

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, 2000
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 X 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. [X]

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 \$225,283,506, based upon the last sales price as quoted on The Nasdaq Stock Market for March 16, 2001.

The number of shares of Common Stock outstanding as of March 16, 2001 is 10,788,395.

DOCUMENTS INCORPORATED BY REFERENCE

The Annual Report to Stockholders for the year ended December 31, 2000, is incorporated by reference into Part II of this Form 10-K.

The Proxy Statement for the 2001 Annual Meeting of Shareholders is incorporated by reference into Part III of this Form 10-K.

INDEX

	PAGE
PART I	
Item 1. Business.....	1
Item 2. Properties.....	30
Item 3. Legal Proceedings.....	31
Item 4. Submission of Matters to a Vote of Security Holders.....	31
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	32
Item 6. Selected Financial Data.....	32
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	32
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	32
Item 8. Financial Statements and Supplementary Data.....	32
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	32
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	32
Item 11. Executive Compensation.....	32
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	33
Item 13. Certain Relationships and Related Transactions.....	33
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	33
SIGNATURES	

PART I

Item 1. Business

General

OceanFirst Financial Corp. (the "Company") was organized by the Board of Directors of OceanFirst 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. On August 18, 2000 the Bank acquired Columbia Equities, Ltd. ("Columbia"), a mortgage banking company based in Tarrytown, NY in a transaction accounted for as a purchase. At December 31, 2000, the Company had consolidated total assets of \$1.6 billion and total equity of \$157.7 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. As a mortgage banking subsidiary of the Bank, Columbia originates, sells and services a full product line of residential mortgage loans. Columbia sells virtually all loan production into the secondary market and the Bank also periodically sells part of its 30-year fixed rate mortgage loan production. Presently, servicing rights are retained in connection with most loan sales. 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 trust and asset management services and 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 fourteen additional branch offices, eleven located in Ocean County, two located in Monmouth County and one located in Middlesex County, 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. Columbia's loan volume is primarily derived from the tri-state area around New York City. Columbia conducts business through an administrative and production office in Tarrytown, New York and satellite production offices in Whitestone, New York; Westport, Connecticut; and Pompton Plains, New Jersey.

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 although the Bank also faces increasing 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, 2000, the Bank had total loans outstanding of \$1.184 billion, of which \$993.7 million or 83.93% of total loans, were one- to four-family, residential mortgage loans. The remainder of the portfolio consisted of \$89.7 million of commercial real estate, multi-family and land loans, or 7.57% of total loans; \$8.0 million of real estate construction loans, or .67% of total loans; \$62.9 million of consumer loans, primarily home equity loans and lines of credit, equaling 5.32% of total loans; and \$29.7 million of commercial loans, or 2.51% of total loans. Included in total loans are \$35.6 million in loans held for sale at December 31, 2000. At that same date, 41.02% 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.

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

3

Loan Maturity. The following table shows the contractual maturity of the Bank's total loans at December 31, 2000. There was \$35.6 million in loans held for sale at December 31, 2000. The table does not include principal repayments. Principal repayments, including prepayments, on total loans was \$178.9 million, \$185.7 million and \$182.2 million for the years ended December 31, 2000, 1999, and 1998, respectively.

At December 31, 2000						
	One- to Four- Family	Commercial real estate, multi-family and land	Construction	Consumer	Commercial Loans	Total Loans Receivable
		(In thousands)				
One year or less.....	\$ 32,263	\$ 4,707	\$7,973	\$ 6,991	\$10,427	\$ 62,361
After one year:						
More than one year to three years.....	64,411	10,723	--	12,290	4,908	92,332
More than three years to five years.....	65,348	19,927	--	10,615	10,150	106,040
More than five years to ten years.....	176,597	41,085	--	17,328	4,202	239,212
More than ten years to twenty years.....	323,356	3,548	--	15,699	--	342,603
More than twenty years.....	331,731	9,673	--	--	--	341,404
Total due after December 31, 2001.....	961,443	84,956	--	55,932	19,260	1,121,591
Total amount due.....	\$993,706	\$89,663	\$7,973	\$62,923	\$29,687	1,183,952
	=====	=====	=====	=====	=====	
Undisbursed loan funds.....						(2,927)
Unamortized premium, net.....						19
Deferred origination costs, net.....						561
Allowance for loan losses.....						(9,138)
Total loans, net.....						1,172,467
Less: Mortgage loans held for sale.....						35,588
Loans receivable, net.....						\$1,136,879
						=====

The following table sets forth at December 31, 2000, the dollar amount of total loans receivable contractually due after December 31, 2001, and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2001		
	Fixed	Adjustable	Total
	-----	-----	-----
	(In thousands)		
Real estate loans:			
One- to four-family.....	\$595,708	\$365,735	\$ 961,443
Commercial real estate,			
Multi-family and land.....	37,712	47,244	84,956
Consumer.....	30,023	25,909	55,932
Commercial loans.....	13,312	5,948	19,260
	-----	-----	-----
Total loans receivable.....	\$676,755	\$444,836	\$1,121,591
	=====	=====	=====

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 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. Columbia, as a mortgage banker, sells virtually all loan production while retaining servicing rights for most of the loans sold. The Bank also periodically sells part of the 30-year, fixed-rate mortgage loans that it originates. See "- Loan Servicing." At December 31, 2000 there were \$35.6 million in loans categorized as held for sale.

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,		
	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Total loans:			
Beginning balance.....	\$1,054,023	\$ 976,153	\$ 794,316
	-----	-----	-----
Loans originated:			
One- to four-family.....	295,535	240,873	287,842
Commercial real estate,			
multi-family and land.....	45,189	28,130	27,354
Construction.....	8,520	6,552	4,826
Consumer.....	29,217	28,516	28,203
Commercial.....	27,404	9,780	3,981
	-----	-----	-----
Total loans originated.....	405,865	313,851	352,206
	-----	-----	-----
Loans purchased.....	22,271	-	29,207
	-----	-----	-----
Total.....	1,482,159	1,290,004	1,175,729
Less:			
Principal repayments.....	178,911	185,695	182,170
Sales of loans.....	118,528	49,177	16,414
Transfer to REO.....	768	1,109	992
	-----	-----	-----
Total loans.....	\$1,183,952	\$1,054,023	\$ 976,153
	=====	=====	=====

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 typically generated by 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, 2000, the Bank's total loans outstanding were \$1.184 billion, of which \$993.7 million, or 83.93%, 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 \$98,000 at December 31, 2000. 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, 2000, the Bank had commitments for the origination of fixed-rate mortgage loans totaling \$59.6 million. The normal terms for such commitments provide for a maximum of 60 days rate lock upon receipt of a 1.0% refundable deposit 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", or non-conforming loans (i.e., loans which are not eligible for purchase by FNMA or FHLMC because of loan size or credit underwriting criteria). 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 declare 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, 2000 was \$82.7 million, or 6.99% of total loans. The largest commercial real estate loan in the Bank's portfolio at December 31, 2000 was a performing loan for which the Bank had an outstanding carrying balance of \$6.2 million, net of a \$2.7 million participation sold, secured by a first lien position on an all corporate assets including a first mortgage on commercial real estate primarily used as a health, fitness and sports facility and as a private school. The average size of the Bank's commercial real estate loans at December 31, 2000 was approximately \$403,000.

The Bank also originates multi-family mortgage loans and land loans on a limited and highly selective basis. The Bank's multi-family loans and land loans at December 31, 2000, totaled \$5.1 million and \$1.9 million, respectively.

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, 2000, construction loans totaled \$8.0 million, or .67%, 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 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, 2000, the Bank had 39 construction loans, with the largest loan commitment being approximately \$539,000. 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. Once

construction is complete, the loans are converted to permanent amortizing loans with maturities 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 based upon a security interest in a project which is not yet complete. 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 seeks to address these risks through its underwriting procedures.

Consumer Loans. The Bank also offers consumer loans. At December 31, 2000, the Bank's consumer loans totaled \$62.9 million, or 5.32% of the Bank's total loan portfolio. Of that amount, home equity loans comprised \$35.3 million, or 56.12%; home equity lines of credit comprised \$25.2 million, or 40.06%; loans on savings accounts totaled \$1.0 million, or 1.59%; and automobile, student and overdraft line of credit loans totaled \$1.4 million, or 2.23%.

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 Bank 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 up to 1.25%. The loans have an 18% lifetime cap on interest rate adjustments.

Commercial Lending. At December 31, 2000, commercial loans totaled \$29.7 million, or 2.51% 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 real estate loans and commercial loans (including loans for working capital; fixed asset purchases; and acquisition, receivable and inventory financing). 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 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, 2000 had an outstanding balance of \$2.4 million, secured by corporate assets and real estate. The average size of the Bank's commercial loans at December 31, 2000 was approximately \$82,000.

