,073	97,714	98,172
CMOs.....	201,704	193,277	137,230	137,167	3,378	3,426
Total mortgage-backed securities.....	\$356,706	\$346,182	\$381,060	\$381,840	\$456,379	\$457,148

Investment Securities. The following table sets forth certain information regarding the amortized cost and market values of the Bank's investment securities at the dates indicated.

	At December 31,					
	1999		1998		1997	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Investment securities:						
U.S. Government and agency obligations.....	\$ 40,964	\$ 40,177	\$ 59,983	\$ 60,387	\$204,992	\$205,648
State and municipal obligations.....	5,761	5,003	1,946	1,935	393	400
Corporates.....	75,050	72,567	74,976	72,249	-	-
Equity investments.....	3,668	3,033	3,226	2,834	1,170	1,309
	-----	-----	-----	-----	-----	-----
Total investment securities.....	\$125,443	\$120,780	\$140,131	\$137,405	\$206,555	\$207,357
	=====	=====	=====	=====	=====	=====

The table below sets forth certain information regarding the amortized cost, weighted average yields and contractual maturities of the Bank's investment and mortgage-backed securities, excluding equity securities, as of December 31, 1999. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 1999				
	One Year or Less	More than One Year to Five Years	More than Five Years to Ten Years	More than Ten Years
	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost
(Dollars in thousands)				
Investment securities:				
U.S. Government and agency obligations.....	\$ -	\$ 30,997	\$ 9,967	\$ -
State and municipal obligations (1).....	200	-	-	5,561
Corporate debt (2).....	-	-	-	75,050
Total investment securities.....	\$ 200	\$ 30,997	\$ 9,967	\$ 80,611
Weighted average yield.....	8.65%	7.00%	6.25%	6.97%
Mortgage-backed securities:				
FHLMC.....	\$ 3,515	\$ 34,629	\$ 648	\$ 26,319
FNMA.....	-	18,744	7,899	21,781
GNMA.....	46	659	86	40,676
CMOs.....	456	202	-	201,046
Total mortgage-backed securities.....	\$ 4,017	\$ 54,234	\$ 8,633	\$ 289,822
Weighted average yield.....	6.72%	6.55%	7.01%	6.52%
Total				
	Amortized Cost	Market Value		
Investment securities:				
U.S. Government and agency obligations...	\$ 40,964	\$ 40,177		
State and municipal obligations (1).....	5,761	5,003		
Corporate debt (2).....	75,050	72,567		
Total investment securities.....	\$ 121,775	\$ 117,747		
Weighted average yield.....	6.92%			
Mortgage-backed securities:				
FHLMC.....	\$ 65,111	\$ 64,484		
FNMA.....	48,424	47,852		
GNMA.....	41,467	40,569		
CMOs.....	201,704	193,277		
Total mortgage-backed securities.....	\$ 356,706	\$ 346,182		
Weighted average yield.....	6.54%			

(1) Tax equivalent yield.

(2) All of the Bank's corporate debt securities carry interest rates which adjust to a spread over Libor on a quarterly basis.

Sources of Funds

General. Deposits, loan and MBS repayments and prepayments, proceeds from sales of loans, investment maturities, cash flows generated from operations and FHLB advances and other borrowings are the primary sources of the Bank's funds for use in lending, investing and for other general purposes.

Deposits. The Bank offers a variety of deposit accounts with a range of interest rates and terms. The Bank's deposits consist of savings accounts, NOW accounts, money market accounts, non-interest bearing accounts and time deposits. For the year ended December 31, 1999, time deposits constituted 62.8% of total average deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. The Bank's deposits are obtained predominantly from the areas in which its branch offices are located. The Bank relies on its community banking focus stressing customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect the Bank's ability to attract and retain deposits. The Bank does not use brokers to obtain deposits.

The following table presents the deposit activity of the Bank for the periods indicated:

	For the Year Ended December 31,		
	1999	1998	1997
	(In thousands)		
Net deposits (withdrawals).....	\$(14,480)	\$ 8,890	2,946
Acquisition of deposits	-	10,732	-
Interest credited on deposit accounts.....	36,179	38,865	39,088
Total increase in deposit accounts.....	\$ 21,699	\$ 58,487	\$ 42,034
	=====	=====	=====

At December 31, 1999, the Bank had \$73.4 million in certificate accounts in amounts of \$100,000 or more maturing as follows:

Maturity Period	Amount	Weighted Average Rate
	(Dollars in thousands)	
Three months or less.....	\$19,704	5.06%
Over three through six months.....	7,798	4.93
Over six through 12 months.....	23,462	5.35
Over 12 months.....	22,424	5.95
Total.....	\$73,388	5.41
	=====	=====

The following table sets forth the distribution of the Bank's average deposit accounts for the periods indicated and the weighted average interest rates at the end of each period, on each category of deposits presented.

At or For the Years Ended December 31,									
	1999			1998			1997		
	Average Balance	Percent of Total Average Deposits	Weighted Average Yield	Average Balance	Percent of Total Average Deposits	Weighted Average Yield	Average Balance	Percent of Total Average Deposits	Weighted Average Yield
(Dollars in thousands)									
Money market deposit accounts.....	\$ 77,478	7.40%	2.61%	\$ 71,800	7.10%	2.59%	\$ 68,972	7.18%	2.90%
Savings accounts.....	173,798	16.60	2.03	167,058	16.53	2.03	168,733	17.56	2.28
NOW accounts.....	111,356	10.63	1.59	89,679	8.87	1.59	77,785	8.09	1.84
Non-interest-bearing accounts.....	26,953	2.58	-	18,749	1.86	-	8,115	.84	-
Total.....	389,585	37.21	1.88	347,286	34.36	1.90	323,605	33.67	2.21
Time deposits:									
Six months or less.....	91,114	8.70	4.54	87,087	8.62	4.57	78,724	8.19	5.05
Over Six through 12 months.....	118,907	11.36	4.73	135,919	13.44	4.98	146,951	15.29	5.41
Over 12 through 24 months.....	231,022	22.06	5.04	219,706	21.74	5.45	178,440	18.57	5.77
Over 24 months.....	109,341	10.44	6.02	108,748	10.76	6.07	120,709	12.56	6.10
IRA/KEOGH.....	107,152	10.23	5.47	112,023	11.08	5.57	112,602	11.72	5.84
Total time deposits.....	657,536	62.79	5.18	663,483	65.64	5.35	637,425	66.33	5.69
Total average deposits.....	\$1,047,121	100.00%	3.94%	\$1,010,769	100.00%	4.08%	\$ 961,030	100.00%	4.52%

Borrowings

From time to time the Bank has obtained term advances from the FHLB as an alternative to retail deposit funds and may do so in the future as part of its operating strategy. FHLB term advances may also be used to acquire certain other assets as may be deemed appropriate for investment purposes. These term advances are collateralized primarily by certain of the Bank's mortgage loans and mortgage-backed securities and secondarily by the Bank's investment in capital stock of the FHLB. In addition, the Bank has an available overnight line of credit with the FHLB-NY for \$50.0 million which expires November 22, 2000. The Bank also has available from the FHLB a one-month overnight repricing line of credit for \$50.0 million which also expires on November 22, 2000. When utilized, both lines carry a floating interest rate of 10 basis points over the current federal funds rate and are secured by the Bank's mortgage loans, mortgage-backed securities, U.S. Government securities and FHLB stock. The maximum amount that the FHLB will advance to member institutions, including the Bank, fluctuates from time to time in accordance with the policies of the OTS and the FHLB. At December 31, 1999, the Bank had no outstanding borrowings against the FHLB lines of credit and \$115.0 million under various term advances.

The Bank also borrows funds using securities sold under agreements to repurchase. Under this form of borrowing specific U.S. Government agency and/or mortgage-backed securities are pledged as collateral to secure the borrowing. These securities are not under the Bank's control. At December 31, 1999, the Bank had borrowed \$239.9 million through securities sold under agreements to repurchase. (See note 9 to the consolidated financial statements in the 1999 Annual Report to Stockholders.)

Subsidiary Activities

The Bank owns two subsidiaries - OceanFirst Service Corp. (formerly Ocean Investment Services Corp.) and OceanFirst Realty Corp. (formerly Ocean Federal Realty Inc.).

OceanFirst Service Corp. was originally organized in 1982 to engage in the sale of all-savers life insurance. Prior to 1998 the subsidiary was inactive, however, in 1998, the Bank began to sell non-deposit investment products (annuities and mutual funds) through a third party marketing firm to Bank customers through this subsidiary, recognizing fee income from such sales.

OceanFirst Realty Corp. was established in 1997 and is intended to qualify as a real estate investment trust, which may, among other things, be utilized by the Company to raise capital in the future. Upon formation of OceanFirst Realty Corp., the Bank transferred \$668 million of mortgage loans to this subsidiary.

Personnel

As of December 31, 1999, the Bank had 247 full-time employees and 53 part-time employees. The employees are not represented by a collective bargaining unit and the Bank considers its relationship with its employees to be good.

REGULATION AND SUPERVISION

General

As a savings and loan holding company, the Company is required by federal law to file reports with, and otherwise comply with, the rules and regulations of the OTS. The Bank is subject to extensive

regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as the deposit insurer. The Bank is a member of the Federal Home Loan Bank System and, with respect to deposit insurance, of the Savings Association Insurance Fund ("SAIF") managed by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The OTS and/or the FDIC conduct periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the OTS, the FDIC or the Congress, could have a material adverse impact on the Company, the Bank and their operations. Certain of the regulatory requirements applicable to the Bank and to the Company are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-K does not purport to be a complete description of such statutes and regulations and their effects on the Bank and the Company.

Holding Company Regulation

The Company is a nondiversified unitary savings and loan holding company within the meaning of federal law. Under prior law, a unitary savings and loan holding company, such as the Company was not generally restricted as to the types of business activities in which it may engage, provided that the Bank continued to be a qualified thrift lender. See "Federal Savings Institution Regulation - QTL Test." The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that existing savings and loan holding companies may only engage in such activities. The Gramm-Leach-Bliley Act, however, grandfathered the unrestricted authority for activities with respect to unitary savings and loan holding companies existing prior to May 4, 1999, such as the Company, so long as the Bank continues to comply with the QTL Test. Upon any non-supervisory acquisition by the Company of another savings institution or savings bank that meets the qualified thrift lender test and is deemed to be a savings institution by the OTS, the Company would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would generally be limited to activities permissible for bank holding companies under Section 4(c)(8) of the Association Holding Company Act, subject to the prior approval of the OTS, and certain activities authorized by OTS regulation.

A savings and loan holding company is prohibited from, directly or indirectly, acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company, without prior written approval of the OTS and from acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the OTS considers the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the deposit insurance funds, the convenience and needs of the community and competitive factors.

The OTS may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions as described below. The Bank must notify the OTS 30 days before declaring any dividend to the Company. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Federal Savings Institution Regulation

Business Activities. The activities of federal savings institutions are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the activities in which federal associations may engage. In particular, many types of lending authority for federal association, e.g., commercial, non-residential real property loans and consumer loans, are limited to a specified percentage of the institution's capital or assets.

Capital Requirements. The OTS capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMEL financial institution rating system), and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The capital regulations also incorporate an interest rate risk component. Savings institutions with "above normal" interest rate risk exposure are subject to a deduction from total capital for purposes of calculating their risk-based capital requirements. For the present time, the OTS has deferred implementation of the interest rate risk capital charge. At December 31, 1999, the Bank met each of its capital requirements.

The following table presents the Bank's capital position at December 31, 1999.

	Actual Capital -----	Required Capital -----	Excess Amount -----	Capital -----	
				Actual Percent -----	Required Percent -----
		(Dollars in thousands)			
Tangible.....	\$149,711	\$ 23,950	\$125,761	9.38%	1.50%
Core (Leverage).....	149,711	47,900	101,811	9.38	3.00
Risk-based.....	157,828	66,867	90,961	18.88	8.00

Prompt Corrective Regulatory Action. The OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings institution that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Insurance of Deposit Accounts. The Bank is a member of the SAIF. The FDIC maintains a risk-based assessment system by which institutions are assigned to one of three categories based on their capitalization and one of three subcategories based on examination ratings and other supervisory information. An institution's assessment rate depends upon the categories to which it is assigned. Assessment rates for SAIF member institutions are determined semiannually by the FDIC and currently range from zero basis points for the healthiest institutions to 27 basis points for the riskiest.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation ("FICO") to recapitalize the predecessor to the SAIF. During 1999, FICO payments for SAIF members approximated 6.1 basis points, while Bank Insurance Fund ("BIF") members paid 1.2 basis points. By law, there is equal sharing of FICO payments between SAIF and BIF members beginning on January 1, 2000.

The Bank's assessment rate for fiscal 1999 was zero basis points and the premium paid for this period was \$604,000, all of which related to FICO bonds. The FDIC has authority to increase insurance assessments. A significant increase in SAIF insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. At December 31, 1999, the Bank's limit on loans to one borrower was \$21.2 million, and the Bank's largest aggregate outstanding balance of loans to one borrower was \$8.0 million.

QTL Test. The HOLA requires savings institutions to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (1) specified liquid assets up to 20% of total assets; (2) intangibles, including goodwill; and (3) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities) in at least nine months out of each 12 month period.

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a bank charter. As of December 31, 1999, the Bank maintained in excess of 100% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments."

Limitation on Capital Distributions. OTS regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. The rule effective in the first quarter of 1999 established three tiers of institutions based primarily on an institution's capital level. An institution that exceeded all capital requirements before and after a proposed capital distribution ("Tier 1 Bank") and had not been advised by the OTS that it was in need of more than normal supervision, could, after prior notice but without obtaining approval of the OTS, make capital distributions during the calendar year equal to the greater of (1) 100% of its net earnings to date during the calendar year plus the amount that would reduce by one-half the excess capital over its capital requirements at the beginning of the calendar year or (2) 75% of its net income for the previous four quarters. Any additional capital distributions required prior regulatory approval. Effective April 1, 1999, the OTS's capital distribution regulation changed. Under the new regulation, an application to and the prior approval of the OTS is required prior to any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under OTS regulations (i.e., generally, examination ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with OTS. If an application is not required, the institution must still provide prior notice to OTS of the capital distribution if, like the Bank, it is a subsidiary of a holding company. In the event the Bank's capital fell below its regulatory requirements or the OTS notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Liquidity. The Bank is required to maintain an average daily balance of specified liquid assets equal to a monthly average of not less than a specified percentage of its net withdrawable deposit accounts plus short-term borrowings. This liquidity requirement is currently 4%, but may be changed from time to time by the OTS to any amount within the range of 4% to 10%. Monetary penalties may be imposed for failure to meet these liquidity requirements. The Bank's liquidity ratio for December 31, 1999 was 8.85%, which exceeded the applicable requirements. The Bank has never been subject to monetary penalties for failure to meet its liquidity requirements.

Assessments. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the Bank's latest quarterly thrift financial report. The assessments paid by the Bank for the fiscal year ended December 31, 1999 totaled \$255,000.

Transactions with Related Parties. The Bank's authority to engage in transactions with "affiliates" (e.g., any company that controls or is under common control with an institution, including the Company and its non-savings institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances, that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is also governed by federal law. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. Recent legislation created an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain board approval procedures to be followed.

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to \$25,000 per day, or even \$1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Director of the OTS that enforcement action to be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to meet any standard prescribed by the guidelines, the OTS may require the institution to submit an acceptable plan to achieve compliance with the standard.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. The Bank, as a member of the Federal Home Loan Bank, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank in an amount at least equal to 1.0% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the Federal Home Loan Bank, whichever is greater. The Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 1999 of \$16.8 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts in the late 1980s and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, the Bank's net interest income would likely also be reduced. Recent legislation has changed the structure of the Federal Home Loan Banks funding obligations for insolvent thrifts, revised the capital structure of the Federal Home Loan Banks and implemented entirely voluntary membership for Federal Home Loan Banks. Management cannot predict the effect that these changes may have with respect to its Federal Home Loan Bank membership.

Federal Reserve System

The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: for accounts aggregating \$44.3 million or less (subject to adjustment by the Federal Reserve Board) the reserve requirement is 3%; and for accounts aggregating greater than \$44.3 million, the reserve requirement is \$1.329 million plus 10% (subject to adjustment by the Federal Reserve Board between 8% and 14%) against that portion of total transaction accounts in excess of \$44.3 million. The first \$5.0 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The Bank complies with the foregoing requirements.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank report their income on a calendar year basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company. The Bank has not been audited by the IRS in over 10 years. For its 1999 taxable year, the Bank is subject to a maximum federal income tax rate of 35.0%.