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 \$252,700. 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, 2000 amounted to \$17.4 million. At December 31, 2000, the Bank's maximum loan exposure to a single borrower was \$9.6 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, 2000, the Bank was servicing \$414.4 million of loans for others. For the years ended December 31, 2000, 1999 and 1998, loan servicing fees totaled \$516,000, \$403,000, and \$105,000, 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 was 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 the Vice President of Loan Review 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, 2000, the Bank had \$4.2 million of assets, including all REO, classified as Substandard, \$79,000 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 \$5.9 million at December 31, 2000. These loans are classified as Special Mention due to past delinquencies or other identifiable weaknesses. At December 31, 2000, the largest loan relationship classified as Special Mention had a balance of \$2.8 million and the largest loan relationship classified as Substandard had a balance of \$1.0 million. The \$1.0 million represented the total due from a commercial relationship consisting of a commercial line of credit for \$375,000, a commercial real estate loan for \$560,000 and a term loan of a \$100,000. The loans were current as to principal and interest at December 31, 2000, 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 \$216,000.

In January 2001 the Bank downgraded a performing commercial loan with an outstanding balance of \$2.4 million to substandard as a result of weakened financial results. The Bank holds a participation interest in a \$125 million shared national credit which is secured by corporate assets and various commercial real estate properties. The Bank does not participate in any other shared national credits.

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 5 REO properties at December 31, 2000. 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, 2000, 1999, 1998, 1997 and 1996, 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 \$132,000, \$52,000, \$270,000, \$278,000 and \$345,000.

	December 31,				
	2000	1999	1998	1997	1996
	----	----	----	----	----
	(Dollars in Thousands)				
Non-accrual loans:					
Real estate:					
One- to four-family.....	\$ 2,594	\$ 2,401	\$ 4,605	\$ 5,062	\$7,148
Commercial real estate, multi-family and land.....	-	362	574	382	122
Construction.....	-	-	-	-	314
Consumer.....	147	222	245	110	113
Commercial loans.....	182	-	-	-	-
	-----	-----	-----	-----	-----
Total.....	2,923	2,985	5,424	5,554	7,697
REO, net(1).....	157	292	43	1,198	1,555
	-----	-----	-----	-----	-----
Total non-performing assets.....	\$ 3,080	\$ 3,277	\$ 5,467	\$ 6,752	\$9,252
	=====	=====	=====	=====	=====
Allowance for loan losses as a percent of total loans receivable (2).....	.77%	.78%	.76%	.83%	.88%
Allowance for loan losses as a percent of total non-performing loans (3).....	312.62	275.48	137.54	119.03	78.23
Non-performing loans as a percent of total loans receivable(2)(3)..	.25	.28	.56	.70	1.12
Non-performing assets as a percent of total assets(3).....	.19	.21	.35	.45	.71

(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, 2000 and 1999, the Bank's allowance for loan losses was .77% and .78%,

respectively, of total loans. The Bank had non-accrual loans of \$2.9 million and \$3.0 million at December 31, 2000 and 1999, 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				
	2000	1999	1998	1997	1996
	(Dollars in thousands)				
Balance at beginning of year.....	\$8,223	\$7,460	\$6,612	\$6,021	\$6,001
Charge-offs:					
Real Estate:					
One- to four-family.....	77	114	63	328	599
Commercial real estate, multi-family and land.....	-	58	-	-	30
Construction.....	-	-	-	-	-
Consumer.....	10	37	2	9	63
Commercial.....	5	32	-	-	-
Total.....	92	241	65	337	692
Recoveries.....	22	104	13	28	12
Net charge-offs.....	70	137	52	309	680
Provision for loan losses.....	985	900	900	900	700
Balance at end of year.....	\$9,138	\$8,223	\$7,460	\$6,612	\$6,021
Ratio of net charge-offs during the year to average net loans outstanding during the year.....	.01%	.01%	.01%	.05%	.11%

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).

	2000			1999		
	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
One- to four-family	\$2,831	30.98%	83.93%	\$2,577	31.34%	87.04%
Commercial real estate, multi- family and land	2,018	22.08	7.57	1,352	16.44	5.42
Construction	38	.42	.67	38	.46	.74
Consumer	585	6.40	5.32	543	6.60	5.32
Commercial	1,282	14.03	2.51	622	7.57	1.48
Unallocated	2,384	26.09	-	3,091	37.59	-
	-----	-----	-----	-----	-----	-----
Total	\$9,138 =====	100.00% =====	100.00% =====	\$8,223 =====	100.00% =====	100.00% =====
At December 31,						
	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
One- to four-family	\$2,824	37.86%	89.10%	\$2,485	37.58%	89.57%
Commercial real estate, multi- family and land	993	13.30	4.30	591	8.94	3.24
Construction	31	.42	.63	44	.67	1.10
Consumer	505	6.77	5.31	471	7.12	5.72
Commercial	220	2.95	.66	58	.88	.37
Unallocated	2,887	38.70	-	2,963	44.81	-
	-----	-----	-----	-----	-----	-----
Total	\$7,460 =====	100.00% =====	100.00% =====	\$6,612 =====	100.00% =====	100.00% =====

	1996		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Each Category to Total Loans
One- to four-family	\$2,659	44.16%	91.05%
Commercial real estate, multi- family and land	330	5.48	2.26
Construction	75	1.25	1.35
Consumer	324	5.38	5.34
Commercial	-	-	-
Unallocated	2,633	43.73	-
	-----	-----	-----
Total	\$6,021	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, 2000, 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. 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, 2000, mortgage-backed securities totaled \$268.0 million, or 16.3% of total assets, including \$148.4 million in collateralized mortgage obligations ("CMOs"), all of which were classified as available for sale. 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.

CMOs issued by FHLMC, FNMA, GNMA and private interests amounted to \$39,458,000, \$16,303,000, \$7,581,000 and \$85,067,000, respectively, at December 31, 2000 and \$53,518,000, \$13,064,000, \$8,901,000 and \$117,794,000, respectively, at December 31, 1999. 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, 2000 the Bank had outstanding privately-issued CMOs from two issuers, Residential Funding Corp. and Countrywide Home Loans, Inc., each in excess of ten percent of stockholders' equity. The aggregate book and market values of privately-issued CMOs issued by Residential Funding Corp. and held by the Bank totaled \$36.0 million and \$35.4 million, respectively. The aggregate book and market values of privately issued CMOs issued by Countrywide Home Loans, Inc. and held by the Bank totaled \$19.0 million and \$18.6 million, respectively.

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

	For the Year Ended December 31,		
	2000	1999	1998
	(In thousands)		
Beginning balance.....	\$346,182	\$ 381,840	\$ 457,148
Mortgage-backed securities Purchased.....	5,059	97,251	181,095
Less: Principal repayments.....	(58,901)	(120,460)	(204,359)
Mortgage-backed securities sold.....	(31,915)	-	(48,824)
Amortization of premium.....	(462)	(1,145)	(3,230)
Change in net unrealized gain (loss) on mortgage-backed securities available for sale.....	8,079	(11,304)	10
Ending balance.....	<u>\$268,042</u>	<u>\$ 346,182</u>	<u>\$ 381,840</u>

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,					
	2000		1999		1998	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Mortgage-backed securities:						
FHLMC.....	\$ 48,888	\$ 48,784	\$ 65,111	\$ 64,484	\$106,762	\$107,166
FNMA.....	37,172	37,009	48,424	47,852	74,027	74,434
GNMA.....	34,092	33,840	41,467	40,569	63,041	63,073
CMOs.....	150,335	148,409	201,704	193,277	137,230	137,167
Total mortgage-backed securities.....	<u>\$270,487</u>	<u>\$268,042</u>	<u>\$356,706</u>	<u>\$346,182</u>	<u>\$381,060</u>	<u>\$381,840</u>

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,					
	2000		1999		1998	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Investment securities:						
U.S. Government and agency obligations....	\$ 24,469	\$ 24,373	\$ 40,964	\$ 40,177	\$ 59,983	\$ 60,387
State and municipal obligations.....	5,561	5,156	5,761	5,003	1,946	1,935
Corporate debt securities.....	75,124	69,616	75,050	72,567	74,976	72,249
Equity investments.....	3,757	4,391	3,668	3,033	3,226	2,834
Total investment securities.....	<u>\$108,911</u>	<u>\$103,536</u>	<u>\$125,443</u>	<u>\$120,780</u>	<u>\$140,131</u>	<u>\$137,405</u>

The table below sets forth certain information regarding the amortized cost, weighted average yields and contractual maturities, excluding scheduled principal amortization, of the Bank's investment and mortgage-backed securities, excluding equity securities, as of December 31, 2000. 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, 2000			
	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.....	\$ 999	\$ 5,000	\$18,470	\$ -
State and municipal obligations (1).....	-	-	-	5,561
Corporate debt securities (2).....	-	-	-	75,124
Total investment securities.....	\$ 999	\$ 5,000	\$18,470	\$ 80,685
	=====	=====	=====	=====
Weighted average yield.....	6.05%	7.21%	6.64%	7.42%
	=====	=====	=====	=====
Mortgage-backed securities:				
FHLMC.....	\$1,177	\$25,935	\$ 454	\$ 21,322
FNMA.....	-	15,088	5,736	16,348
GNMA.....	1	470	75	33,546
CMOS.....	-	74	-	150,261
Total mortgage-backed securities.....	\$1,178	\$41,567	\$ 6,265	\$221,477
	=====	=====	=====	=====
Weighted average yield.....	7.10%	6.48%	6.95%	6.72%
	=====	=====	=====	=====

	Total			
	-----	-----		
	Amortized Cost	Market Value		
	-----	-----		
Investment securities:				
U.S. Government and agency obligations.....	\$ 24,469	\$ 24,373		
State and municipal obligations (1).....	5,561	5,156		
Corporate debt securities (2).....	75,124	69,616		
Total investment securities.....	\$105,154	\$ 99,145		
	=====	=====		
Weighted average yield.....	7.26%			
	=====			
Mortgage-backed securities:				
FHLMC.....	\$ 48,888	\$ 48,784		
FNMA.....	37,172	37,009		
GNMA.....	34,092	33,840		
CMOS.....	150,335	148,409		
Total mortgage-backed securities.....	\$270,487	\$268,042		
	=====	=====		
Weighted average yield.....	6.69%			
	=====			

(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, 2000, time deposits constituted 61.35% 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,		
	2000	1999	1998
		(In thousands)	
Net deposits (withdrawals).....	\$ 5,294	\$(14,480)	\$ 8,890
Acquisition of deposits.....	-	-	10,732
Interest credited on deposit accounts.....	41,944	36,179	38,865
Total increase in deposit accounts.....	\$47,238	\$ 21,699	\$58,487
	=====	=====	=====

At December 31, 2000, the Bank had \$90.2 million in time deposits in amounts of \$100,000 or more maturing as follows:

Maturity Period	Amount	Weighted Average Rate
	(Dollars in thousands)	
Three months or less.....	\$ 41,185	5.79%
Over three through six months.....	14,736	5.68
Over six through 12 months.....	15,240	6.09
Over 12 months.....	19,011	6.38
Total.....	\$ 90,172	5.95
	=====	=====

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,									
2000			1999			1998			
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...	\$ 76,570	7.03%	2.58%	\$ 77,478	7.40%	2.61%	\$ 71,800	7.10%	2.59%
Savings accounts.....	170,604	15.67	2.00	173,798	16.60	2.03	167,058	16.53	2.03
NOW accounts.....	130,423	11.98	2.83	111,356	10.63	1.59	89,679	8.87	1.59
Non-interest-bearing accounts...	43,177	3.97	-	26,953	2.58	-	18,749	1.86	-
Total.....	420,774	38.65	2.18	389,585	37.21	1.88	347,286	34.36	1.90
Time deposits:									
Six months or less.....	74,333	6.83	5.58	91,114	8.70	4.54	87,087	8.62	4.57
Over 6 through 12 months.....	104,522	9.60	5.69	118,907	11.36	4.73	135,919	13.44	4.98
Over 12 through 24 months.....	189,661	17.42	5.62	231,022	22.06	5.04	219,706	21.74	5.45
Over 24 months.....	166,961	15.34	6.22	109,341	10.44	6.02	108,748	10.76	6.07
IRA/KEOGH.....	132,434	12.16	5.87	107,152	10.23	5.47	112,023	11.08	5.57
Total time deposits.....	667,911	61.35	5.82	657,536	62.79	5.18	663,483	65.64	5.35
Total average deposits...	\$1,088,685	100.00%	4.31%	\$1,047,121	100.00%	3.94%	\$1,010,769	100.00%	4.08%
	=====	=====		=====	=====		=====	=====	

Borrowings

From time to time the Bank has obtained term advances from the Federal Home Loan Bank of New York ("FHLB-NY") as an alternative to retail deposit funds and may do so in the future as part of its operating strategy. FHLB-NY 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 investment and mortgage-backed securities and secondarily by the Bank's investment in capital stock of the FHLB-NY. In addition, the Bank has an available overnight line of credit with the FHLB-NY for \$50.0 million which expires November 23, 2001. The Bank also has available from the FHLB-NY a one-month, overnight repricing line of credit for \$50.0 million which also expires on November 23, 2001. 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 and agency securities and FHLB-NY stock. The maximum amount that the FHLB-NY will advance to member institutions, including the Bank, fluctuates from time to time in accordance with the policies of the OTS and the FHLB-NY. At December 31, 2000, the Bank had \$52.5 million in outstanding borrowings against the FHLB-NY lines of credit and \$75.0 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 pledged securities are not under the Bank's control. At December 31, 2000, the Bank had borrowed \$236.5 million through securities sold under agreements to repurchase. (See note 10 to the consolidated financial statements in the 2000 Annual Report to Stockholders.)

Subsidiary Activities

The Bank owns three subsidiaries -- Columbia Equities, Ltd., OceanFirst Service Corp. and OceanFirst Realty Corp.

Columbia Equities, Ltd. was acquired by the Bank on August 18, 2000 and operates as a mortgage banking subsidiary based in Tarrytown, New York. Columbia originates, sells and services a full product line of residential mortgage loans primarily in New York, New Jersey and Connecticut. Loans are originated through three retail branches and to a lesser extent, a web site and a network of independent mortgage brokers. Columbia sells virtually all loan production into the secondary market or, to a lesser extent, the Bank. Presently, servicing rights are retained in connection with most loan sales.

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, mutual funds and insurance) 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, 2000, the Bank had 346 full-time employees and 62 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 as defined under the Gramm-Leach-Bliley Act 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. The Company qualifies for the grandfather provision. 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 Bank 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.

Acquisition of the Company. Under the Federal Change in Control Act ("CIBCA"), a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company's outstanding voting stock, unless the Office of Thrift Supervision has found that the acquisition will not result in a change of control of the Company. Under the CIBCA, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

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

The following table presents the Bank's capital position at December 31, 2000. The Bank met each of its capital requirements at that date.

				Capital	
	Actual Capital	Required Capital	Excess Amount	Actual Percent	Required Percent
	-----	-----	-----	-----	-----
	(Dollars in thousands)				
Tangible.....	\$119,591	\$24,653	\$94,938	7.28%	1.50%
Core (Leverage).....	119,591	49,307	70,284	7.28	3.00
Risk-based.....	128,597	74,198	54,399	13.87	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 2000, FICO payments for SAIF members approximated 2.1 basis points.

The Bank's assessment rate for fiscal 2000 was zero basis points and the premium paid for this period was \$219,000, 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, 2000, the Bank's limit on loans to one borrower was \$17.4 million, and the Bank's largest aggregate outstanding balance of loans to one borrower was \$9.6 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, 2000, 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. Under the regulations, 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. During 2000, the Bank was 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 was 4%. Recent legislation has eliminated the statutory liquidity requirement.

Assessments. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The assessments, paid on a semi-annual basis, are based on the institution's size, supervisory condition and complexity of operations. The assessments paid by the Bank for the fiscal year ended December 31, 2000 totaled \$260,000.

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, except 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 ("FHLB") System, which consists of 12 regional FHLBs. Each FHLB provides member institutions with a central credit facility. The Bank, as a member of the FHLB of New York ("FHLB- NY"), is required to acquire and hold shares of capital stock in that FHLB 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 borrowings from the FHLB-NY, whichever is greater. The Bank was in compliance with this requirement with an investment in FHLB-NY stock at December 31, 2000 of \$20.0 million.

The FHLBs are required to provide funds to cover certain obligations on bonds issued to fund the resolution of insolvent thrifts 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: a 3% reserve ratio is assessed on net transaction accounts over \$5.5 million to and including \$42.8 million; a 10% reserve ratio is applied above \$42.8 million. The first \$5 million of otherwise reservable balances are exempted from the reserve requirements. The amounts are adjusted annually.

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 2000 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.

New York Taxation. Columbia is subject to New York State income tax at a rate of 9.95% (including a commuter transportation surcharge). The tax is measured by "entire net income" which is Federal taxable income with adjustments.