Bad Debt Reserves. For fiscal years beginning prior to December 31, 1995, thrift institutions which qualified under certain definitional tests and other conditions of the Internal Revenue Code of 1986 (the "Code") were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans (generally secured by interests in real property improved or to be

improved) under (i) the Percentage of Taxable Income Method (the "PTI Method") or (ii) the Experience Method. The reserve for nonqualifying loans was computed using the Experience Method.

The Small Business Job Protection Act of 1996 (the "1996 Act"), which was enacted on August 20, 1996, requires savings institutions to recapture (i.e., take into taxable income) certain portions of their accumulated bad debt reserves. The 1996 Act repeals the reserve method of accounting for bad debts effective for tax years beginning after 1995. Thrift institutions that would be treated as small banks are allowed to utilize the Experience Method applicable to such institutions, while thrift institutions that are treated as large banks (those generally exceeding \$500 million in assets) are required to use only the specific charge-off method. Thus, the PTI Method of accounting for bad debts is no longer available for any financial institution.

A thrift institution required to change its method of computing reserves for bad debts will treat such change as a change in method of accounting, initiated by the taxpayer, and having been made with the consent of the IRS. Any Section 481(a) adjustment required to be taken into income with respect to such change generally will be taken into income ratably over a six-taxable year period, beginning with the first taxable year beginning after 1995, subject to the residential loan requirement.

Under the residential loan requirement provision, the recapture required by the 1996 Act will be suspended for each of two successive taxable years, beginning with the Bank's current taxable year, in which the Bank originates a minimum of certain residential loans based upon the average of the principal amounts of such loans made by the Bank during its six taxable years preceding its current taxable year.

Under the 1996 Act, for its current and future taxable years, the Bank is not permitted to make additions to its tax bad debt reserves. In addition, the Bank is required to recapture (i.e., take into taxable income) over a six year period the excess of the balance of its tax bad debt reserves as of December 31, 1995 over the balance of such reserves as of December 31, 1987. Since the Bank satisfied the residential loan requirement provision for 1996 and 1997 as described above, the six year recapture period became effective for the 1998 tax year. As a result of such recapture, the Bank will incur an additional tax liability of approximately \$2.3 million. The Bank has accrued for this liability in the consolidated financial statements.

Distributions. Under the 1996 Act, if the Bank makes "non-dividend distributions" to the Company, such distributions will be considered to have been made from the Bank's unrecaptured tax bad debt reserves (including the balance of its reserves as of December 31, 1987) to the extent thereof, and then from the Bank's supplemental reserve for losses on loans, to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Bank's income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a non-dividend distribution to the Company, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 35% federal corporate income tax rate. The Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

Corporate Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended (the "Code") imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. The excess of the bad debt reserve deduction using the percentage of taxable income method over the deduction that would have been allowable under the experience method is treated as a preference item for purposes of computing the AMTI. Only 90% of AMTI can be offset by net operating loss carryovers of which the Bank currently has none. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses). The Bank does not expect to be subject to the AMTI.

Dividends Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank own more than 20% of the stock of a corporation distributing a dividend then 80% of any dividends received may be deducted.

State and Local Taxation

New Jersey Taxation. The Bank files New Jersey income tax returns. For New Jersey income tax purposes, savings institutions are presently taxed at a rate equal to 3% of taxable income. For this purpose, "taxable income" generally means federal taxable income, subject to certain adjustments (including addition of interest income on State and municipal obligations).

The Company is required to file a New Jersey income tax return because it will be doing business in New Jersey. For New Jersey tax purposes, regular corporations are presently taxed at a rate equal to 9% of taxable income. For this purpose, "taxable income" generally means Federal taxable income, subject to certain adjustments (including addition of interest income on state and municipal obligations). However, if the Company meets certain requirements, it may be eligible to elect to be taxed as a New Jersey Investment Company at a tax rate presently equal to 2.25% (25% of 9%) of taxable income.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

Item 2. Properties

The Bank currently conducts its business through its administrative office, which includes a branch office, and 12 other full service offices located in Ocean, Monmouth and Middlesex Counties. The Company believes that the Bank's current facilities will be adequate to meet the present and immediately foreseeable needs of the Bank and the Company.

Location -----	Leased or Owned -----	Original Year Leased or Acquired -----	Date of Lease Expiration(3) -----	Net Book Value of Property or Leasehold Improvements at December 31, 1999 ----- (Dollars in thousands)
Administrative Office:				
975 Hooper Avenue Toms River, New Jersey 08754	Owned	1995	--	\$9,520
Branch Offices:				
Adamston: 385 Adamston Road Brick, New Jersey 08723	Leased	1999	07/31/09	354
Berkeley: Holiday City Plaza 730 Jamaica Boulevard Toms River, New Jersey 08757	Leased	1984	11/30/04	48
Brick: 321 Chambers Bridge Road Brick, New Jersey 08723	Owned	1960	--	1,178
Concordia: 1 Concordia Shopping Mall Box 3 Cranbury, New Jersey 08512	Leased	1985	07/31/00	77
Holiday City South: Holiday Plaza III 604 Mule Road Toms River, New Jersey 08757	Leased	1991	05/31/01	47
Lacey: 900 Lacey Road Forked River, New Jersey 08731	Leased	1997	01/31/18	349
Lake Ridge: 147 Route 70, Suite 1 Toms River, New Jersey 08755	Leased	1998	01/31/18	325
Pavilion: 70 Brick Boulevard Brick, New Jersey 08723	Leased	1989	09/30/18	408
Point Pleasant Beach: 701 Arnold Avenue Point Pleasant, New Jersey 08742	Leased	1937	--	92
Point Pleasant Boro: 2400 Bridge Avenue Point Pleasant, New Jersey 08742	Leased	1971	--	689
Spring Lake Heights: 2401 Route 71 Spring Lake Heights, New Jersey 07762	Leased	1999	10/31/09	204

Location -----	Leased or Owned -----	Original Year Leased or Acquired -----	Date of Lease Expiration(3) -----	Net Book Value of Property or Leasehold Improvements at December 31, 1999 ----- (Dollars in thousands)
Wall Township (2): 2445 Route 34 Manasquan, New Jersey 08736	Leased	1999	2/28/10	53
Whiting: Whiting Shopping Center P. O. Box 20 Whiting, New Jersey 08759	Leased	1983	10/31/02	59
Other Properties (1): 730 Brick Boulevard Brick, New Jersey 08723	Owned	1986	--	429

- (1) The property was formerly utilized by the Bank, however, the property has been fully subleased since 1997.
(2) This branch is scheduled to open in the second quarter of 2000.
(3) The Company may also hold options to renew leases for additional terms upon expiration of the current lease.

Item 3. Legal Proceedings

The Company and the Bank are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such other routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information relating to the market for Registrant's common equity and related stockholder matters appears under "Shareholder Information" on the Inside Back Cover in the Registrant's 1999 Annual Report to Stockholders and is incorporated herein by reference.

Item 6. Selected Financial Data

The above-captioned information appears under "Selected Consolidated Financial and Other Data of the Company" in the Registrant's 1999 Annual Report to Stockholders on page 9 and 10 and is incorporated herein by reference.

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

The above-captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1999 Annual Report to Stockholders on pages 11 through 19 and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The above captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Management of Interest Rate Risk" in the Registrant's 1999 Annual Report to Stockholders on pages 12 and 13.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of OceanFirst Financial Corp. and its subsidiary, together with the report thereon by KPMG LLP appears in the Registrant's 1999 Annual Report to Stockholders on pages 20 through 35 and are incorporated herein by reference.

Item 9. Change In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information relating to Directors and Executive Officers of the Registrant is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 19, 2000, at pages 5 through 7.

Item 11. Executive Compensation

The information relating to directors' compensation and executives' compensation is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 19, 2000, at pages 8 through 9 and pages 14 through 18 (excluding the Executive Compensation Committee Report and Stock Performance Graph).

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 19, 2000, at pages 3 through 4 and 6 through 7.

Item 13. Certain Relationships and Related Transactions

The information relating to certain relationships and related transactions is incorporated herein by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 19, 2000, at page 18.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as a part of this report:

(1) Consolidated Financial Statements of the Company are incorporated by reference to the following indicated pages of the 1999 Annual Report to Stockholders.

	PAGE
Independent Auditors' Report.....	35
Consolidated Statements of Financial Condition at December 31, 1999 and 1998.....	20
Consolidated Statements of Income for the Years Ended December 31, 1999, 1998 and 1997.....	21
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 1999, 1998 and 1997.....	22
Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 1998 and 1997.....	23
Notes to Consolidated Financial Statements for the Years Ended December 31, 1999, 1998 and 1997.....	24-34

The remaining information appearing in the 1999 Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

(a) The following exhibits are filed as part of this report.

3.1	Certificate of Incorporation of OceanFirst Financial Corp.*
3.2	Bylaws of OceanFirst Financial Corp.*
4.0	Stock Certificate of OceanFirst Financial Corp.*
10.1	Form of OceanFirst Bank Employee Stock Ownership Plan*
10.1(a)	Amendment to OceanFirst Bank Employee Stock Ownership Plan (filed previously)
10.2	OceanFirst Bank Employees' Savings and Profit Sharing Plan*
10.3	OceanFirst Bank 1995 Supplemental Executive Retirement Plan*
10.4	OceanFirst Bank Deferred Compensation Plan for Directors*
10.5	OceanFirst Bank Deferred Compensation Plan for Officers*
10.6	OceanFirst Bank Long-Term Award Program*
10.7	OceanFirst Bank Performance Achievement Awards Program*
10.8	Amended and Restated OceanFirst Financial Corp. 1997 Incentive Plan (filed previously)
10.9	Form of Employment Agreement between OceanFirst Bank and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino*
10.10	Form of Employment Agreement between OceanFirst Financial Corp. and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino*
10.11	Form of Change in Control Agreement between OceanFirst Bank and certain executive officers, including Michael E. Barrett, John K. Kelly and Karl E. Reinheimer*
10.12	Form of Change in Control Agreement between OceanFirst Financial Corp. and certain executive officers, including Michael E. Barrett, John K. Kelly and Karl E. Reinheimer*
13.0	Portions of 1999 Annual Report to Stockholders (filed herewith)
21.0	Subsidiary information is incorporated herein by reference to "Part I - Subsidiaries"
23.0	Consent of KPMG LLP (filed herewith)
27.0	Financial Data Schedule (filed herewith)

(b) Reports on Form 8-K

None.

* Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996 as amended, Registration No. 33-80123.

CONFORMED SIGNATURES

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

OceanFirst Financial Corp.

By: /s/ John R. Garbarino

 John R. Garbarino
 Chairman of the Board,
 President and
 Chief Executive Officer and
 Director

Date: March 14, 2000

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

Name ----	Date ----
 /s/ John R. Garbarino ----- John R. Garbarino Chairman of the Board, President and Chief Executive Officer (principal executive officer)	 March 14, 2000
 /s/ Michael J. Fitzpatrick ----- Michael J. Fitzpatrick Executive Vice President and Chief Financial Officer (principal accounting and financial officer)	 March 14, 2000
 /s/ Michael E. Barrett ----- Michael E. Barrett Director	 March 14, 2000
 /s/ Thomas F. Curtin ----- Thomas F. Curtin Director	 March 14, 2000

/s/ Carl Feltz, Jr.

March 14, 2000

Carl Feltz, Jr.
Director

/s/ Robert E. Knemoller

March 14, 2000

Robert E. Knemoller
Director

/s/ Donald E. McLaughlin

March 14, 2000

Donald E. McLaughlin
Director

/s/ Diane F. Rhine

March 14, 2000

Diane F. Rhine
Director

/s/ Frederick E. Schlosser

March 14, 2000

Frederick E. Schlosser
Director

/s/ James T. Snyder

March 14, 2000

James T. Snyder
Director

EXHIBIT 13

Financial Highlights

(dollars in thousands, except per share amounts)

At or For The Year Ended December 31,	1999	1998	1997
Total assets	\$1,590,907	\$1,561,744	\$1,510,947
Loans receivable, net	1,042,975	941,011	783,695
Deposits	1,056,950	1,035,251	976,764
Stockholders' equity	167,530	197,740	215,544
Net interest income	48,538	44,158	43,048
Provision for loan losses	900	900	900
Net income	16,347	12,972	13,825
Diluted earnings per share	1.33	0.95	0.88
Stockholders' equity per common share	13.27	13.52	13.72
Stockholders' equity to total assets at end of year (capital ratio)	10.53%	12.66%	14.27%

Performance Ratios:

Return on average assets	1.04%	0.85%	0.97%
Return on average stockholders' equity	8.90	6.36	6.00
Average interest rate spread	2.70	2.39	2.39
Net interest margin	3.20	2.98	3.12
Operating expenses to average assets	1.78	1.66	1.63
Operating efficiency ratio	51.80	54.67	50.80

Actual contributions to stockholders' equity and resultant cash earnings data(1):

Cash earnings	\$ 19,283	\$ 16,009	\$ 16,823
Diluted cash earnings per share	1.57	1.17	1.08
Return on average assets	1.23%	1.05%	1.19%
Return on average stockholders' equity	10.50	7.85	7.30
Operating efficiency ratio	43.94	45.35	41.76

(1) Cash earnings are determined by adding (net of taxes) to reported earnings the non-cash expenses stemming from the amortization and appreciation of allocated shares in the Company's stock-related benefit plans and the amortization of a premium relating to a deposit acquisition.

OceanFirst Bank, the sole subsidiary of OceanFirst Financial Corp., founded in 1902, is a federally chartered stock savings bank with eleven of thirteen branches located in Ocean County, New Jersey, and with one branch each in Middlesex and Monmouth Counties. It is the oldest and largest community-based financial institution headquartered in Ocean County, New Jersey.

Letter to our Shareholders

March 2000

"OceanFirst delivered both substantial earnings growth and record-breaking earnings per share in 1999."

Dear Fellow Shareholders:

The last twelve months of the 20th century proved to be the best year in the history of OceanFirst Financial Corp. We achieved record-breaking financial results and we carried out aggressive initiatives to strengthen our position as the preeminent community provider of financial services. Both accomplishments served to enhance the value of your investment in our Company, which is what our corporate mission is all about. Looking ahead, we see exciting opportunities for further growth in the year 2000.

ADDED VALUE THROUGH RECORD FINANCIAL PERFORMANCE

OceanFirst delivered both substantial earnings growth and record-breaking earnings per share in 1999. Net income grew 26.0% over the 1998 level, to \$16.3 million. Earnings per share grew at an even faster pace -- 40.0% -- to \$1.33 on a fully diluted basis. Total shareholder return for the year was 7.7%, far outstripping the negative returns provided by the vast majority of our peers. In a market largely devoid of good news for this sector's stock prices, OceanFirst saw its share price rise to \$17 5/16 at year-end. This return, in 1999's hostile market for financial services companies, exemplifies market recognition of our outstanding financial performance.

The OceanFirst senior management team (from left to right) John K. Kelly, General Counsel; Michael E. Barrett, Residential Loan Division; Karl E. Reinheimer, Chief Operating Officer; John R. Garbarino, President and Chief Executive Officer; and Michael J. Fitzpatrick, Chief Financial Officer.

[Picture Described Above Appears Here]

We achieved excellent results in other performance measures as well:

- o Return on equity and return on average assets grew to 8.90% and 1.04%, respectively, driven by substantial increases in our average interest rate spread and net interest margin.
- o Core deposits continued to grow as a result of our enormously successful High Performance Checking program. While much of the industry experienced shrinking deposit bases, our core deposits grew 5.5%, \$21.3 million, representing over 10,000 new relationships.
- o We forged 961 new business deposit relationships in 1999. Through our commercial lending initiatives, we also established another 165 new relationships with local businesses, representing \$44.8 million in commitments. These new loans increased the commercial loan portfolio by 49.9%.
- o Strong loan growth in all business lines increased our loan-to-deposit ratio at year-end to 98.7% -- up from 90.9% at the beginning of the year and 72.6% at the end of 1996.
- o Aided by an aggressive share repurchase program, we made significant progress toward our goal of better leveraging the Company's excess capital. Our capital ratio ended the year at 10.53%, sharply reduced from the 20.73% following our 1996 stock offering.
- o Overhead expenses remained well controlled, totaling 1.78% of average assets and contributing to an operating efficiency ratio of 51.80%.