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 conducts its business through its administrative office, which includes a branch office, and 14 other full service offices located in Ocean, Monmouth and Middlesex Counties and through the administrative and loan production offices of Columbia. 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, 2000 ----- (Dollars in thousands)
Administrative Office:				
975 Hooper Avenue Toms River, New Jersey 08754	Owned	1995	--	\$9,258
Branch Offices:				
Adamston: 385 Adamston Road Brick, New Jersey 08723	Leased	1999	07/31/09	304
Berkeley: Holiday City Plaza 730 Jamaica Boulevard Toms River, New Jersey 08757	Leased	1984	11/30/04	63
Brick: 321 Chambers Bridge Road Brick, New Jersey 08723	Owned	1960	--	1,142
Concordia: 1 Concordia Shopping Mall Box 3 Cranbury, New Jersey 08512	Leased	1985	07/31/05	75
Holiday City South: Holiday Plaza III 604 Mule Road Toms River, New Jersey 08757	Leased	1991	05/31/01	28
Lacey: 900 Lacey Road Forked River, New Jersey 08731	Leased	1997	01/31/18	277
Lake Ridge: 147 Route 70, Suite 1 Toms River, New Jersey 08755	Leased	1998	01/31/18	230
Pavilion: 70 Brick Boulevard Brick, New Jersey 08723	Leased	1989	09/30/18	375
Point Pleasant Beach: 701 Arnold Avenue Point Pleasant, New Jersey 08742	Owned	1937	--	64
Point Pleasant Boro: 2400 Bridge Avenue Point Pleasant, New Jersey 08742	Owned	1971	--	693

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, 2000 ----- (Dollars in thousands)
Route 88: (1) 3100 Route 88 Point Pleasant, New Jersey 08742	Leased	2000	03/31/50	--
Spring Lake Heights: 2401 Route 71 Spring Lake Heights, New Jersey 07762	Leased	1999	10/31/09	165
Wall Township: 2445 Route 34 Manasquan, New Jersey 08736	Leased	1999	2/28/10	501
Whiting: Whiting Shopping Center P. O. Box 20 Whiting, New Jersey 08759	Leased	1983	10/31/02	45
Other Properties (2): 730 Brick Boulevard Brick, New Jersey 08723	Owned	1986	--	418
Columbia Equities, Ltd.:				
150 White Plains Road Tarrytown, New York 10591	Leased	2000	04/30/03	339
141-07 20/th/ Avenue Whitestone, New York 11357	Leased	1999	09/30/02	--

(1) This branch opened in the first quarter of 2001.

(2) The property was formerly utilized by the Bank, however, the property has been fully subleased since 1997.

(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 2000 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 2000 Annual Report to Stockholders on pages 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 2000 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 2000 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 2000 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, 2001, at pages 4 through 6.

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, 2001, 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, 2001, at pages 3 and 5 through 6.

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, 2001, 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 2000 Annual Report to Stockholders.

	PAGE
Independent Auditors' Report.....	35
Consolidated Statements of Financial Condition at December 31, 2000 and 1999.....	20
Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998.....	21
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2000, 1999 and 1998.....	22
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998.....	23
Notes to Consolidated Financial Statements for the Years Ended December 31, 2000, 1999 and 1998.....	24-34

The remaining information appearing in the 2000 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.

- 2.1 Stock Purchase Agreement by and among Richard S. Pardes (the sole stockholder of Columbia Equities, Ltd.) and Columbia Equities, Ltd. and OceanFirst Bank as buyer, dated June 27, 2000 (without exhibits) (2)
- 3.1 Certificate of Incorporation of OceanFirst Financial Corp. (1)
- 3.2 Bylaws of OceanFirst Financial Corp.(1)
- 4.0 Stock Certificate of OceanFirst Financial Corp.(1)
- 10.1 Form of OceanFirst Bank Employee Stock Ownership Plan(1)
- 10.1(a) Amendment to OceanFirst Bank Employee Stock Ownership Plan (3)
- 10.2 OceanFirst Bank Employees' Savings and Profit Sharing Plan (1)
- 10.3 OceanFirst Bank 1995 Supplemental Executive Retirement Plan (1)
- 10.4 OceanFirst Bank Deferred Compensation Plan for Directors (1)
- 10.5 OceanFirst Bank Deferred Compensation Plan for Officers (1)
- 10.6 OceanFirst Bank Long-Term Award Program (1)
- 10.7 OceanFirst Bank Performance Achievement Awards Program (1)
- 10.8 Amended and Restated OceanFirst Financial Corp. 1997 Incentive Plan (4)
- 10.9 Form of Employment Agreement between OceanFirst Bank and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino (1)
- 10.10 Form of Employment Agreement between OceanFirst Financial Corp. and certain executive officers, including Michael J. Fitzpatrick and John R. Garbarino (1)
- 10.11 Form of Change in Control Agreement between OceanFirst Bank and certain executive officers, including John K. Kelly, Robert M. Pardes and Karl E. Reinheimer (1)
- 10.12 Form of Change in Control Agreement between OceanFirst Financial Corp. and certain executive officers, including John K. Kelly, Robert M. Pardes and Karl E. Reinheimer (1)
- 10.13 2000 Stock Option Plan (5)
- 10.14 Form of Employment Agreement between Columbia Equities, Ltd. and Robert M. Pardes (filed herewith).
- 13.0 Portions of 2000 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)
- (b) Reports on Form 8-K

The Company filed a report on Form 8-K with the Securities and Exchange Commission on June 28, 2000, announcing the purchase agreement between OceanFirst Bank and Columbia Equities, Ltd.

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

(2) Incorporated herein by reference from the Exhibits to Form 8-K filed on June 28, 2000.

(3) Incorporated herein by reference from the Exhibits to Form 10-K filed on March 25, 1997.

(4) Incorporated herein by reference from Form 14-A Definitive Proxy Statement filed on March 19, 1998.

(5) Incorporated herein by reference from Form 14-A Definitive Proxy Statement filed on March 17, 2000.

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 13, 2001

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 13, 2001
/s/ Michael J. Fitzpatrick ----- Michael J. Fitzpatrick Executive Vice President and Chief Financial Officer (principal accounting and financial officer)	March 13, 2001
/s/ Thomas F. Curtin ----- Thomas F. Curtin Director	March 13, 2001
/s/ Carl Feltz, Jr. ----- Carl Feltz, Jr. Director	March 13, 2001

<i>/s/ Robert E. Knemoller</i> ----- <i>Robert E. Knemoller</i> <i>Director</i>	<i>March 13, 2001</i>
<i>/s/ Donald E. McLaughlin</i> ----- <i>Donald E. McLaughlin</i> <i>Director</i>	<i>March 13, 2001</i>
<i>/s/ Diane F. Rhine</i> ----- <i>Diane F. Rhine</i> <i>Director</i>	<i>March 13, 2001</i>
<i>/s/ Frederick E. Schlosser</i> ----- <i>Frederick E. Schlosser</i> <i>Director</i>	<i>March 13, 2001</i>
<i>/s/ James T. Snyder</i> ----- <i>James T. Snyder</i> <i>Director</i>	<i>March 13, 2001</i>
<i>/s/ John E. Walsh</i> ----- <i>John E. Walsh</i> <i>Director</i>	<i>March 13, 2001</i>

**COLUMBIA EQUITIES, LTD, A SUBSIDIARY OF OCEANFIRST BANK
EMPLOYMENT AGREEMENT**

This AGREEMENT is made effective as of August 18, 2000, by and among Columbia Equities, Ltd., a subsidiary of OceanFirst Bank (the "Company"), with its principal administrative office at 150 White Plains Road, Tarrytown, New York, and Robert M. Pardes ("Executive").

WHEREAS, the Company wishes to assure itself of the services of Executive for the period provided in this Agreement; and

WHEREAS, Executive is willing to serve in the employ of the Company for said period.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, and upon the other terms and conditions hereinafter provided, the parties hereby agree as follows:

1. POSITION AND RESPONSIBILITIES

During the period of Executive's employment under this Agreement, Executive agrees to serve as President of the Company. Executive shall render administrative and management services to the Company such as are customarily performed by persons situated in a similar executive capacity, and as the Board of Directors of the Company (the "Board") and the chief executive officer of OceanFirst Bank (the "Bank") may from time to time determine.

2. TERMS AND DUTIES

(a) The term of Executive's employment under this Agreement shall be deemed to have commenced as of the date first above written and shall continue for a period of thirty-six (36) full calendar months thereafter. Commencing on the first anniversary date of this Agreement, and continuing on each anniversary thereafter, the Board may extend the Agreement an additional year such that the remaining term of the Agreement shall be three (3) years unless the Executive elects not to extend the term of this Agreement by giving written notice in accordance with Section 8 of this Agreement. The Board will review the Agreement and Executive's performance annually for purposes of determining whether to extend the Agreement and the rationale and results thereof shall be included in the minutes of the Board's meeting. The Board shall give notice to the Executive as soon as possible after such review as to whether the Agreement is to be extended.

(b) During the period of Executive's employment hereunder, the Executive will devote approximately 50% of his time performing duties as the Executive Vice President, Director of Residential Lending of the Bank. Except for periods of time spent by Executive

performing duties at the Bank, and except for absence occasioned by illness, reasonable vacation periods, and reasonable leaves of absence, Executive shall devote all his business time, attention, skill, and efforts to the faithful performance of his duties hereunder, including activities and services related to the organization, operation and management of the Company and participation in community and civic organizations; provided, however, that, with the approval of the Board, as evidenced by a resolution of such Board, from time to time, Executive may serve, or continue to serve, on the boards of directors of, and hold any other offices or positions in, companies or organizations, which, in such Board's judgment, will not present any conflict of interest with the Company, or materially affect the performance of Executive's duties pursuant to this Agreement.

(c) During the term of this Agreement Executive shall have the right to select the closing counsel the Company uses in its lending operations, including, but not limited to, Pardes & Pardes and its network of closing counsel, provided that any such closing counsel pays its own overhead and performs all services under terms no less favorable than available generally in the market.

(d) Notwithstanding anything in this Agreement to the contrary, Executive's employment with the Company may be terminated by the Company or the Executive during the term of this Agreement, subject to the terms and conditions of this Agreement.

3. COMPENSATION AND REIMBURSEMENT

(a) Executive shall receive from the Company as compensation a salary of \$81,500 per year ("Base Salary"), plus additional incentive compensation paid under the Performance Achievement Awards Program ("PAAP") cash bonus plan, which may entitle Executive to earn additional compensation in a targeted amount equal to 35% of the Company Base Salary based on the terms of the PAAP. Base Salary shall be paid in accordance with the normal payroll practices of the Company. Base Salary shall include any amounts of compensation otherwise payable by the Company as Base Salary but deferred by Executive under any qualified or unqualified plan maintained by the Company or the Bank. During the period of this Agreement, Executive's Base Salary shall be reviewed at least annually; the first such review will be made no later than one year from the date of this Agreement. Such review shall be conducted by the Board or by a Committee of the Board, delegated such responsibility by the Board. The Committee or the Board may increase Executive's Base Salary. Any increase in Base Salary shall become the "Base Salary" for purposes of this Agreement.

(b) The Company will provide Executive with the opportunity to participate in or receive benefits under any employee benefit plan made available to employees of the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements. Nothing paid to Executive under any such plan or arrangement will be deemed to be in lieu of other compensation to which Executive is entitled under this Agreement.

(c) In addition to the Base Salary provided for by paragraph (a) of this Section 3 and other compensation provided for by paragraph (b) of this Section 3, the Company shall pay or reimburse Executive for all reasonable travel, automobile, telephone and other reasonable expenses incurred in the performance of Executive's obligations under this Agreement and may provide such additional compensation in such form and such amounts as the Board may from time to time determine.

4. PAYMENTS TO EXECUTIVE UPON AN EVENT OF TERMINATION

(a) Upon the occurrence of an Event of Termination (as defined in this Agreement) during Executive's term of employment under this Agreement, the provisions of this Section shall apply. As used in this Agreement, an "Event of Termination" shall mean and include any one or more of the following: (i) the termination by the Company of Executive's full-time employment hereunder (including termination of the Executive by the Bank from his position as a Senior Vice President of the Bank) for any reason except for Termination for Cause, as defined in Section 7 of this Agreement; (ii) Executive's resignation from the Company's or the Bank's employ upon any (A) failure to appoint or reappoint Executive as President of the Company or Senior Vice President of the Bank, unless consented to by the Executive, (B) a material change in Executive's function, duties, or responsibilities, which change would cause Executive's position to become one of lesser responsibility, importance, or scope from the position and attributes thereof described in Section 1 of this Agreement or which has a similar effect on Executive's position as a Senior Vice President of the Bank, unless consented to by Executive, (C) a relocation of Executive's place of employment by more than 25 miles from either the Tarrytown, New York office of the Company or the main office of the Bank in Toms River, New Jersey, unless consented to by the Executive, a material reduction in the benefits and perquisites to the Executive from those being provided by Company as of the effective date of this Agreement, unless consented to by the Executive, or (D) breach of this Agreement by the Company or a breach of the Executive's Change in Control Agreement by the Bank. Upon the occurrence of any event described in clauses (A), (B), (C) or (D) above, Executive shall have the right to elect to terminate his employment under this Agreement by resignation upon not less than sixty (60) days prior written notice given within six full months after the event giving rise to said right to elect.

(b) Upon the occurrence of an Event of Termination, on the Date of Termination, as defined in Section 8 of this Agreement, the Company shall be obligated to pay Executive, or, in the event of his subsequent death, his beneficiary or beneficiaries, or his estate, as the case may be, an amount equal to the sum of the remaining payments of Company Base Salary and base salary at the Bank, including any incentive compensation under the PAAP (determined by reference to the rate of Base Salary payable to Executive as of his Date of Termination) that the Executive would have earned from the Company if he had continued his employment with the Company during the remaining term of this Agreement. At the election of the Executive, which election is to be made prior to an Event of Termination, such payments shall be made in a lump sum as of the Executive's Date of Termination. In the event that no election is made, payment to Executive will be made on a monthly basis in approximately equal installments during the

remaining term of the Agreement. Such payments shall not be reduced in the event the Executive obtains other employment following termination of employment with the Company.

(c) Upon the occurrence of an Event of Termination, the Company will cause to be continued life, medical, dental and disability coverage substantially identical to the coverage provided by the Company for Executive prior to his termination at no premium cost to the Executive, except to the extent such coverage may be changed in its application to all Company employees. Such coverage shall cease upon the expiration of the remaining term of this Agreement.

5. CHANGE IN CONTROL

(a) For purposes of this Agreement, a Change in Control of the Company shall be deemed to have occurred if and when:

(i) the Company transfers substantially all of its assets to another corporation or entity which is not an affiliate of the Bank or OceanFirst Financial Corp. (the "Holding Company"); and

(ii) the Company is merged or consolidated with another corporation or entity (other than the Bank or OceanFirst Financial Corp. or affiliate thereof) and, as a result of the such merger or consolidation, less than fifty-one (51) percent of the outstanding proxies relating to the surviving or resulting corporation are given, in the aggregate, by the former members of the Company.

In addition to the foregoing, a Change in Control shall include a "Change in Control" of the Bank or the Holding Company shall mean an event of a nature that: (i) would be required to be reported in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or (ii) results in a Change in Control of the Bank or the Holding Company within the meaning of the Home Owners' Loan Act of 1933, as amended, the Federal Deposit Insurance Act, or the Rules and Regulations promulgated by the Office of Thrift Supervision ("OTS") (or its predecessor agency), as in effect on the date hereof (provided, that in applying the definition of change in control as set forth under the rules and regulations of the OTS, the Board shall substitute its judgment for that of the OTS); or (iii) without limitation such a Change in Control shall be deemed to have occurred at such time as (A) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of voting securities of the Bank or the Holding Company representing 20% or more of the Bank's or the Holding Company's outstanding voting securities or right to acquire such securities except for any voting securities purchased by any employee benefit plan of the Bank or the Holding Company, or (B) individuals who constitute the Board on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to

the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Holding Company's stockholders was approved by the same Nominating Committee serving under an Incumbent Board, shall be, for purposes of this clause (B), considered as though he were a member of the Incumbent Board, or (C) a plan of reorganization, merger, consolidation, sale of all or substantially all the assets of the Bank or the Holding Company or similar transaction occurs in which the Bank or the Holding Company is not the resulting entity; provided, however, that such an event listed above will be deemed to have occurred or to have been effectuated upon the receipt of all required federal regulatory approvals not including the lapse of any statutory waiting periods, or (D) a proxy statement is distributed soliciting proxies from stockholders of the Holding Company, by someone other than the current management of the Holding Company, seeking stockholder approval of a plan of reorganization, merger or consolidation of the Bank or the Holding Company with one or more corporations as a result of which the outstanding shares of the class of securities then subject to such plan or transaction are exchanged for or converted into cash or property or securities not issued by the Bank or the Holding Company shall be distributed, or (E) a tender offer is made for 20% or more of the voting securities of the Bank or the Holding Company then outstanding.