"Strong loan growth in all business lines increased our loan-to-deposit ratio..."

[Bar Chart Described Below Appears Here]

Loan to Deposit Ratio			
1996	1997	1998	1999
72.6%	80.2%	90.9%	98.7%

"...our philosophy of exceptional service will build stronger customer relationships."

ADDED VALUE THROUGH CORPORATE INITIATIVES

Last year was distinguished not only by financial accomplishments, but also by an aggressive program to strengthen our position as the preeminent community bank in our market. The centerpiece of this program was a branding campaign designed to make the new OceanFirst brand the best known and most respected in banking throughout the community. Our new name and contemporized image reflect a wider range of financial products and services, and more effectively communicate our commitment to being the premier community-focused institution--a financial organization where people truly come first. As a reflection of this commitment, we continued last year to both expand our product delivery systems and emphasize superior personal service. The OceanFirst sales culture is being transformed from a traditional one based on product sales to a more desirable approach focused on consultative sales. We believe that listening to our customers, providing innovative solutions to their financial needs, and consistently applying our philosophy of exceptional service will build stronger customer relationships. These strengthened relationships, in turn, will provide the impetus for increasing shareholder value.

Members of the OceanFirst Financial Corp. Board of Directors shown from left to right are: John R. Garbarino - Chairman, President and Chief Executive Officer; Thomas F. Curtin; Carl Feltz Jr.; Diane F. Rhine; Michael E. Barrett; Donald E. McLaughlin; Frederick E. Schlosser; Robert E. Knemoller; and James T. Snyder

[Picture Described Above Appears Here]

A number of other developments also contributed to building value in 1999:

o We introduced our Dividend Reinvestment and Discount Stock Purchase Plan. Under the plan, existing shareholders purchasing additional shares with reinvested dividends or with voluntary cash payments qualify for a 3% discount from the then-current market price of OceanFirst Financial Corp. stock.

o We opened our first Monmouth County branch, in Spring Lake Heights, and have been quite pleased with the market's reception. Although plans for our other Monmouth County branch in Wall Township were unfortunately hampered by shopping center construction delays beyond our control, we are confident this branch will now open early in 2000. Additionally, during 1999 we added a third location in Bricktown, in Ocean County, to better serve this growing community.

o We established a fully transactional internet web site at OceanFirst.com to better meet the needs of both our business and consumer banking customers. This enhanced delivery system, which puts our Company on the cutting edge of technology, enables customers to check and transfer balances, pay their bills, apply for loans, or just browse and learn more about OceanFirst. Shareholders as well can utilize OceanFirst.com to check the latest quarterly earnings, review other news releases, or contact Investor Relations.

[Graphic of OceanFirst Web Page Appears Here]

[Graphic Appears Here]

[Full Page Graphic Appears Here]

LOOKING AHEAD

In the coming years, we will build on the progress we have made, both as a 98-year-old community bank and as a four-year-old publicly owned financial services company. There are exciting opportunities for growth ahead, and we intend to take advantage of them. To that end, we will focus on several key areas to measure our success in building value for our shareholders:

- o EPS Growth of 15%. Consistent growth of this magnitude is central to the enhancement of shareholder value. We can achieve such growth through the expansion of real revenue, supplemented by prudent balance sheet leverage and capital management.
- o Additional Capital Leverage of 1% per Year. We will seek additional leverage of 1% per year in our capital ratio to help support EPS gains of 15%. Prudent balance sheet growth, substantial cash dividend payouts and aggressive share repurchase programs will be the primary tools used to reduce the Company's capital ratio to desired levels.
- o Noninterest Income Growth of 20%. In broadening our product line, we will also seek to expand fee-based revenue. This noninterest income growth will better insulate us against the volatility of net interest income, which tends to be held hostage by the business cycle. We expect the introduction of Trust and Asset Management services to generate significant additional noninterest income beyond that derived from traditional retail banking and the "Investment Services at OceanFirst" alternative product line.
- o Risk Management. Effective management of both credit and interest rate risk remains vital to a financial institution's long-term viability and earnings performance. The risk culture at OceanFirst continues to be conservative: We enforce strict guidelines in both our lending operations and portfolio management to ensure that risk is always effectively monitored and controlled.

"...there are exciting opportunities for growth ahead, and we intend to take advantage of them."

Earnings Per Share

[Bar Chart Described Below Appears Here]

1997 1998 1999

\$.88 \$.95 \$1.33

"OceanFirst has made a difference in the lives of thousands of its neighbors. We intend to do no less in the 21st century."

o Community Commitment. As an acknowledged leader in the community for the past 98 years, OceanFirst has made a difference in the lives of thousands of its neighbors. We intend to do no less in the 21st century. Since its establishment in connection with our 1996 public offering, the OceanFirst Foundation has provided, at no cost to current Company operations, over \$3.7 million to address needs in our community that might not otherwise have been met. The Foundation will continue to help distinguish OceanFirst as the community bank where people truly do come first.

As we approach our second century of providing financial services to our community, we pledge to focus even more sharply on delivering quality financial products and superior service. Succeeding in that mission, we will provide our shareholders with the continued opportunity for growth in the value of their investment.

Thank you for your continued support.

Very truly yours,

/s/ John R. Garbarino

*John R. Garbarino
Chairman, President and
Chief Executive Officer*

Selected Consolidated Financial and Other Data of the Company

The selected consolidated financial and other data of the Company set forth below is derived in part from, and should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto presented elsewhere in this Annual Report.

At December 31,	1999	1998	1997	1996	1995
(dollars in thousands)					
Selected Financial Condition Data:					
Total assets	\$1,590,907	\$1,561,744	\$1,510,947	\$1,303,865	\$1,036,445
Investment securities available for sale	120,780	137,405	207,357	174,028	114,881
FHLB-NY stock	16,800	16,800	14,980	8,457	7,723
Mortgage-backed securities available for sale	346,182	381,840	457,148	395,542	265,113
Loans receivable, net	1,042,975	941,011	783,695	678,728	612,696
Mortgage loans held for sale	-	25,140	-	727	1,894
Deposits	1,056,950	1,035,251	976,764	934,730	926,558
Federal Home Loan Bank advances	115,000	40,000	20,400	8,800	10,400
Securities sold under agreements to repurchase	239,867	272,108	288,200	99,322	-
Stockholders' equity	167,530	197,740	215,544	252,789	92,351
For the Year Ended December 31,					
	1999	1998	1997	1996	1995
(dollars in thousands; except per share amounts)					
Selected Operating Data:					
Interest income	\$ 107,347	\$ 105,557	\$ 98,656	\$ 80,236	\$ 70,210
Interest expense	58,809	61,399	55,608	43,857	40,004
Net interest income	48,538	44,158	43,048	36,379	30,206
Provision for loan losses	900	900	900	700	950
Net interest income after provision for loan losses	47,638	43,258	42,148	35,679	29,256
Other income	5,226	2,411	2,509	2,881	1,356
Operating expenses	27,852	25,457	23,145	39,206	18,006
Income (loss) before provision for income taxes	25,012	20,212	21,512	(646)	12,606
Provision for income taxes	8,665	7,240	7,687	1,083	4,659
Net income (loss)	\$ 16,347	\$ 12,972	\$ 13,825	\$ (1,729)	\$ 7,947
Basic earnings (loss) per share	\$ 1.36	\$.97	\$.90	\$ (.39)	N/A
Diluted earnings (loss) per share	\$ 1.33	\$.95	\$.88	\$ (.39)	N/A
Net income before non-recurring items (2)	\$ 16,347	\$ 12,972	\$ 13,825	\$ 11,576	\$ 7,947

Earnings (loss) per share for 1996 is for the period from July 2, 1996 (date of conversion) to December 31, 1996

Selected Consolidated Financial and Other Data (Continued)

Selected Consolidated Financial
and Other Data (continued)

At or For the Year Ended December 31,	1999	1998	1997	1996	1995
Selected Financial Ratios and Other Data(1):					
Performance Ratios:					
Return on average assets	1.04%	0.85%	0.97%	(.15%)	0.80%
Return on average assets, as adjusted(2)	1.04	0.85	0.97	1.00	0.80
Return on average stockholders' equity	8.90	6.36	6.00	(1.03)	9.44
Return on average stockholders' equity, as adjusted(2)	8.90	6.36	6.00	6.91	9.44
Average stockholders' equity to average assets	11.73	13.33	16.25	14.42	8.51
Stockholders' equity to total assets at end of year	10.53	12.66	14.27	19.39	8.91
Average interest rate spread(3)	2.70	2.39	2.39	2.61	2.79
Net interest margin(4)	3.20	2.98	3.12	3.22	3.13
Average interest-earning assets to average interest-bearing liabilities	112.94	114.35	117.95	115.84	107.98
Operating expenses to average assets	1.78	1.66	1.63	3.37	1.82
Operating expenses to average assets, as adjusted(2)	1.78	1.66	1.63	1.73	1.82
Operating efficiency ratio(2)	51.80	54.67	50.80	99.86	57.05
Operating efficiency ratio, as adjusted(2)(5)	51.80	54.67	50.80	51.11	57.05
Regulatory Capital Ratios (Bank Only):					
Tangible capital	9.38	10.78	11.91	12.69	8.72
Core capital	9.38	10.78	11.91	12.69	8.72
Risk-based capital	18.88	22.77	29.88	32.04	21.34
Asset Quality Ratios:					
Non-performing loans as a percent of total loans receivable(6)(7)	0.28	0.56	0.70	1.12	1.40
Non-performing assets as a percent of total assets (7)	0.21	0.35	0.45	0.71	0.97
Allowance for loan losses as a percent of total loans receivable(6)	0.78	0.76	0.83	0.88	0.97
Allowance for loan losses as a percent of total non-performing loans(7)	275.48	137.54	119.03	78.23	69.21
Number of full-service customer facilities	13	11	10	9	8

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

(2) Performance ratios are calculated to exclude the effect of non-recurring charges in 1996 relating to a charitable donation and the special Savings Association Insurance Fund assessment.

(3) The average interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

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

(5) Operating efficiency ratio represents the ratio of operating expenses to the aggregate of other income and net interest income.

(6) Total loans receivable includes loans receivable and loans held for sale, less undisbursed loan funds, deferred loan fees and unamortized discounts/premiums.

(7) Non-performing assets consist of non-performing loans and real estate acquired through foreclosure ("REO"). Non-performing loans consist of all loans 90 days or more past due and other loans in the process of foreclosure. It is the Company's policy to cease accruing interest on all such loans.

General

OceanFirst Financial Corp. (formerly Ocean Financial Corp.) (the "Company") was incorporated on November 21, 1995, and is the holding company for OceanFirst Bank (formerly Ocean Federal Savings Bank) (the "Bank"). On August 17, 1995, the Board of Directors of the Bank adopted a Plan of Conversion, as amended, to convert from a federally chartered mutual savings bank to a federally chartered capital stock savings bank with the concurrent formation of a holding company ("the Conversion").

The Conversion was completed on July 2, 1996 with the issuance by the Company of 16,776,156 shares of its common stock in a public offering to the Bank's eligible depositors and the Bank's employee stock ownership plan (the "ESOP"). The purchase of 1,342,092 shares of common stock (8% of the total shares offered) by the ESOP was funded by a loan of \$13.4 million from the Company.

In exchange for 50% of the net conversion proceeds (\$81.6 million), the Company acquired 100% of the stock of the Bank and retained the remaining net conversion proceeds at the holding company level.

Concurrent with the close of the Conversion, an additional 1,342,092 shares of common stock (8% of the offering) were issued and donated by the Company to the OceanFirst Foundation (formerly Ocean Federal Foundation) (the "Foundation"), a private foundation dedicated to charitable purposes within Ocean County, New Jersey and its neighboring communities. The fair market value of the contribution of \$13.4 million was reflected as an expense in the Company's 1996 operating results and as an increase to capital stock and paid in capital for the same amount.

The Company had no operations prior to July 2, 1996 and, accordingly, the results of operations prior to that date reflect only those of the Bank and its subsidiaries.

The Company conducts business, primarily through its ownership of the Bank which operates its administrative/branch office located in Toms River and twelve other branch offices. Eleven of the thirteen branch offices are located in Ocean County, New Jersey, with one branch each in Middlesex and Monmouth Counties.

The Company operates as a consumer-oriented federal savings bank, with a focus on offering traditional savings deposit and loan products to its local community. With industry consolidation, however, eliminating most competitors headquartered in Ocean County, the Company saw an opportunity to fill a perceived void for locally delivered commercial loan and deposit services. As such, in the second half of 1996 the Company assembled an experienced team of commercial lending professionals and began offering commercial loan and deposit services and merchant credit card services to businesses in Ocean County and surrounding communities. The Company's strategy has been to maintain profitability while limiting its credit and interest rate risk exposure. To accomplish these objectives, the Company has sought to: (1) control credit risk by emphasizing the origination of single-family, owner-occupied residential mortgage loans and consumer loans, consisting primarily of home equity loans and lines of credit and, to a lesser extent, commercial loans to local businesses; (2) offer superior service and competitive rates to increase the core deposit base; (3) invest funds in excess of loan demand in mortgage-backed and investment securities; and (4) control operating expenses.

Management believes that the diversification of the Company's loan products may expose the Company to a higher degree of credit risk than is involved in one- to four-family residential mortgage lending activity. As a consequence of this strategy, management has developed a well-defined credit policy focusing on quality underwriting and close management and Board monitoring.

With the significant increase in capital arising from the stock conversion, the Company adopted a leverage strategy in late 1996 to improve returns on capital. The strategy included the retention of most 30-year fixed rate mortgage loans, much of which had previously been sold and the use of wholesale borrowings to fund purchases of investment and mortgage-backed securities. The adoption of this strategy may increase the Company's interest rate risk exposure. As noted below, management seeks to carefully monitor and assess the Company's interest rate risk exposure while actively managing the balance sheet composition.

Management is also seeking to increase the Company's market share in its primary market area by expanding the Bank's branch network. During 1996, the Company opened a branch office in Toms River at the site of its new administrative offices and added one branch each in 1997 and 1998. In the last half of 1999, the Company opened two branches - one in Brick Township and the other in Spring Lake Heights, the Company's first branch in Southern Monmouth County. A second Monmouth County branch, located in Wall Township, is expected to open in the second quarter of 2000. The Company is also evaluating additional office sites within its existing market area.

Management is also seeking to diversify the Company's retail product line. During 1998, the Company began offering alternative investment products (annuities and mutual funds) for sale through its retail branch network. The products are non-proprietary, sold through a third party vendor, and provide the Company with fee income opportunities. In 1999, the menu of alternative investment products was expanded to include life insurance. The Company is also introducing trust and asset management services in early 2000.

The Company's results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on the Company's interest-earning assets, such as loans and investments, and the interest expense on its interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from secondary marketing activities, loan servicing, loan originations, merchant credit card services, deposit accounts, the sale of alternative investments and other fees. The Company's operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, federal deposit insurance premiums, and other general and administrative expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

Management of Interest Rate Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its lending, investment and deposit taking activities. The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial increase in interest rates may adversely impact the Company's earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. To that end, management actively monitors and manages its interest rate risk exposure.

The principal objectives of the Company's interest rate risk management function are to evaluate the interest rate risk included in certain balance sheet accounts; determine the level of risk appropriate given the Company's business focus, operating environment, capital and liquidity requirements and performance objectives; and manage the risk consistent with Board approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes in interest rates. The Company monitors its interest rate risk as such risk relates to its operating strategies. The Company's Board of Directors has established an Asset/Liability Committee ("ALCO Committee") consisting of members of the Company's management, responsible for reviewing the Company's asset/liability policies and interest rate risk position. The ALCO Committee meets monthly and reports trends and the Company's interest rate risk position to the Board of Directors on a quarterly basis. The extent of the movement of interest rates, higher or lower, is an uncertainty that could have a negative impact on the earnings of the Company.