(b) If a Change in Control has occurred pursuant to Section 5(a) or the Board has determined that a Change in Control has occurred, Executive shall be entitled to the benefits provided in paragraphs (c), and (d) of this Section 5 upon his subsequent termination of employment at any time during the term of this Agreement due to: (1) Executive's dismissal, or (2) Executive's voluntary resignation following any demotion, loss of title, office or significant authority or responsibility (including at the Bank level) material reduction in annual Base Salary or benefits or material change in his place of employment as reflected by past practice (it being understood that Executive will spend approximately 50% of his time working at the executive office of the Company in Tarrytown, New York and 50% of his time at the Bank's administrative office in Toms River, New Jersey), by more than 25 miles from its location immediately prior to the Change in Control, unless such termination is because of his death or termination for Cause.

(c) Upon Executive's entitlement to benefits pursuant to Section 5(b), the Company shall pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries, or his estate, as the case may be, a sum equal to three (3) times Executive's average annual Company compensation for the five most recent taxable years that Executive has been employed by the Company or such lesser number of years in the event Executive has been employed by the Company for less than five years. For purposes of this Section 5, average annual Company compensation shall include base salary, commissions and bonuses and exclude any compensation received by the Executive for services rendered to the Bank. At the election of the Executive, which election is to be made prior to a Change in Control, such payment shall be made in a lump sum as of the Executive's Date of Termination. In the event that no election is made, payment to the Executive will be made in approximately equal installments on a monthly basis over a period of thirty-six (36) months following the Executive's termination. Such payments shall not be reduced in the event Executive obtains other employment following termination of employment.

(d) Upon the Executive's entitlement to benefits pursuant to Section 5(b), the Company will cause to be continued life, medical, dental and disability coverage substantially identical to the coverage provided by the Company for Executive prior to his severance at no premium cost to the Executive, except to the extent that such coverage may be changed in its application for all Company employees on a non-discriminatory basis. Such coverage and payments shall cease upon the expiration of thirty-six (36) months following the Date of Termination.

6. CHANGE OF CONTROL RELATED PROVISIONS

Notwithstanding the provisions of Section 5, in no event shall the aggregate payments or benefits to be made or afforded to Executive under said paragraphs (the "Termination Benefits") or otherwise constitute an "excess parachute payment" under Section 280G of the Code or any successor thereto, and in order to avoid such a result, Termination Benefits will be reduced, if necessary, to an amount (the "Non-Triggering Amount"), the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive's "base amount", as determined in accordance with said Section 280G. The allocation of the reduction required hereby among the Termination Benefits provided by Section 5 shall be determined by Executive.

7. TERMINATION FOR CAUSE

The term "Termination for Cause" shall mean termination because of Executive's personal dishonesty, incompetence, willful misconduct, any breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease-and-desist order or material breach of any provision of this Agreement. Notwithstanding the foregoing, Executive shall not be deemed to have been Terminated for Cause unless and until there shall have been delivered to him a Notice of Termination which shall include a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the members of the Board at a meeting of the Board called and held for that purpose (after reasonable notice to Executive and an opportunity for him, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board, Executive was guilty of conduct justifying Termination for Cause and specifying the particulars thereof in detail. Executive shall not have the right to receive compensation or other benefits for any period after Termination for Cause. During the period beginning on the date of the Notice of Termination for Cause pursuant to Section 8 of this Agreement through the Date of Termination for Cause, stock options granted to Executive under any stock option plan shall not be exercisable, nor shall any unvested stock awards granted to Executive under any stock benefit plan of Ocean Financial Corp. vest. At the Date of Termination for Cause, such stock options and such unvested stock awards shall become null and void and shall not be exercisable by or delivered to Executive at any time subsequent to such Termination for Cause.

8. NOTICE

(a) Any purported termination by the Company or by Executive shall be communicated by Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

(b) "Date of Termination" shall mean the date specified in the Notice of Termination (which, in the case of a Termination for Cause, shall not be less than thirty days from the date such Notice of Termination is given.).

(c) If, within thirty (30) days after any Notice of Termination is given, the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected) and provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, in the event the Executive is terminated for reasons other than Termination for Cause, the Company will continue to pay Executive his Base Salary in effect when the notice giving rise to the dispute was given until the earlier of: 1) the resolution of the dispute in accordance with this Agreement or 2) the expiration of the remaining term of this Agreement as determined as of the Date of Termination. Amounts paid under this Section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

9. POST-TERMINATION OBLIGATIONS

All payments and benefits to Executive under this Agreement shall be subject to Executive's compliance with this Section 9 and Sections 10 and 11. Executive shall, upon reasonable notice, furnish such information and assistance to the Company as may reasonably be required by the Company in connection with any litigation in which it or any of its subsidiaries or affiliates is, or may become, a party.

10. NON-DISCLOSURE

(a) In consideration of the compensation to be received by the Executive from the Company, the Executive shall not during the period Executive is employed by the Company, engage in, or otherwise directly or indirectly be employed by, or act as a consultant or lender to, or to be a director, officer, employee or partner of, any business or organization that is or shall then be competing with the Company .

(b) Executive recognizes and acknowledges that the knowledge of the business activities and plans for business activities of the Company and affiliates thereof, as it may exist from time to time, is a valuable, special and unique asset of the business of the Company. Executive will not, during or after the term of his employment, disclose any knowledge of the past, present, planned or considered business activities of the Company or affiliates thereof to any person, firm, Company, or other entity for any reason or purpose whatsoever. Notwithstanding the foregoing, Executive may disclose information regarding the business activities of the Company to a State Banking Department, OTS and the Federal Deposit Insurance Corporation ("FDIC") pursuant to a formal regulatory request.

(c) The parties hereto, recognizing that irreparable injury will result to the Company, its business and property in the event of Executive's breach of this Section 10 and agree that in the event of any such breach by Executive, the Company, will be entitled, in addition to any other remedies and damages available, to an injunction to restrain the violation hereof by Executive, Executive's partners, agents, servants, employees and all persons acting for or under the direction of Executive. Nothing herein will be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

11. NON-COMPETE AND NON-SOLICITATION

Executive recognizes the highly competitive nature of the mortgage banking business and agrees that the value and goodwill of the Company would be substantially impaired if Executive failed to comply with his obligations hereunder. Accordingly, for a period of two (2) years after Executive's resignation or Termination for Cause from the Company pursuant to Section 7 hereof, Executive hereby agrees not to compete with the Company in any city, town or county in which the Bank or Company maintains an office, determined as of the effective date of such termination, except as agreed to pursuant to a resolution duly adopted by the Board. Executive agrees that during such period and within said cities, towns and counties, Executive shall not work for or advise, consult or otherwise serve with, directly or indirectly, any entity whose business materially competes with the business of the Company or Bank.

Furthermore, Executive agrees that for a period of two (2) years after Executive's resignation or termination from the Company pursuant to either

Section 4 or Section 7 of the Agreement, Executive will: (i) not interfere or attempt to interfere with any business relationship of the Company and shall not induce or attempt to induce any supplier, customer, agent, dealer or representative to cease doing business with the Company from the date hereof until the second anniversary of his termination with the Company; and (ii) Executive shall not solicit or induce, or attempt to solicit or induce, directly or indirectly, any employee or agent of, or consultant to, the Company to terminate its, his or her relationship therewith, hire any such employee, agent or consultant, or former employee, agent or consultant, or work in any enterprise involving investment advisory services with any employee, agent or consultant, or former employee, agent or consultant of the Company who was employed by or acted as an agent or consultant to the

Company at any time during the one year period preceding the termination of Executive's employment.

The parties hereto, recognizing that irreparable injury will result to the Company, its business and property in the event of Executive's breach of this

Section 11 agree that in the event of any such breach by Executive, the Company will be entitled, in addition to any other remedies and damages available, to an injunction to restrain the violation hereof by Executive, Executive's partners, agents, servants, employees and all persons acting for or under the direction of Executive. Nothing herein will be construed as prohibiting the Company from pursuing any other remedies available to the Company for such breach or threatened breach, including the recovery of damages from Executive.

(b) Executive recognizes and acknowledges that the knowledge of the business activities and plans for business activities of the Company and affiliates thereof, as it may exist from time to time, is a valuable, special and unique asset of the business of the Company. Executive will not, during or after the term of his employment, disclose any knowledge of the past, present, planned or considered business activities of the Company or affiliates thereof to any person, firm, company, or other entity for any reason or purpose whatsoever. Notwithstanding the foregoing, Executive may disclose any knowledge of banking, financial and/or economic principles, concepts or ideas which are not solely and exclusively derived from the business plans and confidential activities of the Company or Bank. Further, Executive may disclose information regarding the business activities of the Bank to the OTS and the Federal Deposit Insurance Corporation ("FDIC") pursuant to a formal regulatory request or otherwise if compelled to disclose such information by law. In the event of a breach or threatened breach by Executive of the provisions of this Section, the Company will be entitled to an injunction restraining Executive from disclosing, in whole or in part, the knowledge of the past, present, planned or considered business activities of the Company or affiliates thereof, or from rendering any services to any person, firm, corporation, other entity to whom such knowledge, in whole or in part, has been disclosed or is threatened to be disclosed. Nothing herein will be construed as prohibiting the Company from pursuing any other remedies available to the Bank for such breach or threatened breach, including the recovery of damages from Executive.

12. SOURCE OF PAYMENTS

All payments provided in this Agreement shall be timely paid in cash or check from the general funds of the Company, provided, however, such payment and any benefits due hereunder shall be guaranteed by OceanFirst Financial Corp., the parent holding company of the Bank, if not paid or provided by the Company.

13. EFFECT ON PRIOR AGREEMENTS AND EXISTING BENEFITS PLANS

This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement between the Company or any predecessor of the Company and Executive, except that this Agreement shall not affect or operate to reduce any

benefit or compensation inuring to Executive of a kind elsewhere provided. No provision of this Agreement shall be interpreted to mean that Executive is subject to receiving fewer benefits than those available to him without reference to this Agreement.

14. NO ATTACHMENT

(a) Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to affect any such action shall be null, void, and of no effect.

(b) This Agreement shall be binding upon, and inure to the benefit of, Executive and the Company and their respective successors and assigns.

15. MODIFICATION AND WAIVER

(a) This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

(b) No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future as to any act other than that specifically waived.

16. SEVERABILITY

If, for any reason, any provision of this Agreement, or any part of any provision, is held invalid, such invalidity shall not affect any other provision of this Agreement or any part of such provision not held so invalid, and each such other provision and part thereof shall to the full extent consistent with law continue in full force and effect.

17. HEADINGS FOR REFERENCE ONLY

The headings of sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

18. GOVERNING LAW

The validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of New York, without regard to its conflict of law principles.

19. ARBITRATION

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators sitting in a location selected by Executive within fifty (50) miles from the location of the Bank, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

In the event any dispute or controversy arising under or in connection with Executive's termination is resolved in favor of Executive, whether by judgment, arbitration or settlement, Executive shall be entitled to the payment of all back-pay, including salary, bonuses and any other cash compensation, fringe benefits and any compensation and benefits due Executive under this Agreement.

20. PAYMENT OF COSTS AND LEGAL FEES

All reasonable costs and legal fees paid or incurred by Executive pursuant to any dispute or question of interpretation relating to this Agreement shall be paid or reimbursed by the Company if Executive is successful on the merits pursuant to a legal judgment, arbitration or settlement.

21. INDEMNIFICATION

(a) The Company shall provide Executive (including his heirs, executors and administrators) with coverage under a standard directors' and officers' liability insurance policy at its expense, and shall indemnify Executive (and his heirs, executors and administrators) as permitted under New Jersey law against all expenses and liabilities reasonably incurred by him in connection with or arising out of any action, suit or proceeding in which he may be involved by reason of his having been a director or officer of the Company (whether or not he continues to be a director or officer at the time of incurring such expenses or liabilities), such expenses and liabilities to include, but not be limited to, judgments, court costs and attorneys' fees and the cost of reasonable settlements.

(b) Any payments made to Executive pursuant to this Section are subject to and conditioned upon compliance with 12 C.F.R.' 545.121 and any rules or regulations promulgated thereunder.

22. SUCCESSOR TO THE COMPANY

The Company shall require any successor or assignee, whether direct or indirect, by purchase, merger, consolidation or otherwise, to all or substantially all the business or assets of the Company, expressly and unconditionally to assume and agree to perform the Company's obligations under this Agreement, in the same manner and to the same extent that the the Company would be required to perform if no such succession or assignment had taken place.

SIGNATURES

IN WITNESS WHEREOF, Columbia Equities, Ltd., a subsidiary of OceanFirst Bank caused this Agreement to be executed and its seal to be affixed hereunto by its duly authorized officer and director, and Executive has signed this Agreement, on the 18th of August, 2000.

ATTEST:

COLUMBIA EQUITIES, LTD., a
subsidiary of
OCEANFIRST BANK

Secretary

By: /s/ John R. Garbarino

John R. Garbarino
For the Entire Board of Directors

WITNESS:

EXECUTIVE

/s/ Robert M. Pardes

Robert M. Pardes

Seal

[PICTURE]

Building on our progress,
Focusing on the future.

OceanFirst Financial Corp. [LOGO OCEAN FIRST] 2000 Annual Report

Our Mission

OceanFirst builds value for its shareholders as a community-focused financial services organization.

[MAP]

OceanFirst Bank, sole subsidiary of OceanFirst Financial Corp., is located in the central coastal area of New Jersey between the major metropolitan cities of New York and Philadelphia. With administrative offices in Toms River, New Jersey (shown above), OceanFirst provides financial services to retail and business customers throughout the Jersey Shore market.

Contents

Financial Highlights.....	1
Letter to Shareholders.....	2
Selected Financial Data.....	9
Management's Discussion and Analysis.....	11
Consolidated Financial Statements.....	20
Directors and Officers.....	36
Shareholder Information.....	inside back cover

Founded in 1902, OceanFirst Bank is a federally chartered stock savings bank with twelve branches located in Ocean County, New Jersey, two branches in Monmouth County and one branch in Middlesex County. It is the oldest and largest community-based financial institution headquartered in Ocean County, New Jersey.

Financial Highlights

(dollars in thousands, except per share amounts)			
At or For The Year Ended December 31,	2000	1999	1998

Selected Financial Condition Data:			

Total assets	\$1,640,217	\$1,590,907	\$1,561,744
Loans receivable, net	1,136,879	1,042,975	941,011
Deposits	1,104,188	1,056,950	1,035,251
Stockholders' equity	157,736	167,530	197,740

Selected Operating Data:			

Net interest income	49,693	48,538	44,158
Non-interest income	6,145	5,226	2,411
Non-interest expense	31,645	27,852	25,457
Net income	16,382	16,347	12,972
Diluted earnings per share	1.54	1.33	0.95

Selected Financial Ratios:			

Stockholders' equity per common share	14.23	13.27	13.52
Cash dividend per share	.72	.57	.46
Stockholders' equity to total assets (capital ratio)	9.62%	10.53%	12.66%
Return on average assets	1.01	1.04	0.85
Return on average stockholders' equity	10.45	8.90	6.36
Average interest rate spread	2.75	2.70	2.39
Net interest margin	3.20	3.20	2.98
Operating expenses to average assets	1.96	1.78	1.66
Operating efficiency ratio	56.67	51.80	54.67
Non-performing loans to total loans receivable	.25	.28	.56

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

Cash earnings	\$ 19,426	\$ 19,283	\$ 16,009
Diluted cash earnings per share	1.82	1.57	1.17
Return on average assets	1.20%	1.23%	1.05%
Return on average stockholders' equity	12.39	10.50	7.85
Operating efficiency ratio	48.96	43.94	45.35

(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 intangible assets.

Earnings Per Share

Reported EPS

1997	\$0.88
1998	\$0.95
1999	\$1.33
2000	\$1.54

Cash EPS	
1997	\$1.08
1998	\$1.17
1999	\$1.57
2000	\$1.82

Return On Equity

Reported ROE

1997	6.00%
1998	6.36%
1999	8.90%
2000	10.45%

Cash ROE	
1997	7.30%
1998	7.80%
1999	10.50%
2000	12.39%

Letter to our Shareholders

March 2001

Dear Fellow Shareholders:

Whether one believes that the new millennium actually began on the first day of 2000 or 2001 is now purely academic. A new millennium has indisputably begun, and we at OceanFirst welcome it as an exciting time, offering us the potential to build additional value for our shareholders. In the past 12 months, we achieved the financial goals we had set for 2000, and further strengthened our position as the preeminent financial services provider in our market. We believe that these accomplishments add undeniable economic value to your investment in OceanFirst Financial Corp. And the next 12 months, we believe, will bring fresh opportunities for us to further enhance the value of that investment.

Strong Financial Performance

We again delivered record-breaking earnings per share (EPS) in 2000. Representing perhaps the most effective measure of increased shareholder value, EPS grew 15.8% to \$1.54 on a fully diluted basis. Our target was EPS growth of 15.0%. Total shareholder return for the year was an astonishing 47.9%. Two factors drove total return -- an increase in our cash dividend; and consistent market demand for our shares throughout the year, punctuated by a significant year-end upswing in share price. In what was our third consecutive annual increase, we raised the quarterly dividend by \$.04 per share, bringing the total dividend for the year to \$0.72 per share. The closing price for our shares at year-end was \$24.62.