In recent years, the Company has utilized the following strategies to manage interest rate risk: (1) emphasizing the origination for portfolio of fixed-rate mortgage loans having terms to maturity of not more than fifteen years, adjustable-rate loans, and consumer loans consisting primarily of home equity loans and lines of credit and floating-rate and balloon maturity commercial loans; (2) holding primarily short-term and/or adjustable-rate mortgage-backed and investment securities; (3) attempting to reduce the overall interest rate sensitivity of liabilities by emphasizing core and longer-term deposits; and (4) extending the maturities on wholesale borrowings for up to ten years. The Company also periodically sells 30-year fixed-rate mortgage loans into the secondary market. In determining whether to retain 30-year fixed-rate mortgages, management considers the Company's overall interest rate risk position, the volume of such loans, the loan yield and the types and amount of funding sources. Over the past three years the Company has retained most of its 30-year fixed-rate mortgage loan production in order to improve yields and increase balance sheet leverage. Management felt that the significant capital position of the Company resulting from the Conversion, mitigated the additional interest rate risk associated with retaining these mortgages. Additionally, the Company extended the maturity on part of its wholesale borrowings for up to ten years. The Company currently does not participate in hedging programs, interest rate swaps or other activities involving the use of off-balance sheet derivative financial instruments, but may do so in the future to manage interest rate risk.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, an institution with a negative gap position generally would not be in as favorable a position, compared to an institution with a positive gap, to invest in higher yielding assets. This may result in the yield on the institution's assets increasing at a slower rate than the increase in its cost of interest-bearing liabilities. Conversely, during a period of falling interest rates, an institution with a negative gap might experience a repricing of its assets at a slower rate than its interest-bearing liabilities, which, consequently, may result in its net interest income growing at a faster rate than an institution with a positive gap position.

At December 31, 1999 the Company's one year gap was negative 11.8%. In performing this calculation, except as stated below, the amount of assets and liabilities which reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. Loans receivable reflect principal balances expected to be redeployed and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable-rate loans and fixed-rate loans, and as a result of contractual rate adjustments on adjustable-rate loans. Loans on residential properties were projected to repay at rates between 6% and 30% annually. Mortgage-backed securities were projected to prepay at rates between 15% and 25% annually. Passbook accounts, negotiable order of withdrawal ("NOW") and money market accounts were assumed to decay, or run-off, at 2.78% per month. Prepayment and decay rates can have a significant impact on the Company's estimated gap. There can be no assurance that projected prepayment rates for loans and mortgage-backed securities will be achieved or that projected decay rates will be realized.

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

Another method of analyzing an institution's exposure to interest rate risk is by measuring the change in the institution's net portfolio value ("NPV") and net interest income under various interest rate scenarios. NPV is the difference between the net present value of assets, liabilities and off-balance sheet contracts. The NPV ratio, in any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The Company's interest rate sensitivity is monitored by management through the use of an interest rate risk ("IRR") model which measures IRR by modeling the change in NPV and net interest income over a range of interest rate scenarios. The Office of Thrift Supervision ("OTS") also produces an NPV only analysis using its own model, based upon data submitted on the Bank's quarterly Thrift Financial Reports. The results produced by the OTS may vary from the results provided by the Company's model, primarily due to differences in the assumptions utilized including estimated loan prepayment rates, reinvestment rates and deposit decay rates. The following table sets forth the Company's NPV and net interest income as of December 31, 1999, as calculated by the Company (dollars in thousands). For purposes of this table, prepayment speeds and deposit decay rates similar to those used in calculating the Company's gap were used.

December 31, 1999					
Change in Interest Rates in Basis Points (Rate Shock)	Net Portfolio Value			Net Interest Income	
	Amount	%Change	NPV Ratio	Amount	%Change
300	\$119,838	(40.0)%	8.4%	\$44,212	(9.3)%
200	151,710	(24.0)	10.3	46,123	(5.3)
100	179,446	(10.1)	11.8	47,765	(2.0)
Static	199,646	-	12.8	48,724	-
(100)	231,252	6.8	13.3	49,251	1.1
(200)	217,678	9.0	13.4	48,927	1.4
(300)	216,809	8.6	13.2	47,865	(1.8)

At December 31, 1999, the Company's NPV in a static rate environment is considerably less than the NPV at December 31, 1998, reflecting the Company's declining capital levels resulting from common stock repurchase programs. Also, in a shocked interest rate environment, the Company projects a greater percent change in NPV at December 31, 1999 than was the case at December 31, 1998. The heightened interest rate sensitivity is primarily due to the generally higher interest rate environment in effect at December 31, 1999 as compared to December 31, 1998 which reduced anticipated prepayment speeds on mortgage loans and mortgage-backed securities. Additionally, 30-year fixed-rate mortgage loans represent a larger share of the Company's mortgage loan portfolio at December 31, 1999 as compared to December 31, 1998. Conversely, in each rate shock environment, the Company projects a slightly reduced level of interest rate sensitivity in the net interest income measure at December 31, 1999 as compared to December 31, 1998.

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

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income also depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth certain information relating to the Company at December 31, 1999 and for each of the years ended December 31, 1999, 1998, and 1997. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields.

	At December 31,				Years Ended December 31,			
	1999		1999		1998		1998	
	Balance	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:								
Interest-earning assets:								
Interest-earning deposits and short-term investments	\$ 4,638	4.88%	\$ 2,860	\$ 103	3.60%	\$ 5,375	\$ 295	5.49%
Investment securities	120,780	6.92	122,848	7,840	6.38	173,158	11,461	6.62
FHLB stock	16,800	6.75	16,800	1,142	6.80	15,096	1,094	7.25
Mortgage-backed securities	346,182	6.54	375,239	23,622	6.30	423,516	25,669	6.06
Loans receivable, net (1)	1,042,975	7.52	997,772	74,640	7.48	863,172	67,038	7.77
Total interest-earning assets	1,531,375	7.23	1,515,519	107,347	7.08	1,480,317	105,557	7.13
Non-interest-earning assets	59,532		50,231			49,428		
Total assets	\$1,590,907		\$1,565,750			\$1,529,745		
Liabilities and Equity:								
Interest-bearing liabilities:								
Money market deposit accounts	\$ 80,597	2.61%	\$ 77,478	2,090	2.70%	\$ 71,800	2,026	2.82%
Savings accounts	171,064	2.03	173,798	3,518	2.02	167,058	3,442	2.06
NOW accounts	113,426	1.59	111,356	1,711	1.54	89,679	1,517	1.69
Time deposits	660,535	5.18	657,536	33,601	5.11	663,483	36,819	5.55
Total	1,025,622	4.05	1,020,168	40,920	4.01	992,020	43,804	4.42
FHLB advances	115,000	5.97	67,857	3,853	5.68	24,113	1,295	5.37
Securities sold under agreements to repurchase	239,867	5.66	253,811	14,036	5.53	278,424	16,300	5.85
Total interest-bearing liabilities	1,380,489	4.49	1,341,836	58,809	4.38	1,294,557	61,399	4.74
Non-interest-bearing liabilities	42,888		40,209			31,222		
Total liabilities	1,423,377		1,382,045			1,325,779		
Stockholders' equity	167,530		183,705			203,966		
Total liabilities and equity	\$1,590,907		\$1,565,750			\$1,529,745		
Net interest income				\$ 48,538			\$44,158	
Net interest rate spread (2)		2.74%			2.70%			2.39%
Net interest margin (3)		3.18%			3.20%			2.98%
Ratio of interest-earning assets to interest-bearing liabilities	110.93%		112.94%			114.35%		

1997

	Average Balance	Interest	Average Yield/ Cost
Assets:			

Interest-earning assets:			
Interest-earning deposits and short-term investments	\$ 2,852	\$ 155	5.43%
Investment securities	196,650	13,302	6.76
FHLB stock	11,271	752	6.67
Mortgage-backed securities	442,500	26,907	6.08
Loans receivable, net (1)	725,866	57,540	7.93
Total interest-earning assets	1,379,139	98,656	7.15
Non-interest-earning assets	38,829		
Total assets	\$1,417,968		
Liabilities and Equity:			
Interest-bearing liabilities:			
Money market deposit accounts	\$ 68,972	2,028	2.94%
Savings accounts	168,733	3,877	2.30
NOW accounts	77,785	1,388	1.78
Time deposits	637,425	35,667	5.60
Total	952,915	42,960	4.51
FHLB advances	7,207	414	5.74
Securities sold under agreements to repurchase	209,089	12,234	5.85
Total interest-bearing liabilities	1,169,211	55,608	4.76
Non-interest-bearing liabilities	18,395		
Total liabilities	1,187,606		
Stockholders' equity	230,362		
Total liabilities and equity	\$1,417,968		
Net interest income		\$43,048	
Net interest rate spread (2)			2.39%
Net interest margin (3)			3.12%
Ratio of interest-earning assets to interest-bearing liabilities	117.95%		

(1) Amount is net of deferred loan fees, undisbursed loan funds, discounts and premiums and estimated loan loss allowances and includes loans held for sale and non-performing loans.

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

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

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

	Year Ended December 31, 1999			Year Ended December 31, 1998		
	Compared to			Compared to		
	Year Ended December 31, 1998			Year Ended December 31, 1997		
	Increase(Decrease)			Increase(Decrease)		
	Due to			Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ (111)	\$ (81)	\$ (192)	\$ 138	\$ 2	\$ 140
Investment securities	(3,219)	(402)	(3,621)	(1,569)	(272)	(1,841)
FHLB stock	119	(71)	48	272	70	342
Mortgage-backed securities	(3,028)	981	(2,047)	(1,150)	(88)	(1,238)
Loans receivable, net	10,173	(2,571)	7,602	10,681	(1,183)	9,498
Total interest-earning assets	3,934	(2,144)	1,790	8,372	(1,471)	6,901
Interest-bearing liabilities:						
Money market deposit accounts	153	(89)	64	82	(84)	(2)
Savings accounts	142	(66)	76	(38)	(397)	(435)
NOW accounts	339	(145)	194	202	(73)	129
Time deposits	(327)	(2,891)	(3,218)	1,469	(317)	1,152
Total	307	(3,191)	(2,884)	1,715	(871)	844
FHLB advances	2,479	79	2,558	910	(29)	881
Securities sold under agreements to repurchase	(1,399)	(865)	(2,264)	4,066	--	4,066
Total interest-bearing liabilities	1,387	(3,977)	(2,590)	6,691	(900)	5,791
Net change in net interest income	\$ 2,547	\$ 1,833	\$ 4,380	\$ 1,681	\$ (571)	\$ 1,110

Comparison of Financial Condition at December 31, 1999 and December 31, 1998

Total assets at December 31, 1999 were \$1.591 billion, an increase of \$29.2 million, compared to \$1.562 billion at December 31, 1998.

Investment securities available for sale decreased by \$16.6 million, to a balance of \$120.8 million at December 31, 1999, compared to a balance of \$137.4 million at December 31, 1998, and mortgage-backed securities available for sale decreased by \$35.6 million, to \$346.2 million at December 31, 1999, from \$381.8 million at December 31, 1998. The investment and mortgage-backed securities available for sale portfolios decreased in order to partly fund growth in the Bank's loans receivable. Loans receivable, net, increased by \$102.0 million, or 10.8%, to a balance of \$1,043.0 million at December 31, 1999, compared to a balance of \$941.0 million at December 31, 1998. The increase was largely attributable to strong residential loan growth (including mortgage refinance activity) in the Bank's market area, as well as commercial lending (including commercial real estate) initiatives which accounted for \$24.2 million of this growth. Included in the residential loan growth is \$89.4 million of 30-year fixed-rate mortgage loans which the Bank retained in portfolio, while \$49.2 million of 30-year fixed-rate mortgage loans were sold, including \$25.1 million which were held for sale at December 31, 1998. The Bank periodically sells these loans as part of the management of interest rate risk.

Total deposits at December 31, 1999 were \$1.057 billion, an increase of \$21.7 million, compared to \$1.035 billion at December 31, 1998. Total borrowings, including Federal Home Loan Bank ("FHLB") advances and securities sold under agreements to repurchase, increased by \$42.8 million to a combined balance of \$354.9 million at December 31, 1999, compared to a combined balance of \$312.1 million at December 31, 1998. The borrowings were used to fund loan growth and the Company's common stock repurchase program. Stockholders' equity at December 31, 1999 was \$167.5 million, compared to \$197.7 million at December 31, 1998. The Company repurchased 2.0 million shares of common stock during the year ended December 31, 1999 for \$35.2 million, fully completing the remainder of a 5% repurchase program announced in November 1998; and a 10% repurchase program announced in July 1999.

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 1999 and December 31, 1998

General

Net income increased \$3.4 million or 26.0%, to \$16.3 million for the year ended December 31, 1999 as compared to net income of \$13.0 million for the year ended December 31, 1998. Diluted earnings per share increased 40.0%, to \$1.33 for the year ended December 31, 1999, as compared to \$.95 for the year ended December 31, 1998. The higher percentage increase in earnings per share is the result of the Company's repurchase program which reduced the number of shares outstanding for purposes of calculating earnings per share.

Interest Income

Interest income for the year ended December 31, 1999 was \$107.3 million, compared to \$105.6 million for the year ended December 31, 1998, an increase of \$1.7 million. The increase in interest income was due to an increase in average interest-earning assets and a change in the mix of average-earning assets towards a higher concentration of loans receivable with a corresponding reduction of lower yielding investment and mortgage-backed securities. For the year ended December 31, 1999 loans receivable represented 65.8% of average interest-earning assets as compared to 58.3% for the same prior year period. The above factors were partly offset by a decline in the yield on average interest-earning assets, which declined to 7.08% on average from 7.13% on average in the same prior year period.

Interest Expense

Interest expense for the year ended December 31, 1999 was \$58.8 million, compared to \$61.4 million for the year ended December 31, 1998, a decrease of \$2.6 million, or 4.2%. The decrease in interest expense was primarily the result of a decrease in the average cost of interest-bearing liabilities, which declined to 4.38% for the year ended December 31, 1999, as compared to 4.74% for the same prior year period. The significant decline in funding cost more than offset an increase in average interest-bearing liabilities, which rose by \$47.3 million for the year ended December 31, 1999, as compared to the same prior year period. The Company's focus on lower cost core deposit growth has contributed to the decline in interest expense, as core deposits represented 37.2% of average deposits (including non-interest-earning deposits) for the year ended December 31, 1999, as compared to 34.4% for the same prior year period.

Provision for Loan Losses

For the year ended December 31, 1999, the Company's provision for loan losses was \$900,000, unchanged from the same prior year period. The Company's non-performing assets declined by \$2.2 million at December 31, 1999, as compared to December 31, 1998 allowing for stable provisions despite loan growth.

Management of the Company is responsible for the determination of the level of the allowance for loan losses. The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loan portfolio and upon management's continuing analysis of the factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, current and anticipated economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, and determination of the existence and realizable value of the collateral and guarantees securing the loan. Additions to this allowance are charged to earnings. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to provide additions to the allowance based upon information available to them at the time of their examination. Although management uses the best information available, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions beyond the Company's control.

Other Income

Other income was \$5.2 million for the year ended December 31, 1999 as compared to \$2.4 million for the same prior year period. The net gain (loss) on the sale of loans and securities was a \$557,000 gain for the year ended December 31, 1999 as compared to a \$622,000 loss for the same prior year period. The loss for the year ended December 31, 1998 was due to the implementation of a balance sheet restructuring designed to improve future earnings while mitigating exposure to prepayment and interest rate risk. In December 1998, the Company purchased \$28.9 million of adjustable-rate and short-term fixed-rate whole loans at a nominal premium. At the same time, the Company sold \$48.8 million of adjustable-rate mortgage-backed securities with high prepayment speeds at a loss of \$850,000. The Company then sold \$25.1 million of 30-year fixed-rate loans in January 1999 at a gain of \$524,000 to complete the restructuring. For the full year ended December 31, 1999, the Company sold \$49.2 million in 30-year fixed-rate mortgage loans at a gain of \$606,000 as compared to the sale of \$16.1 million at a gain of \$228,000 in the same prior year period. The Company periodically sells these loans to assist in the management of interest rate risk.

Fees and service charges increased by \$1.5 million or 71.0% for the year ended December 31, 1999 as compared to the same prior year period due to fees associated with the growth in commercial account services and retail core account balances as well as the addition of fee income from the sale of Investment Services at OceanFirst alternative investment products, namely mutual funds and annuities, introduced late in the second quarter of 1998. This product category was further expanded in the first quarter of 1999 to include life and long-term care insurance. The total fees relating to the sale of alternative investment products amounted to \$581,000 for the year ended December 31, 1999, as compared to \$104,000 for the corresponding prior year period.

Operating Expenses

Operating expenses were \$27.9 million for the year ended December 31, 1999, an increase of \$2.4 million compared to the same prior year period. The increase was partly due to nonrecurring direct costs associated with readying the Company's data processing systems for the year 2000, which amounted to \$510,000 for the year ended December 31, 1999, as compared to \$102,000 for the same prior year period. Also contributing to the increase was marketing and other expenses related to the Bank's branding initiatives; the costs associated with the opening of the Bank's twelfth and thirteenth branch offices in September and October 1999; and the introduction of the Company's Trust and Asset Management business line.

Provision for Income Taxes

Income tax expense was \$8.7 million for the year ended December 31, 1999, compared to \$7.2 million for the year ended December 31, 1998. The effective tax rate declined slightly to 34.6% for the year ended December 31, 1999, as compared to 35.8% for the same prior year period.

Comparison of Operating Results for the Years Ended December 31, 1998 and December 31, 1997

General

Net income decreased to \$13.0 million for the year ended December 31, 1998 as compared to net income of \$13.8 million for the year ended December 31, 1997. Diluted earnings per share, however, increased 8.0%, to \$.95 for the year ended December 31, 1998, as compared to \$.88 for the year ended December 31, 1997. The increase in earnings per share is the result of the Company's repurchase program and additional purchases by the ESOP, both of which reduced the number of shares outstanding for purposes of calculating earnings per share.

Interest Income

Interest income for the year ended December 31, 1998 was \$105.6 million, compared to \$98.7 million for the year ended December 31, 1997, an increase of \$6.9 million or 7.0%. The increase in interest income was the result of an increase in the average balance of loans receivable which increased by \$137.3 million for the year ended December 31, 1998. The increase in the year-over-year average balance of loans receivable more than offset a \$42.5 million decrease in the average balance of investment and mortgage-backed securities. Overall interest-earning assets increased \$101.2 million for the year ended December 31, 1998, as compared to the year ended December 31, 1997. The average yield declined slightly to 7.13% for the year ended December 31, 1998, as compared to 7.15% for the year ended December 31, 1997.

Interest Expense

Interest expense for the year ended December 31, 1998 was \$61.4 million, compared to \$55.6 million for the year ended December 31, 1997, an increase of \$5.8 million, or 10.4%. The increase in interest expense was primarily the result of an increase in the average outstanding balance of total borrowings (Federal Home Loan Bank advances and securities sold under agreements to repurchase) which increased by \$86.2 million for the year ended December 31, 1998, as compared to the same prior year period and an additional increase in average interest-bearing deposits of \$39.1 million for the year ended December 31, 1998, as compared to the same prior year period. The increase in wholesale borrowings was part of a leverage strategy adopted in late 1996 to improve returns on invested capital. Proceeds from the borrowings were invested in mortgage loans and investment and mortgage-backed securities. The average cost of interest-bearing liabilities decreased to 4.74% for the year ended December 31, 1998, as compared to 4.76% for the same prior year period.

Provision for Loan Losses

For the year ended December 31, 1998, the Company's provision for loan losses was \$900,000, unchanged from the same prior year period. The Company's non-performing assets declined by \$1.3 million at December 31, 1998, as compared to December 31, 1997 allowing for stable provisions despite loan growth.

Other Income

Other income decreased to \$2.4 million for the year ended December 31, 1998, compared to \$2.5 million for the same prior year period. The decrease was due to the recognition of a \$850,000 loss on the sale of mortgage-backed securities. Excluding the loss, other income increased \$752,000, or 30.0% for the year ended December 31, 1998, as compared to the prior year. The increase was primarily due to gains recognized on the sale of 30-year fixed-rate mortgage loans, which the Company periodically sells as part of the management of interest rate risk. These gains amounted to \$228,000 for the year ended December 31, 1998. Additionally, deposit related fees (part of fees and service charges)

increased by \$476,000 for the year ended December 31, 1998, as compared to the same prior year period, due to growth in commercial account services and retail core account balances. The Company also realized \$104,000 in fee income during 1998 from the sale of alternative investment products, a service the Company introduced late in the second quarter. The growth in these fees was partly offset by reductions in loan servicing fees due to prepayments of the loans underlying the servicing portfolio. Total servicing fee income declined by \$424,000 for the year ended December 31, 1998, as compared to the prior year.

Results of Operations

Continued

Operating Expenses

Operating expenses were \$25.5 million for the year ended December 31, 1998, an increase of \$2.3 million compared to the same prior year period. For the year ended December 31, 1998, marketing expense increased \$677,000 as the Bank aggressively promoted its new retail checking products. The Bank also opened its eleventh branch office in early April of 1998. Out-of-pocket expenses associated with readying the Company's data processing systems for the Year 2000 amounted to \$102,000 during 1998.

Provision for Income Taxes

Income tax expense was \$7.2 million for the year ended December 31, 1998, compared to \$7.7 million for the year ended December 31, 1997. The effective tax rate was relatively stable at 35.8% for the year ended December 31, 1998, as compared to 35.7% for the same prior year period.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, FHLB advances and other borrowings and, to a lesser extent, investment maturities and proceeds from the sale of loans and securities. While scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including an overnight line of credit and advances from the FHLB.

At December 31, 1999, the Company had no outstanding overnight borrowings from the FHLB, representing a decrease from \$30.0 million at December 31, 1998. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also borrowed \$354.9 million at December 31, 1999 through FHLB advances and securities sold under agreements to repurchase, an increase from \$282.1 million at December 31, 1998. These borrowings were used to fund a wholesale leverage strategy designed to improve returns on invested capital.

The Company's cash needs for the year ended December 31, 1999, were principally provided by proceeds from the sale of mortgage loans held for sale, maturities of investment securities available for sale, principal payments on loans and mortgage-backed securities, FHLB advances and increased deposits. The cash was principally utilized for loan originations, purchases of investment and mortgage-backed securities and the purchase of treasury stock. For the year ended December 31, 1998, the cash needs of the Company were primarily satisfied by maturities of investment securities available for sale, principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage-backed securities, and increased deposits, including a deposit acquisition. The cash provided was principally used for the purchase of investment and mortgage-backed securities, the origination and purchase of loans and the purchase of treasury stock.

Federal regulations require the Bank to maintain minimum levels of liquid assets. The required percentage has varied from time to time based upon economic conditions and savings flows and is currently 4% of net withdrawable savings deposits and borrowings payable on demand or in one year or less during the preceding calendar month. Liquid assets for purposes of this ratio include cash, accrued interest receivable, certain time deposits, U.S. Treasury and Government agencies and other securities and obligations generally having remaining maturities of less than five years. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. As of December 31, 1999 and 1998, the Bank's liquidity ratios were 8.9% and 12.5%, respectively, both in excess of the minimum regulatory requirement.

At December 31, 1999, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$149.7 million, or 9.4%, of total adjusted assets, which is above the required level of \$23.9 million or 1.5%; core capital of \$149.7 million or 9.4% of total adjusted assets, which is above the required level of \$47.9 million, or 3.0%; and risk-based capital of \$157.8 million, or 18.9% of risk-weighted assets, which is above the required level of \$66.9 million or 8.0%. The Bank is considered a "well capitalized" institution under the Office of Thrift Supervision's prompt corrective action regulations.

Impact of Year 2000

Issues surrounding the Year 2000 arose out of the fact that many computer programs use only two digits to identify a year in the date field. Computer hardware and software that were not made Year 2000 ready would likely interpret "00" as year 1900 rather than Year 2000.

Beginning in April 1997 the Company formally began to address the Year 2000 issue. A project plan was constructed to follow the guidelines set forth by the Federal Financial Institutions Examination Council (FFIEC). The guidelines mandated that the Year 2000 project address five specific phases: awareness, assessment, renovation, validation (testing), and implementation. The Company completed all five phases of the project by June 30, 1999 thereby meeting all regulatory guidelines.

During 1998 and 1999 the Company successfully tested all functions provided by its data processing agent and the primary provider of mission critical systems, BISYS Incorporated. The Company continued to revalidate BISYS systems and hardware throughout 1999 and closely monitored BISYS' progress in insuring their systems functioned correctly into the Year 2000. All other primary service providers also completed reprogramming and testing of their mission critical systems and the Company validated those test results.

During the last half of 1999, the Company focused on customer awareness, contingency planning, and liquidity planning. An extensive customer outreach program was initiated as the Company disseminated pertinent Year 2000 information through the use of awareness seminars, civic organization presentations, Y2K hotline updates, Internet web site updates, newspaper advertising and direct mail communications to Bank customers. The Company's contingency programs were reviewed and tested prior to year-end and liquidity plans were completed to ensure that the Company had access to necessary funds to meet customer's needs.

The Company's operations continued to function through and after the date change, from December 31, 1999 to January 1, 2000, and throughout January 2000. The Company has experienced no Year 2000-related customer service disruptions as customers were able to continue to access their accounts and conduct business with the Bank. To reassure the Bank's customer base all thirteen Bank branches were open for business on Saturday and Sunday, January 1 and 2, 2000.

Significant borrowers in the residential and commercial loan portfolios have been assessed to determine an appropriate risk rating. The Company will continue to monitor the ability of borrowers to meet their financial obligations into the Year 2000.

Expenses related to the Company's Year 2000 effort for the year ended December 31, 1999 totaled \$740,000. These expenses consist of \$510,000 in costs associated with the renovation of software, hardware and consulting charges and \$230,000 representing an estimate of the direct cost for compensation and fringe benefits of internal employees working on the Year 2000 project. The 1999 expense exceeded management's estimate at the beginning of the year of \$400,000 to \$600,000 primarily due to the costs relating to the development, testing and implementation of contingency plans.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollar amounts without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Impact of New Accounting Pronouncements

In June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133." This statement amends FASB statement No. 133 by delaying the effective date one year. SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivative instruments as either assets or liabilities in the statement of financial position and measurement of those instruments at fair value. This Statement is now effective for all fiscal quarters of fiscal years beginning after June 15, 2000, on a prospective basis. The adoption of SFAS No. 133 is not expected to have a material impact on the financial position or results of operations of the Company.

Recent legislation

Recent legislation designed to modernize the regulation of the financial services industry expands the ability of bank holding companies to affiliate with other types of financial services companies such as insurance companies and investment banking companies. However, the legislation provides that companies that acquire control of a single savings association after May 4, 1999 (or that filed an application for that purpose after that date) are not entitled to the unrestricted activities formerly allowed for a unitary savings and loan holding company. Rather, these companies will have authority to engage in the activities permitted "a financial holding company" under the new legislation, including insurance and security-related activities, and the activities currently permitted for multiple savings and loan holding companies, but generally not in commercial activities. The authority for unrestricted activities is grandfathered for unitary savings and loan holding companies, such as the Company, that existed prior to May 4, 1999. The authority for unrestricted activities, however, would not apply to any company that acquired the Company.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this annual report may include certain forward looking statements based on current management expectations. The Company's actual results could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal and state tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the

quality or composition of the Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in Item 1, BUSINESS of the Company's 1999 Form 10-K.

Consolidated Statements of Financial Condition

December 31, 1999 and 1998

(dollars in thousands, except per share amounts)

	1999	1998
Assets		
Cash and due from banks	\$ 10,007	\$ 10,295
Investment securities available for sale (notes 3 and 9)	120,780	137,405
Federal Home Loan Bank of New York stock, at cost (note 9)	16,800	16,800
Mortgage-backed securities available for sale (notes 4 and 9)	346,182	381,840
Loans receivable, net (notes 5 and 9)	1,042,975	941,011
Mortgage loans held for sale	-	25,140
Interest and dividends receivable (note 6)	8,468	9,820
Real estate owned, net	292	43
Premises and equipment, net (note 7)	13,889	13,947
Other assets (note 10)	31,514	25,443
Total assets	\$1,590,907	\$1,561,744
Liabilities and Stockholders' Equity		
Deposits (note 8)	\$1,056,950	\$1,035,251
Federal Home Loan Bank advances (note 9)	115,000	40,000
Securities sold under agreements to repurchase (note 9)	239,867	272,108
Advances by borrowers for taxes and insurance	5,990	5,096
Other liabilities (note 10)	5,570	11,549
Total liabilities	1,423,377	1,364,004
Stockholders' Equity (notes 2, 10, 11 and 12):		
Preferred stock, \$.01 par value, 5,000,000 shares authorized, no shares issued	--	--
Common stock, \$.01 par value, 55,000,000 shares authorized, 18,118,248 shares issued and 12,620,923 and 14,629,776 shares outstanding at December 31, 1999 and 1998, respectively	181	181
Additional paid-in capital	178,850	178,309
Retained earnings-substantially restricted	113,169	103,982
Accumulated other comprehensive loss	(9,568)	(1,226)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(15,727)	(17,376)
Unearned Incentive Awards	(4,030)	(5,963)
Treasury stock, 5,497,325 and 3,488,472 shares at December 31, 1999 and 1998, respectively	(95,345)	(60,167)
Total stockholders' equity	167,530	197,740
Commitments and contingencies (note 13)		
Total liabilities and stockholders' equity	\$1,590,907	\$1,561,744

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(in thousands, except per share amounts)

Years Ended December 31, 1999, 1998 and 1997	1999	1998	1997
Interest income:			
Loans	\$ 74,640	\$ 67,038	\$57,540
Mortgage-backed securities	23,622	25,669	26,907
Investment securities and other	9,085	12,850	14,209
Total interest income	107,347	105,557	98,656
Interest expense:			
Deposits (note 8)	40,920	43,804	42,960
Borrowed funds	17,889	17,595	12,648
Total interest expense	58,809	61,399	55,608
Net interest income	48,538	44,158	43,048
Provision for loan losses (note 5)	900	900	900
Net interest income after provision for loan losses	47,638	43,258	42,148
Other income:			
Fees and service charges	3,569	2,087	1,905
Net gain (loss) on sales of loans and securities available for sale (notes 3 and 4)	557	(622)	(132)
Net income from other real estate operations	148	209	223
Other	952	737	513
Total other income	5,226	2,411	2,509
Operating expenses:			
Compensation and employee benefits (notes 11 and 12)	15,378	14,604	13,969
Occupancy (note 13)	2,133	1,936	1,919
Equipment	1,375	1,362	1,288
Marketing	1,733	1,427	750
Federal deposit insurance	859	865	719
Data processing	1,333	1,278	1,243
General and administrative	5,041	3,985	3,257
Total operating expenses	27,852	25,457	23,145
Income before provision for income taxes	25,012	20,212	21,512
Provision for income taxes (note 10)	8,665	7,240	7,687
Net income	\$ 16,347	\$ 12,972	\$13,825
Basic earnings per share	\$ 1.36	\$.97	\$.90
Diluted earnings per share	\$ 1.33	\$.95	\$.88
Average basic shares outstanding (note 1)	11,990	13,335	15,344
Average diluted shares outstanding (note 1)	12,299	13,677	15,638

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(dollars in thousands, except per share amounts)

Years Ended December 31, 1999, 1998 and 1997	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)Income
Balance at December 31, 1996	\$181	\$176,812	\$ 88,462	\$ (335)
Comprehensive income:				
Net income	--	--	13,825	--
Other comprehensive income:				
Unrealized gain on securities (net of tax expense \$718)	--	--	--	1,234
Reclassification adjustment for losses included in net income (net of tax benefit \$52)	--	--	--	90
Total comprehensive income	--	--	--	--
Acquisition of 671,046 shares of common stock for Incentive Awards	--	(506)	--	--
Earned Incentive Awards	--	--	--	--
Purchase 2,412,528 shares of common stock	--	--	--	--
Allocation of ESOP stock	--	--	--	--
ESOP adjustment	--	917	--	--
Cash dividend -- \$.30 per share	--	--	(4,800)	--
Balance at December 31, 1997	181	177,223	97,487	989
Comprehensive income:				
Net income	--	--	12,972	--
Other comprehensive loss:				
Unrealized loss on securities (net of tax benefit \$1,620)	--	--	--	(2,750)
Reclassification adjustment for losses included in net income (net of tax benefit \$315)	--	--	--	535
Total comprehensive income	--	--	--	--
Earned Incentive Awards	--	--	--	--
Tax benefit of stock plans	--	463	--	--
Purchase 1,078,292 shares of common stock	--	--	--	--
Allocation of ESOP stock	--	--	--	--
ESOP adjustment	--	623	--	--
Cash dividend -- \$.46 per share	--	--	(6,470)	--
Acquisition of 422,500 shares of common stock by ESOP	--	--	--	--
Exercise of stock options -- 2,348 shares	--	--	(7)	--
Balance at December 31, 1998	181	178,309	103,982	(1,226)
Comprehensive income:				
Net income	--	--	16,347	--
Other comprehensive loss:				
Unrealized loss on securities (net of tax benefit \$4,917)	--	--	--	(8,373)
Reclassification adjustment for losses included in net income (net of tax benefit \$18)	--	--	--	31
Total comprehensive income	--	--	--	--
Earned Incentive Awards	--	--	--	--
Purchase 2,010,061 shares of common stock	--	--	--	--

Allocation of ESOP stock	--	--	--	--
ESOP adjustment	--	541	--	--
Cash dividend -- \$.57 per share	--	--	(7,157)	--
Exercise of stock options -- 1,208 shares	--	--	(3)	--
Balance at December 31, 1999	\$181	\$178,850	\$113,169	\$ (9,568)

Years Ended December 31, 1999, 1998 and 1997	Employee Stock Ownership Plan	Unearned Incentive Awards	Treasury Stock	Total
Balance at December 31, 1996	\$ (12,331)	\$ --	\$ --	\$252,789
Comprehensive income:				
Net income	--	--	--	13,825
Other comprehensive income:				
Unrealized gain on securities (net of tax expense \$718)	--	--	--	1,234
Reclassification adjustment for losses included in net income (net of tax benefit \$52)	--	--	--	90
Total comprehensive income	--	--	--	15,149
Acquisition of 671,046 shares of common stock for Incentive Awards	--	(9,670)	--	(10,176)
Earned Incentive Awards	--	1,773	--	1,773
Purchase 2,412,528 shares of common stock	--	--	(41,536)	(41,536)
Allocation of ESOP stock	1,428	--	--	1,428
ESOP adjustment	--	--	--	917
Cash dividend -- \$.30 per share	--	--	--	(4,800)
Balance at December 31, 1997	(10,903)	(7,897)	(41,536)	215,544
Comprehensive income:				
Net income	--	--	--	12,972
Other comprehensive loss:				
Unrealized loss on securities (net of tax benefit \$1,620)	--	--	--	(2,750)
Reclassification adjustment for losses included in net income (net of tax benefit \$315)	--	--	--	535
Total comprehensive income	--	--	--	10,757
Earned Incentive Awards	--	1,934	--	1,934
Tax benefit of stock plans	--	--	--	463
Purchase 1,078,292 shares of common stock	--	--	(18,672)	(18,672)
Allocation of ESOP stock	1,727	--	--	1,727
ESOP adjustment	--	--	--	623
Cash dividend -- \$.46 per share	--	--	--	(6,470)
Acquisition of 422,500 shares of common stock by ESOP	(8,200)	--	--	(8,200)
Exercise of stock options -- 2,348 shares	--	--	41	34
Balance at December 31, 1998	(17,376)	(5,963)	(60,167)	197,740
Comprehensive income:				
Net income	--	--	--	16,347
Other comprehensive loss:				
Unrealized loss on securities (net of tax benefit \$4,917)	--	--	--	(8,373)
Reclassification adjustment for losses included in net income (net of tax benefit \$18)	--	--	--	31
Total comprehensive income	--	--	--	8,005

Earned Incentive Awards	--	1,933	--	1,933
Purchase 2,010,061 shares of common stock	--	--	(35,198)	(35,198)
Allocation of ESOP stock	1,649	--	--	1,649
ESOP adjustment	--	--	--	541
Cash dividend -- \$.57 per share	--	--	--	(7,157)
Exercise of stock options -- 1,208 shares	--	--	20	17
Balance at December 31, 1999	\$ (15,727)	\$ (4,030)	\$ (95,345)	\$167,530

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(dollars in thousands)

Years ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 16,347	\$ 12,972	\$ 13,825
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	1,509	1,472	1,354
Amortization of Incentive Awards	1,933	1,934	1,773
Amortization of ESOP	1,649	1,727	1,428
ESOP adjustment	541	623	917
Amortization of servicing asset	351	572	197
Amortization of deposit premium	103	52	--
Net premium amortization in excess of discount accretion on securities	1,044	3,190	3,498
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(310)	(533)	(382)
Provision for loan losses	900	900	900
Deferred taxes	757	1,749	529
Net gain on sales of real estate owned	(246)	(173)	(457)
Net (gain) loss on sales of loans and securities available for sale	(557)	622	132
Proceeds from sales of mortgage loans held for sale	48,719	16,301	2,705
Mortgage loans originated for sale	(22,973)	(41,212)	(2,008)
Decrease (increase) in interest and dividends receivable	1,352	1,244	(1,307)
Increase in other assets	(2,384)	(6,484)	(4,865)
(Decrease) increase in other liabilities	(5,979)	6,746	874
Total adjustments	26,409	(11,270)	5,288
Net cash provided by operating activities	42,756	1,702	19,113
Cash flows from investing activities:			
Net increase in loans receivable	(103,663)	(129,468)	(107,948)
Loans purchased	--	(29,207)	--
Proceeds from sales of investment and mortgage-backed securities available for sale	121	47,974	19,006
Purchase of investment securities available for sale	(15,423)	(128,751)	(51,154)
Purchase of mortgage-backed securities available for sale	(97,251)	(181,095)	(248,917)
Proceeds from maturities of investment securities available for sale	30,043	195,216	20,300
Principal payments on mortgage-backed securities available for sale	120,460	204,359	164,291
Purchases of Federal Home Loan Bank of New York stock	--	(1,820)	(6,523)
Proceeds from sales of real estate owned	1,106	2,320	3,277
Purchases of premises and equipment	(1,451)	(1,140)	(1,533)
Net cash used in investing activities	(66,058)	(21,612)	(209,201)
Cash flows from financing activities:			
Acquisition of deposits	--	10,732	--
Deposit premium	--	(1,030)	--
Increase in deposits	21,699	47,755	42,034
Increase in Federal Home Loan Bank advances	75,000	19,600	11,600
(Decrease) increase in securities sold under agreements to repurchase	(32,241)	(16,092)	188,878
Increase in advances by borrowers for taxes and insurance	894	323	941
Purchase of Incentive Award shares	--	--	(10,176)
Exercise of Stock Options	17	34	--
Dividends paid	(7,157)	(6,470)	(4,800)

Purchase of ESOP shares	--	(8,200)	--
Purchase of treasury stock	(35,198)	(18,672)	(41,536)
Net cash provided by financing activities	23,014	27,980	186,941
Net (decrease) increase in cash and due from banks	(288)	8,070	(3,147)
Cash and due from banks at beginning of year	10,295	2,225	5,372
Cash and due from banks at end of year	\$ 10,007	\$ 10,295	\$ 2,225
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 58,238	\$ 60,658	\$ 54,863
Income taxes	13,416	30	7,246
Noncash investing activities:			
Transfer of loans receivable to real estate owned	1,109	992	2,463
Mortgage loans securitized into mortgage-backed securities	\$ 37,200	\$ 16,082	\$ 2,025

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

OceanFirst Bank (formerly Ocean Federal Savings Bank) (the "Bank") converted from a mutual savings bank to a capital stock savings bank on July 2, 1996. As part of the conversion, OceanFirst Financial Corp. (formerly Ocean Financial Corp.) (the "Company") was formed, acquired all of the Bank's conversion stock, and issued its common stock in a subscription offering. The acquisition of the Bank's conversion stock was accounted for similar to a pooling of interests and, therefore, the financial condition and results of operations of the Bank prior to July 2, 1996 became the financial condition and results of operations of the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, OceanFirst Bank, and its wholly-owned subsidiaries, OceanFirst Realty, Inc. and OceanFirst Service Corp. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain amounts previously reported have been reclassified to conform to the current year's presentation.

Business

The Bank provides a range of banking services to customers through a network of branches in Ocean, Monmouth and Middlesex counties in New Jersey. The Bank is subject to competition from other financial institutions; it is also subject to the regulations of certain regulatory agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the period then ended. Actual results could differ significantly from those estimates and assumptions.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in settlement of loans. In connection with the determination of the allowances for loan losses and Real Estate Owned (REO), management obtains independent appraisals for significant properties.

Cash Equivalents

Cash equivalents consist of interest-bearing deposits in other financial institutions and loans of Federal funds. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investment and Mortgage-Backed Securities

The Company classifies all investment and mortgage-backed securities as available for sale. Securities available for sale include securities that management intends to use as part of its asset/liability management strategy. Such securities are carried at fair value and unrealized gains and losses, net of related tax effect, are excluded from earnings, but are included as a separate component of stockholders' equity. Gains or losses on the sale of such securities are included in other income using the specific identification method.

Loans Receivable

Loans receivable, other than loans held for sale, are stated at unpaid principal balance, plus unamortized premiums less unearned discounts, net of deferred loan origination and commitment fees, and the allowance for loan losses. Discounts and premiums are recognized in income using the level-yield method over the estimated lives of the loans.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net fee or cost is recognized in interest income using the level-yield method over the contractual life of the specifically identified loans, adjusted for actual prepayments.

Loans in which interest is more than 90 days past due, including impaired loans, and other loans in the process of foreclosure are placed on nonaccrual status. Interest income previously accrued on these loans, but not yet received, is reversed in the current period. Any interest subsequently collected is credited to income in the period of recovery. A loan is returned to accrual status when all amounts due have been received and the remaining principal balance is deemed collectible.

A loan is considered impaired when it is deemed probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. The Company has defined the population of impaired loans to be all non-accrual commercial real estate, multi-family, land, construction and commercial loans in excess of \$250,000. Impaired loans are individually assessed to determine that the loan's carrying value is not in excess of the fair value of the collateral or the present value of the loan's expected future cash flows. Smaller balance homogeneous loans that are collectively evaluated for impairment, such as residential mortgage loans and installment loans, are specifically excluded from the impaired loan portfolio.

Mortgage Loans Held for Sale

The Company may periodically sell all or part of its conforming loan originations. Mortgage loans intended for sale are carried at the lower of unpaid principal balance, net, or market value on an aggregate basis.

Allowance for Loan Losses

The adequacy of the allowance for loan losses is based on management's evaluation of the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. Additions to the allowance arise from charges to operations through the provision for loan losses or from the recovery of amounts previously charged off. The allowance is reduced by loan charge-offs. Loans are charged-off when management believes such loans are uncollectible.

Management believes that the allowance for losses on loans is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions in the Company's market area. In addition, various regulatory agencies, as an integral part of their routine examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

Real Estate Owned

Real estate owned is carried at the lower of cost or fair value, less estimated costs to sell. When a property is acquired, the excess of the loan balance over fair value is charged to the allowance for loan losses. A reserve for real estate owned has been established to provide for subsequent declines in the fair values of properties. Real estate owned is 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.

Premises and Equipment

Land is carried at cost and premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or leases. Repair and maintenance items are expensed and improvements are capitalized. Gains and losses on dispositions are reflected in current operations.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Pension Plan

Pension plan costs for 1997 are charged to expense based on the actuarial computation of current and future benefits for employees. The Plan was terminated on July 22, 1998 and all vested benefits were paid to participants.

Stock Based Compensation

The Company accounts for stock based compensation using the intrinsic value method under Accounting Principles Board No. 25 and accordingly has recognized no compensation expense under this method. The fair value pro-forma disclosures required by Statement of Financial Accounting Standards No. 123 are included in note 12 - Incentive Plan.

Comprehensive Income

Comprehensive income is divided into net income and other comprehensive income. Other comprehensive income includes items previously recorded directly in equity, such as unrealized gains or losses on securities available for sale.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding plus potential common stock, utilizing the treasury stock method. All share amounts exclude unallocated shares of stock held by the Employee Stock Ownership Plan (ESOP) and the Incentive Plan.

The following reconciles shares outstanding for basic and diluted earnings per share for the years ended December 31, 1999, 1998 and 1997 (in thousands):

Year ended December 31,	1999	1998	1997
Weighted average shares outstanding	13,727	15,174	17,112
Less: Unallocated ESOP shares	(1,309)	(1,281)	(1,160)
Unallocated incentive award shares	(428)	(558)	(608)

Average basic shares outstanding	11,990	13,335	15,344

Add: Effect of dilutive securities:			

Stock options	148	171	144

Incentive awards	161	171	150

Average diluted shares outstanding	12,299	13,677	15,638

(2) Regulatory Matters

At the time of the conversion to a federally chartered stock savings bank, the Bank established a liquidation account with a balance equal to its retained earnings at March 31, 1996. The balance in the liquidation account at December 31, 1999 was approximately \$16.8 million. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that the eligible account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

Office of Thrift Supervision (OTS) regulations require savings institutions to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 1999, the Bank was required to maintain a minimum ratio of tangible capital to total adjusted assets of 1.5%; a minimum ratio of Tier 1 (core) capital to total adjusted assets of 3.0%; and a minimum ratio of total (core and supplementary) capital to risk-weighted assets of 8.0%.

Under its prompt corrective action regulations, the OTS is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on the institution's financial statements. The regulations establish a framework for the classification of savings institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally an institution is considered well capitalized if it has a Tier 1 ratio of at least 6.0%; and a total risk-based capital ratio of at least 10.0%. At December 31, 1999 and 1998 the Bank was considered well capitalized.

Notes to Consolidated Financial Statements

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 1999 and 1998, compared to the OTS minimum capital adequacy requirements and the OTS requirements for classification as a well capitalized institution (in thousands).

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action	
As of December 31, 1999:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	\$149,711	9.4%	\$23,950	1.5%	\$ --	- %
Core capital	149,711	9.4	47,900	3.0	79,833	5.0
Tier 1 risk-based capital	149,711	17.9	33,433	4.0	50,150	6.0
Risk-based capital	157,828	18.9	66,867	8.0	83,584	10.0
As of December 31, 1998:						
Tangible capital	\$167,881	10.8%	\$23,371	1.5%	\$ --	- %
Core capital	167,881	10.8	46,742	3.0	77,903	5.0
Tier 1 risk-based capital	167,881	21.8	30,757	4.0	46,135	6.0
Risk-based capital	175,113	22.8	61,514	8.0	76,892	10.0

OTS regulations impose limitations upon all capital distributions by savings institutions, like the Bank, such as dividends and payments to repurchase or otherwise acquire shares. The Company may not declare or pay cash dividends on or repurchase any of its shares of common stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements, the amount required for the liquidation account, or if such declaration and payment would otherwise violate regulatory requirements.

(3) Investment Securities Available for Sale

The amortized cost and estimated market value of investment securities available for sale at December 31, 1999 and December 31, 1998 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 1999				
United States Government and agency obligations	\$ 40,964	\$ --	\$ (787)	\$40,177
State and municipal obligations	5,761	--	(758)	5,003
Corporates	75,050	--	(2,483)	72,567
Equity investments	3,668	--	(635)	3,033
	\$125,443	\$ --	\$(4,663)	\$120,780
December 31, 1998				
United States Government and agency obligations	\$ 59,983	\$ 404	\$ --	\$60,387
State and municipal obligations	1,946	7	(18)	1,935
Corporates	74,976	--	(2,727)	72,249
Equity investments	3,226	--	(392)	2,834
	\$140,131	\$ 411	\$(3,137)	\$137,405

Gross losses on the sale of investment securities available for sale of \$49,000, \$0 and \$0 were realized in 1999, 1998 and 1997, respectively. There were no gains realized during these periods.

The amortized cost and estimated market value of investment securities available for sale, excluding equity investments, at December 31, 1999 by contractual maturity, are shown below (in thousands). Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At December 31, 1999, investment securities available for sale with an amortized cost and estimated market value of \$120,579,000 and \$116,555,000 respectively, were callable prior to the maturity date.

December 31, 1999	Amortized Cost	Estimated Market Value
Less than one year	\$ 200	\$ 200
Due after one year through five years	30,997	30,730
Due after five years through ten years	9,967	9,447
Due after 10 years	80,611	77,370
	\$121,775	\$117,747

(4) Mortgage-Backed Securities Available for Sale

The amortized cost and estimated market value of mortgage-backed securities available for sale at December 31, 1999 and December 31, 1998 are as follows (in thousands):

December 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
FHLMC	\$ 65,111	\$ 73	\$ (700)	\$ 64,484
FNMA	48,424	43	(615)	47,852
GNMA	41,467	--	(898)	40,569
Collateralized mortgage obligations	201,704	--	(8,427)	193,277
	\$356,706	\$ 116	\$ (10,640)	\$ 346,182

December 31, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
FHLMC	\$106,762	\$ 621	\$ (217)	\$ 107,166
FNMA	74,027	515	(108)	74,434
GNMA	63,041	81	(49)	63,073
Collateralized mortgage obligations	137,230	178	(241)	137,167
	\$381,060	\$ 1,395	\$ (615)	\$ 381,840

Gross losses on the sale of mortgage-backed securities available for sale of \$0, \$850,000 and \$142,000 were realized in 1999, 1998 and 1997, respectively. There were no gains realized during these periods.

Collateralized mortgage obligations issued by FHLMC, FNMA, GNMA and private interests amounted to \$53,518,000, \$13,064,000, \$8,901,000 and \$117,794,000, respectively, at December 31, 1999 and \$15,705,000, \$9,699,000, \$0 and \$111,763,000, respectively, at December 31, 1998. The privately issued CMOs have generally been underwritten by large investment banking firms with the timely payment of principal and interest on

these securities supported (credit enhanced) in varying degrees by either insurance issued by a financial guarantee insurer, letters of credit or subordination techniques. Substantially all such securities are triple "A" rated by one or more of the nationally recognized securities rating agencies. The privately-issued CMOs are subject to certain credit-related risks normally not associated with U.S. Government Agency CMOs. Among such risks is the limited loss protection generally provided by the various forms of credit enhancements as losses in excess of certain levels are not protected. Furthermore, the credit enhancement itself is subject to the creditworthiness of the enhancer. Thus, in the event a credit enhancer does not fulfill its obligations, the CMO holder could be subject to risk of loss similar to a purchaser of a whole loan pool. Management believes that the credit enhancements are adequate to protect the Company from losses and has, therefore, not provided an allowance for losses on its privately-issued CMOs.

The contractual maturities of mortgage-backed securities available for sale generally exceed 20 years; however, the effective lives are expected to be shorter due to anticipated prepayments.

(5) Loans Receivable, Net

A summary of loans receivable at December 31, 1999 and 1998 follows (in thousands):

December 31,	1999	1998
Real estate mortgage:		
One to four-family	\$ 917,024	\$ 844,129
Commercial real estate, multi-family and land	57,142	42,008
FHA insured & VA guaranteed	457	500
	974,623	886,637
Real estate construction	7,791	6,108
Consumer	56,040	51,785
Commercial	15,569	6,483
Total loans	1,054,023	951,013
Loans in process	(2,790)	(1,996)
Deferred fees	(78)	(608)
Unearned premium	43	62
Allowance for loan losses	(8,223)	(7,460)
	(11,048)	(10,002)
	\$ 1,042,975	\$ 941,011

At December 31, 1999, 1998 and 1997, loans in the amount of \$2,985,000, \$5,424,000 and \$5,554,000, respectively, were three or more months delinquent or in the process of foreclosure and the Company was not accruing interest income. If these loans had continued to realize interest in accordance with their contractual terms, approximately \$52,000, \$270,000 and \$278,000 of additional interest income would have been recognized for the years ended December 31, 1999, 1998 and 1997, respectively. The Company was not committed to lend additional funds on any nonaccrual loans at December 31, 1999. The Company had no impaired loans at December 31, 1999 and 1998.

An analysis of the allowance for loan losses for the years ended December 31, 1999, 1998 and 1997 is as follows (in thousands):

Year Ended December 31,	1999	1998	1997
Balance at beginning of year	\$ 7,460	\$ 6,612	\$ 6,021
Provision charged to operations	900	900	900
Charge-offs	(241)	(65)	(337)
Recoveries	104	13	28
Balance at end of year	\$ 8,223	\$ 7,460	\$ 6,612

At December 31, 1999, 1998 and 1997, the Company serviced loans for others in the amount of \$159,553,000, \$132,334,000, and \$144,230,000, respectively.

(6) Interest and Dividends Receivable

A summary of interest and dividends receivable at December 31, 1999 and 1998 follows (in thousands):

December 31,	1999	1998
Loans	\$4,881	\$4,644
Investment securities	1,487	2,279
Mortgage-backed securities	2,100	2,897
	\$8,468	\$9,820

(7) Premises and Equipment, Net

Premises and equipment at December 31, 1999 and 1998 are summarized as follows (in thousands):

December 31,	1999	1998
Land	\$ 3,195	\$ 3,195
Buildings and improvements	11,167	11,038
Leasehold improvements	1,266	1,090
Furniture and equipment	7,559	6,532
Automobiles	148	144
Construction in progress	8	2
Total	23,343	22,001
Accumulated depreciation and amortization	(9,454)	(8,054)
	\$ 13,889	\$ 13,947

(8) Deposits

Deposits, including accrued interest payable of \$266,000 and \$238,000 at December 31, 1999 and 1998, respectively, are summarized as follows (in thousands):

December 31,	1999		1998	
	Amount	Weighted Average Cost	Amount	Weighted Average Cost
Non-interest bearing account	\$ 31,328	--%	\$ 22,154	--%
NOW accounts	113,426	1.59	106,363	1.59
Money market deposit account	80,597	2.61	77,690	2.59
Savings accounts	171,064	2.03	172,036	2.03
Time deposits	660,535	5.18	657,008	5.35
	\$1,056,950	3.94%	\$1,035,251	4.08%

Included in time deposits at December 31, 1999 and 1998, respectively, is \$73,388,000 and \$67,045,000 in deposits of \$100,000 and over.

Time deposits at December 31, 1999 mature as follows (in thousands):

December 31,	1999
2000	\$444,871
2001	151,283

2002	39,087
2003	15,048
2004	7,349
Thereafter	2,897
	\$660,535

Notes to Consolidated Financial Statements

Interest expense on deposits for the years ended December 31, 1999, 1998 and 1997 was as follows (in thousands):

Year ended December 31,	1999	1998	1997
NOW accounts	\$ 1,711	\$ 1,517	\$ 1,388
Money market deposit accounts	2,090	2,026	2,028
Savings accounts	3,518	3,442	3,877
Time deposits	33,601	36,819	35,667
	\$40,920	\$43,804	\$42,960

(9) Borrowed Funds

Borrowed funds are summarized as follows (in thousands):

December 31,	1999		1998	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Federal Home Loan Bank advances	\$115,000	5.97%	\$ 40,000	5.25%
Securities sold under agreements to repurchase	239,867	5.66	272,108	5.52
	\$354,867	5.76%	\$312,108	5.49%

Information concerning Federal Home Loan Bank ("FHLB") advances and securities sold under agreements to repurchase ("reverse repurchase agreements") is summarized as follows (in thousands):

	FHLB Advances		Reverse Repurchase Agreements	
	1999	1998	1999	1998
Average Balance	\$ 67,857	\$ 24,113	\$253,811	\$278,424
Maximum amount outstanding at any month end	115,000	87,000	272,740	300,026
Average interest rate for the year	5.68%	5.37%	5.53%	5.85%
U.S. Government agencies and mortgage-backed securities pledged as collateral under reverse repurchase agreements at December 31				
Amortized cost	--	--	\$281,331	\$291,552
Estimated market value	--	--	273,815	292,936

The securities collateralizing the reverse repurchase agreements are not under the Company's control, as they are delivered to the lender with whom each transaction is executed. The lender, who may sell, loan or otherwise dispose of such securities to other parties in the normal course of their operations, agree to resell to the Company substantially the same securities at the maturities of the agreement.

FHLB advances and reverse repurchase agreements have contractual maturities at December 31, 1999 as follows (in thousands):

Year ended December 31	FHLB advances	Reverse Repurchase Agreements
2000	\$ 95,000	\$ 46,867
2001	-	8,000
2002	-	30,000
2003	-	40,000
2004	10,000	45,000
Thereafter	10,000	70,000
	\$ 115,000	\$239,867
Amount callable by lender prior to the maturity date	\$ 15,000	\$185,000

The Bank has an available overnight line of credit with the FHLB for \$50,000,000 which expires November 22, 2000. The Bank also has available from the FHLB, a one-month overnight repricing line of credit for \$50,000,000 which expires November 22, 2000. When utilized, both lines carry a floating interest rate of 10 basis points over the current Federal funds rate. All FHLB advances, including the lines of credit, are secured by the Bank's mortgage loans, mortgaged-backed securities, U. S. Government agency obligations and FHLB stock. As a member of the FHLB of New York, the Company is required to maintain a minimum investment in the capital stock of the Federal Home Loan Bank of New York, at cost, in an amount not less than 1% of its outstanding home loans (including mortgage-backed securities) or 5% of its outstanding notes payable to the FHLB.

(10) Income Taxes

Legislation was enacted in August 1996 which repealed for tax purposes the percentage of taxable income bad debt reserve method. As a result, the Company must instead use the direct charge-off method to compute its bad debt deduction. The legislation also requires the Company to recapture its post-1987 additions to the tax bad debt reserve which amounted to \$1,555,000 and \$1,944,000 at December 31, 1999 and 1998, respectively. The Company has accrued for this liability in the consolidated financial statements.

Retained earnings at December 31, 1999 includes approximately \$10,750,000 for which no provision for income tax has been made. This amount represents an allocation of income to bad debt deductions for tax purposes only. Events that would result in taxation of these reserves include failure to qualify as a bank for tax purposes, distributions in complete or partial liquidation, stock redemptions and excess distributions to shareholders. At December 31, 1999 the Company had an unrecognized deferred tax liability of \$3,870,000 with respect to this reserve.

The provision for income taxes for the years ended December 31, 1999, 1998 and 1997 consists of the following (in thousands):

Year Ended December 31,	1999	1998	1997
Current:			
Federal	\$7,870	\$5,460	\$6,921
State	38	31	237
Total Current	7,908	5,491	7,158
Deferred:			
Federal	757	1,746	584
State	-	3	(55)
Total Deferred	757	1,749	529
	\$8,665	\$7,240	\$7,687

A reconciliation between the provision for income taxes and the expected amount computed by multiplying income before provision for income taxes times the applicable statutory Federal income tax rate for the years ended December 31, 1999, 1998 and 1997 is as follows (in thousands):

Year Ended December 31,	1999	1998	1997
Income before provision for income taxes	\$25,012	\$ 20,212	\$ 21,512
Applicable statutory Federal income tax rate	35.0%	35.0%	35.0%
Computed "expected" Federal income tax expense	\$ 8,754	\$ 7,074	\$ 7,529
Increase(decrease) in Federal income tax expense resulting from:			
ESOP adjustment	189	218	316
State income taxes net of Federal benefit	24	22	119
Other items, net	(302)	(74)	(277)
	\$ 8,665	\$ 7,240	\$ 7,687
Effective tax rate	34.6%	35.8%	35.7%

Included in other assets at December 31, 1999 and 1998 is a net deferred tax asset of \$8,097,000 and \$3,908,000, respectively. In addition, included in other liabilities at December 31, 1999 and 1998 is a current tax payable of \$37,000 and \$5,545,000, respectively.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1999 and 1998 are presented below (in thousands).

December 31,	1999	1998
Deferred tax assets:		
Allowance for loan and real estate owned losses per books	\$ 3,159	\$ 2,913
Reserve for uncollected interest	82	110
Deferred compensation	318	351
Premises and equipment, differences in depreciation	303	244
Other reserves	199	199
Stock awards	712	677

ESOP	62	100
Charitable donation	2,051	2,978
Unrealized loss on securities available for sale	5,673	727
Other	92	87
Total gross deferred tax assets	12,651	8,386
Less valuation allowance	(1,166)	(1,166)
Deferred tax assets, net	11,485	7,220
Deferred tax liabilities:		
Allowance for loan and real estate owned losses for tax purposes	(581)	(726)
Excess servicing on sale of mortgage loans	(231)	(130)
Investments, discount accretion	(58)	(20)
Deferred loan and commitment fees	(833)	(648)
Undistributed income of real estate investment trust subsidiary	(1,685)	(1,788)
Total deferred tax liabilities	(3,388)	(3,312)
Net deferred tax assets	\$ 8,097	\$ 3,908

The Company, as part of the conversion, recorded a charitable donation expense of \$13,419,000 in 1996. Under the Internal Revenue Code, charitable donations are tax deductible subject to a limitation based on 10% of the Company's annual taxable income. The Company, however, is able to carry forward any unused portion of the deduction for five years following the year in which the contribution is made. Based on the Company's estimate of taxable income for 1996 and the carry forward period, \$3,419,000 of the charitable donation expense was considered non tax deductible as it was unlikely that the Company would realize sufficient earnings over the six year period to take the full deduction. As a result, the Company has established a deferred tax valuation allowance of \$1,166,000 relating to the nondeductible expense.

The Company has determined that it is not required to establish a valuation reserve for the remaining deferred tax asset account since it is "more likely than not" that the remaining deferred tax assets will be realized through future reversals of existing taxable temporary differences, future taxable income and tax planning strategies. The conclusion that it is "more likely than not" that the remaining deferred tax assets will be realized is based on the history of earnings and the prospects for continued growth. Management will continue to review the tax criteria related to the recognition of deferred tax assets.

Notes to Consolidated Financial Statements

(11) Employee Benefit Plans

Employee Stock Ownership Plan

As part of the conversion, the Bank established an Employee Stock Ownership Plan ("ESOP") to provide retirement benefits for eligible employees. All full-time employees are eligible to participate in the ESOP after they attain age 21 and complete one year of service during which they work at least 1,000 hours. Beginning April 1, 1997, ESOP shares are first allocated to employees who also participate in the Bank's Incentive Savings (401K) Plan in an amount equal to 50% of the first 6% of the employee's contribution. During 1999, 1998 and 1997, 11,544, 9,188 and 6,690 shares, respectively, were either released or committed to be released under this formula. The remaining ESOP shares are allocated among participants on the basis of compensation earned during the year. Employees are fully vested in their ESOP account after the completion of five years of credited service or completely if service was terminated due to death, retirement, disability, or change in control of the Company. ESOP participants are entitled to receive distributions from the ESOP account only upon termination of service, which includes retirement and death.

The ESOP originally borrowed \$13,421,000 from the Company to purchase 1,342,092 shares of common stock issued in the conversion. On May 12, 1998, the initial loan agreement was amended to allow the ESOP to borrow an additional \$8,200,000 in order to fund the purchase of 422,500 shares of common stock. At the same time the term of the loan was extended from the initial twelve years to thirty years. The amended loan is to be repaid from discretionary contributions by the Bank to the ESOP trust. The Bank intends to make contributions to the ESOP in amounts at least equal to the principal and interest requirement of the debt, assuming a fixed interest rate of 8.25%.

The Bank's obligation to make such contributions is reduced to the extent of any dividends paid by the Company on unallocated shares and any investment earnings realized on such dividends. As of December 31, 1999 and 1998, contributions to the ESOP, which were used to fund principal and interest payments on the ESOP debt, totaled \$2,970,000 and \$3,111,000, respectively. During 1999 and 1998, \$781,000 and \$601,000, respectively, of dividends paid on unallocated ESOP shares were used for debt service. At December 31, 1999 and 1998, the loan had an outstanding balance of \$16,098,000 and \$17,615,000, respectively, and the ESOP had unallocated shares of 1,243,418 and 1,373,814, respectively. At December 31, 1999, the unallocated shares had a fair value of \$21,527,000. The unamortized balance of the ESOP is shown as unallocated common stock held by the ESOP and is reflected as a reduction of stockholders' equity.

For the years ended December 31, 1999, 1998 and 1997, the Bank recorded compensation expense related to the ESOP of \$2,190,000, \$2,350,000 and \$2,345,000, respectively, including \$541,000, \$623,000 and \$917,000, respectively, representing additional compensation expense to reflect the increase in the average fair value of committed to be released and allocated shares in excess of the Bank's cost. As of December 31, 1999, 399,789 shares had been allocated to participants and 121,385 shares were committed to be released.

Pension Plan

Effective June 7, 1996, the Company froze benefit accruals under a qualified noncontributory defined benefit pension plan (the "Plan") and subsequently terminated the Plan on July 22, 1998. As a result of these actions, the Company recognized a curtailment gain in 1996 of \$24,000 and a termination loss in 1998 of \$7,000.

The components of net pension benefit for the year ended December 31, 1997 are as follows (in thousands):

	1997
Service cost - benefits earned during the year	\$ --
Interest cost on projected benefit obligation	113
Actual return on plan assets	(81)
Net amortization and deferral	(39)
Net pension benefit	\$ (7)
Assumptions used to develop the net periodic pension cost are:	
Discount rate	6.51%
Expected long-term rate of return on assets	6.75
Rate of increase in compensation level	N/A

The Bank also maintains an incentive savings plan for eligible employees. An employee may make contributions to the plan of 1% to 15% of his or her compensation. From January 1, 1997 through March 31, 1997, the Bank contributed 50% of the first 6% of the employees contribution to the employee's account. Effective March 31, 1997, the Bank eliminated their matching obligation under this plan. The Bank's

contributions under this plan was \$53,000 for the year ended December 31, 1997.

(12) Incentive Plan

On February 4, 1997, a special meeting of the Company's shareholders ratified the OceanFirst Financial Corp. 1997 Incentive Plan which was subsequently amended on February 18, 1998. The Amended and Restated OceanFirst Financial Corp. 1997 Incentive Plan (the "Incentive Plan") authorizes the granting of options to purchase Common Stock, option-related awards and awards of Common Stock. The purpose of the Incentive Plan is to attract and retain qualified personnel in key positions, provide officers, employees and non-employee directors ("Outside Directors") with a proprietary interest in the Company as an incentive to contribute to the success of the Company, promote the attention of management to other stockholder's concerns and reward employees for outstanding performance. All officers, other employees and Outside Directors of the Company and its affiliates are eligible to receive awards under the Incentive Plan.

During 1997, the Company acquired 671,046 shares in the open market at a cost of \$10,176,000. At December 31, 1999, 652,116 of these shares have been awarded to officers and directors. Such amounts represent deferred compensation and have been accounted for as a reduction of stockholders' equity. Awards vest at the rate of 20% per year except that the Company has determined that certain awards are also contingent upon attainment of certain performance goals by the Company, which performance goals would be established by a committee of outside directors ("Committee").

The first and second annual installments vested on the first and second anniversary dates of the date of grant. Vesting of 25% of the third annual installment, and 50% of each of the fourth and fifth annual installments, will be subject to the attainment of performance goals established by the Committee. The performance goals may be set by the Committee on an individual basis, for all Stock Awards made during a given period of time, or for all Stock Awards for indefinite periods. No Stock Award that is subject to a performance goal is to be distributed to an employee until the Committee confirms that the underlying performance goal has been achieved. No Stock Award that is subject to a performance goal is to be distributed to an Outside Director until an independent third party confirms that the underlying performance goal has been achieved. The Committee established certain levels of earnings per share growth as the performance goal for 1999. As a result of the Company attaining the earnings per share growth specified by the Committee, all of the shares in the third annual installment will vest on February 4, 2000. The Company recorded compensation expense relating to stock awards of \$1,933,000, \$1,934,000 and \$1,773,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Under the Incentive Plan, the Company is authorized to issue up to 1,677,614 shares, subject to option. All options expire 10 years from the date of grant and generally vest at the rate of 20% per year.

The Company accounts for stock option awards using the intrinsic value method and has recognized no compensation expense in 1999, 1998 and 1997. SFAS 123 permits the use of the intrinsic value method; however, requires the Company to disclose the pro forma net income and earnings per share as if the stock based compensation had been accounted for using the fair value method. Had the compensation costs for the Company's stock option plan been determined based on the fair value method, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands except per share data):

	1999	1998	1997
Net income:			
As reported	\$ 16,347	\$ 12,972	\$ 13,825
Pro forma	15,343	12,059	13,000
Basic earnings per share:			
As reported	\$ 1.36	\$.97	\$.90
Pro forma	1.28	.90	.85
Diluted earnings per share:			
As reported	\$ 1.33	\$.95	\$.88
Pro forma	1.25	.88	.83
Weighted average fair value of an option share granted during the year	\$ 4.02	\$ 4.35	\$ 4.08

The fair value of stock options granted by the Company was estimated through the use of the Black-Scholes option pricing model applying the following assumptions:

	1999	1998	1997
Risk-free interest rate	5.76%	5.21%	6.25%
Expected option life	6 years	6 years	6 years
Expected volatility	25%	25%	25%
Expected dividend yield	3.20%	2.75%	2.50%

A summary of option activity for the years ended December 31, 1999, 1998 and 1997 follows:

	1999		1998		1997	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,642,827	\$ 14.67	1,567,402	\$ 14.46	--	\$ --
Granted	58,287	16.26	112,402	17.23	1,621,758	14.45
Exercised	(1,208)	14.41	(2,348)	14.41	--	--

Forfeited	(25,903)	15.33	(34,629)	14.41	(54,356)	14.41
Outstanding at end of year	1,674,003	\$ 14.72	1,642,827	\$ 14.67	1,567,402	\$ 14.46
At December 31,	1999		1998		1997	
Options exercisable	626,761		310,527		None	
Range of exercise prices	\$13.94 - \$19.88		\$13.94 - \$19.88		\$14.41- \$18.56	
Weighted average remaining contractual life	7.2 years		8.2 years		9.1 years	

(13) Commitments, Contingencies and Concentrations of Credit Risk

The Company, in the normal course of business, is party to financial instruments and commitments which involve, to varying degrees, elements of risk in excess of the amounts recognized in the consolidated financial statements. These financial instruments and commitments include unused consumer lines of credit and commitments to extend credit.

At December 31, 1999, the following commitments and contingent liabilities existed which are not reflected in the accompanying consolidated financial statements (in thousands):

December 31,	1999
Unused consumer and construction loan lines of credit (primarily floating-rate)	\$15,673
Unused commercial loan lines of credit (primarily floating-rate)	17,684
Other commitments to extend credit:	
Fixed-Rate	18,112
Adjustable-Rate	18,228
Floating-Rate	1,817

The Company's fixed-rate loan commitments expire within 90 days of issuance and carried interest rates ranging from 6.875% to 9.50% at December 31, 1999.

The Company's maximum exposure to credit losses in the event of nonperformance by the other party to these financial instruments and commitments is represented by the contractual amounts. The Company uses the same credit policies in granting commitments and conditional obligations as it does for financial instruments recorded in the consolidated statements of financial condition.

These commitments and obligations do not necessarily represent future cash flow requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's assessment of risk. Substantially all of the unused consumer and construction loan lines of credit are collateralized by mortgages on real estate.

Notes to Consolidated Financial Statements

At December 31, 1999, the Company is obligated under noncancellable operating leases for premises and equipment. Rental expense under these leases aggregated approximately \$604,000, \$573,000 and \$515,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

The projected minimum rental commitments as of December 31, 1999 are as follows (in thousands):

Year ended December 31	
2000	\$ 600
2001	535
2002	512
2003	448
2004	452
Thereafter	3,268
	\$5,815

The Company grants one to four-family first mortgage real estate loans and multifamily first mortgage real estate loans to borrowers primarily located in Ocean, Middlesex and Monmouth Counties, New Jersey. Its borrowers' abilities to repay their obligations are dependent upon various factors including the borrowers' income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company's lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company's control; the Company is, therefore, subject to risk of loss.

The Company believes its lending policies and procedures adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks. Collateral and/or guarantees are required for all loans.

Contingencies

The Company is a defendant in certain claims and legal actions arising in the ordinary course of business. Management and its legal counsel are of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

(14) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" (SFAS 107), requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Cash and due from banks

For cash and due from banks, the carrying amount approximates fair value.

Investments and Mortgage-backed securities

The fair value of investment and mortgage-backed securities is estimated based on bid quotations received from securities dealers, if available. If a quoted market price was not available, fair value was estimated using quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

Federal Home Loan Bank of New York stock

The fair value for Federal Home Loan Bank of New York Stock is its carrying value since this is the amount for which it could be redeemed. There is no active market for this stock and the Company is required to maintain a minimum balance based upon the unpaid principal of home mortgage loans and mortgage-backed securities.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, construction, land, consumer and commercial. Each loan category is further segmented into fixed and adjustable rate interest terms

and by performing and nonperforming categories.

Fair value of performing loans was estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics, if applicable.

Fair value for significant nonperforming loans is based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows.

Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, and NOW and money market accounts are, by definition, equal to the amount payable on demand. The related insensitivity of the majority of these deposits to interest rate changes creates a significant inherent value which is not reflected in the fair value reported. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds

Fair value estimates are based on discounting contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

Commitments to extend credit, and to purchase or sell securities

The fair value of commitments to extend credit is 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 estimated fair values of the Bank's financial instruments as of December 31, 1999 and 1998 are presented in the following tables (in thousands). Since the fair value of off-balance sheet commitments approximate book value, these disclosures are not included.

December 31, 1999	Book Value	Fair Value
Financial Assets:		
Cash and due from banks	\$ 10,007	\$ 10,007
Investment securities available for sale	120,780	120,780
Mortgage-backed securities available for sale	346,182	346,182
Federal Home Loan Bank of New York stock	16,800	16,800
Loans receivable and mortgage loans held for sale	1,042,975	1,032,824
Financial Liabilities:		
Deposits	1,056,950	1,053,965
Borrowed funds	\$ 354,867	\$ 348,041
December 31, 1998	Book Value	Fair Value
Financial Assets:		
Cash and due from banks	\$ 10,295	\$ 10,295
Investment securities available for sale	137,405	137,405
Mortgage-backed securities available for sale	381,840	381,840
Federal Home Loan Bank of New York stock	16,800	16,800
Loans receivable and mortgage loans held for sale	966,151	982,009
Financial Liabilities:		
Deposits	1,035,251	1,042,528
Borrowed funds	\$ 312,108	\$ 311,437

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 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 the mortgage banking operation, 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.

(15) Parent-Only Financial Information

The following condensed statements of financial condition at December 31, 1999 and 1998 and condensed statements of operations and cash flows for the years ended December 31, 1999, 1998 and 1997 for OceanFirst Financial Corp. (parent company only) reflects the Company's investment in its wholly-owned subsidiary, the Bank, using the equity method of accounting.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

(in thousands)

December 31,	1999	1998
--------------	------	------

Assets		
Cash and due from banks	\$ 7	\$ 7
Advances to subsidiary Bank	5,872	7,639
Investment securities	3,033	2,834
ESOP loan receivable	16,098	17,615
Investment in subsidiary Bank	141,422	167,885
Other assets	1,155	2,143
Total Assets	\$167,587	\$198,123

Liabilities and Stockholders' Equity

Taxes payable	\$ 57	\$ 383
Stockholders' Equity	167,530	197,740
Total Liabilities and Stockholders' Equity	\$167,587	\$198,123

CONDENSED STATEMENTS OF OPERATIONS
(in thousands)

Year ended December 31,	1999	1998	1997
Dividend income - Subsidiary Bank	\$ 36,500	\$ 18,000	\$ --
Interest income - Investment securities	29	354	2,889
Interest income - Advances to subsidiary Bank	210	234	132
Interest income - ESOP loan receivable	1,453	1,342	1,015
Total dividend and interest income	38,192	19,930	4,036
Loss on sale of securities available for sale	49	--	--
Other income	--	--	2
Other operating expenses	1,186	421	383
Income before income taxes and equity in (distributions in excess of) undistributed earnings of subsidiary Bank	36,957	19,509	3,655
Provision for income taxes	150	562	1,233
Income before equity in (distributions in excess of) undistributed earnings of subsidiary Bank	36,807	18,947	2,422
Equity in (distributions in excess of) undistributed earnings of subsidiary Bank	(20,460)	(5,975)	11,403
Net income	\$ 16,347	\$ 12,972	\$ 13,825

Notes to Consolidated Financial Statements

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

Year ended December 31,	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 16,347	\$ 12,972	\$13,825
Decrease in advances to subsidiary Bank	1,767	2,292	61,622
(Equity in) distributions in excess of undistributed earnings of subsidiary Bank	20,460	5,975	(11,403)
Loss on sale of securities available for sale	49	--	--
Deferred taxes	1,081	1,177	289
(Decrease) increase in taxes payable	(326)	(765)	458
Reduction in Incentive Awards	1,933	1,934	1,773
Net cash provided by operating activities	41,311	23,585	66,564
Cash flows from investing activities:			
Purchase of investment securities	(611)	(2,046)	(71,170)
Sale of investment securities	121	10,000	60,000
Funding of ESOP loan receivable, net of repayments	1,517	(6,431)	1,118
Net cash provided by (used in) investing activities	1,027	1,523	(10,052)
Cash flows from financing activities:			
Dividends paid	(7,157)	(6,470)	(4,800)
Purchase of Incentive Award shares	--	--	(10,176)
Purchase of treasury stock	(35,198)	(18,672)	(41,536)
Exercise of stock options	17	34	--
Net cash used in financing activities	(42,338)	(25,108)	(56,512)
Net increase in cash and due from banks	--	--	--
Cash and due from banks at beginning of year	7	7	7
Cash and due from banks at end of year	\$ 7	\$ 7	\$ 7

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited)

Quarter ended	Dec. 31	Sept. 30	June 30	March 31
(dollars in thousands, except per share data)				
1999				
Interest income	\$ 27,643	\$ 27,111	\$ 26,573	\$ 26,020
Interest expense	15,193	14,774	14,538	14,304
Net interest income	12,450	12,337	12,035	11,716
Provision for loan losses	225	225	225	225
Net interest income after provision for loan losses	12,225	12,112	11,810	11,491
Other income	1,364	1,264	1,053	1,545

Operating expenses	7,775	6,835	6,650	6,592
Income before provision for income taxes	5,814	6,541	6,213	6,444
Provision for income taxes	1,771	2,364	2,224	2,306
Net income	\$ 4,043	\$ 4,177	\$ 3,989	\$ 4,138
Basic earnings per share	\$.36	\$.35	\$.32	\$.33
Diluted earnings per share	\$.35	\$.34	\$.32	\$.33
1998				
Interest income	\$ 26,618	\$ 26,494	\$ 26,219	\$ 26,226
Interest expense	15,283	15,660	15,310	15,146
Net interest income	11,335	10,834	10,909	11,080
Provision for loan losses	225	225	225	225
Net interest income after provision for loan losses	11,110	10,609	10,684	10,855
Other income (loss)	(139)	876	1,053	621
Operating expenses	6,499	6,304	6,673	5,981
Income before provision for income taxes	4,472	5,181	5,064	5,495
Provision for income taxes	1,547	1,845	1,862	1,986
Net income	\$ 2,925	\$ 3,336	\$ 3,202	\$ 3,509
Basic earnings per share	\$.23	\$.25	\$.23	\$.26
Diluted earnings per share	\$.23	\$.25	\$.23	\$.24

Independent Auditors' Report

The Board of Directors and Stockholders

OceanFirst Financial Corp:

We have audited the consolidated statements of financial condition of OceanFirst Financial Corp. and subsidiary as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OceanFirst Financial Corp. and subsidiary as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

*Short Hills, New Jersey
January 20, 2000*

Exhibit 23

INDEPENDENT ACCOUNTANTS' CONSENT

The Board of Directors
Ocean Financial Corp.:

We consent to incorporation by reference in the registration statement (No. 33-34143) on Form S-8, pertaining to the OceanFirst Financial Corp. 1997 Incentive Plan, and to the registration statement (No. 33-34145), on Form S-8, pertaining to the Retirement Plan for OceanFirst Bank, of OceanFirst Financial Corp., of our report dated January 20, 2000, relating to the consolidated statements of financial condition of OceanFirst Financial Corp. and subsidiary as of December 31, 1999 and 1998 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1999, which report is incorporated by reference in the December 31, 1999 Annual Report on Form 10-K of OceanFirst Financial Corp.

KPMG LLP

Short Hills, New Jersey

March 27, 2000

ARTICLE 9

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	10,007
INT BEARING DEPOSITS	0
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	466,962
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	1,042,975
ALLOWANCE	8,223
TOTAL ASSETS	1,590,907
DEPOSITS	1,056,950
SHORT TERM	354,867
LIABILITIES OTHER	11,560
LONG TERM	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	181
OTHER SE	167,349
TOTAL LIABILITIES AND EQUITY	1,590,907
INTEREST LOAN	74,640
INTEREST INVEST	32,707
INTEREST OTHER	0
INTEREST TOTAL	107,347
INTEREST DEPOSIT	40,920
INTEREST EXPENSE	58,809
INTEREST INCOME NET	48,538
LOAN LOSSES	900
SECURITIES GAINS	(49)
EXPENSE OTHER	27,852
INCOME PRETAX	25,012
INCOME PRE EXTRAORDINARY	25,012
EXTRAORDINARY	0
CHANGES	0
NET INCOME	16,347
EPS BASIC	1.36
EPS DILUTED	1.33
YIELD ACTUAL	7.08
LOANS NON	2,985
LOANS PAST	0
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	7,460
CHARGE OFFS	241
RECOVERIES	104
ALLOWANCE CLOSE	8,223
ALLOWANCE DOMESTIC	5,132
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	3,091

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