The OceanFirst senior management team (standing from left to right); Karl E. Reinheimer; Michael J. Fitzpatrick; Robert M. Pardes; John K. Kelly and (seated) John R. Garbarino, President and Chief Executive Officer.

[PICTURE]

2 OceanFirst Financial Corp. (OCFC) 2000 Annual Report

Aided by our aggressive share repurchase program, we came closer to realizing our goal of improved leverage for the Company's excess capital. Our capital ratio ended the year at 9.62%, down from 10.53% at year-end 1999 and sharply reduced from the 20.73% level that followed our 1996 stock offering. This focus on effective capital management also helped us to drive return on equity into the double digits (10.45%) for the first time since we became a public company.

We achieved excellent results on other measures as well:

. Core deposits grew by 15.5% (or \$61.3 million) to \$457.8 million at the end of 2000. This growth was largely a result of our enormously successful High Performance Checking and BlueChip Investment Account programs for consumers. Business accounts also contributed to the increase, as did the

initial successes we

We again delivered record-breaking earnings per share..."

[PICTURE]

achieved in targeting government banking as a new market segment, establishing core account relationships with public entities. We target core deposits because they are less interest-rate-sensitive and represent a more stable source of funding than CDs. Core deposits now represent 41.5% of total deposits, compared with 37.5% at the end of 1999.

. Our total loan portfolio grew by a solid 12.4%. We achieved particularly satisfying results in the commercial lending segment, where balances increased by 64.1% (or \$46.7 million) during 2000, to \$119.4 million. Concentrating on commercial loan growth is important to diversify the portfolio and enhance overall asset yield. Commercial loans now comprise 10.4% of total loans, compared with 6.9% at year-end 1999.

. Asset quality remained pristine, with non-performing assets decreasing to a minuscule 0.19% of assets from 0.21% a year earlier. Net charge-offs for the year amounted to less than 1 basis point (0.01%) of total loans.

. We generated an impressive 32.5% increase in non-interest income (excluding gains and losses from the sale of securities and loans). Our target had been an increase of 20%. This outstanding performance is attributable to the aforementioned increases in both core consumer and commercial deposit accounts, as well as to the strong loan growth.

The OceanFirst Financial Corp. Board of Directors (standing from left to right): John E. Walsh; Frederick E. Schlosser; James T. Snyder; Robert E. Knemoller; Diane F. Rhine; Carl Feltz Jr.; Donald E. McLaughlin; (seated) Thomas F. Curtin; and John R. Garbarino -Chairman, President and Chief Executive Officer.

[PICTURE]

Continued Franchise Development

In addition to achieving excellent financial results, we further strengthened our preeminent community bank franchise.

We enhanced our management team and loan production capacity with the August acquisition of Columbia Equities, Ltd. as an operating subsidiary of OceanFirst Bank. Columbia is a mortgage banking company headquartered in Tarrytown, NY. Its President, Robert M. Pardes, was named an Executive Vice President of OceanFirst Bank and Director of the Bank's Residential Loan Division following the retirement of Michael E. Barrett, who had previously held this position. Barrett had also been a member of the Board of Directors.

"...we further strengthened our preeminent community bank franchise."

[PICTURE]

OceanFirst Financial Corp. (OCFC) 2000 Annual Report 5

"We expanded our consumer products line in 2000 by launching OceanFirst Trust and Asset Management Services."

The Board selected a prominent Ocean County businessman and professional engineer, John E. Walsh, to fill the Board vacancy created by Barrett's retirement. The addition of Columbia's mortgage banking activities, along with the considerable talents and experience of Messrs. Pardes and Walsh, holds great promise for the further development of the Bank's franchise.

We expanded our consumer products line in 2000 by launching OceanFirst Trust and Asset Management Services. This product line was available during only the last nine months of the year, but market acceptance far outpaced even our most optimistic projections. By the end of that short period, we had more than \$30 million of trust assets under management. We now confidently predict further significant market penetration and the rapid achievement of profitability for our Trust and Asset Management business in 2001.

We strengthened our presence in southern Monmouth County by opening a Wall Township branch early in the year. The new Wall branch and Spring Lake Heights office (opened late in 1999) each expanded their business at a satisfying rate throughout the year. By the end of 2001, the two branches together will have a projected \$64.5 million on deposit, from relationships forged with southern Monmouth County consumers and businesses. We expect both branches to become accretive to overall Bank profitability in 2001.

Throughout our communities, we continued to build market presence by developing and reinforcing our new OceanFirst brand identity (adopted late in 1999). Recent research has disclosed an unprecedented acceptance and recognition of the OceanFirst brand in our markets. Market presence was also bolstered by the continued maturation of the OceanFirst sales and service culture, which made invaluable contributions to our successful new product launches and market expansion initiatives.

Also last year, management formed the Technology Assessment Committee (TAC) whose ongoing mission is to recommend new and innovative ways for the Bank to improve its acquisition and deployment of leading-edge technology. Effective use of technology will help ensure that we always deliver our products and services in the most efficient and customer-friendly manner possible. The TAC has already completed the initial evaluation process and is pursuing an aggressive action plan for 2001.

6 OceanFirst Financial Corp. (OCFC) 2000 Annual Report

Agenda for the Future

In the coming year, we will continue to work on developing our strengths as a community bank and on building value for our shareholders. Accordingly, we will focus on the following key objectives:

EPS Growth of 15%. We continue to feel it is important to provide EPS growth of at least this magnitude. We plan to achieve this through balance sheet growth and expansion of top-line revenue; further capital management initiatives; and continued realignment of the Bank's mix of assets and liabilities.

Non-interest Income Growth of 150%. As Columbia Equities, Ltd. is fully integrated into OceanFirst, the resulting increase in mortgage banking activity will significantly accelerate the expansion of non-interest income. Higher levels of non-interest income will better insulate the Bank's bottom line against the volatility of net interest income, which can often be subject to wide swings in unsettled economic environments.

Non-Interest Income (in thousands)			
1997	1998	1999	2000
----	----	----	----
\$2,641	\$3,033	\$4,669	\$6,186

. Excluding Net Gain (Loss) On Sales Of Loans and Securities

New Insurance Line of Business. During 2001, we plan to develop a full line of insurance products for both consumers and businesses. We believe that opportunities abound for these services to be delivered through our retail market presence. The new Insurance Products line, like our Investment Services and Trust and Asset Management businesses, will serve to further expand and diversify our sources of non-interest revenue.

More Aggressive Retail Posture. As a critical aspect of our retail strategy, we will seek out opportunities to improve our market coverage. We opened a second branch in Point Pleasant in early 2001 and expect to open a branch in Manahawkin and relocate the Holiday City South branch to a more prominent location in the second quarter of 2001. Making our sales and service culture more responsive to customers will be another vital part of our more aggressive retail posture. We recently expanded our daily business hours, and also decided to remain open for our customers' convenience on the optional bank holidays: Martin Luther King, Jr. Day, Presidents' Day, Columbus Day and Veterans Day. Like any retail business, we realize

"Delivering quality financial products and superior services to our customers is what our brand of community banking is all about."

how important it is to be available to our customers, delivering personal service that consistently exceeds expectations.

Risk Management. Effectively managing our exposure to credit risk and interest rate risk is forever essential to our long-term success. OceanFirst risk culture continues to be both disciplined and conservative:

We enforce rigorous guidelines in both our lending operations and investment portfolio management to ensure that we monitor our risk exposure closely and control it effectively.

Community Commitment. As an acknowledged leader in the community for the past 99 years, OceanFirst has helped improve the lives of thousands of its neighbors. In preparation for our centennial celebration next year, we continue to take an ever more active role. Since 1996, OceanFirst Foundation, the non-profit organization established to support charitable efforts in our communities, has provided over \$5 million, at no cost to current Company operations, to address important human needs that might not otherwise have been met. As has always been the case, our employees also take an important leadership role in numerous community organizations. Their commitment, coupled with our close association with the Foundation, will continue to distinguish OceanFirst as the community bank that cares about more than just its customers' money.

Delivering quality financial products and superior services to our customers is what our brand of community banking is all about. By succeeding in this effort, we will also succeed in enhancing the value of our shareholders' investment in OceanFirst Financial Corp.

Thank you for your continued support.

Very truly yours,

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

8 OceanFirst Financial Corp. (OCFC) 2000 Annual Report

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,	2000	1999	1998	1997	1996

(dollars in thousands)					
Selected Financial Condition Data:					
Total assets	\$1,640,217	\$1,590,907	\$1,561,744	\$1,510,947	\$1,303,865
Investment securities available for sale	103,536	120,780	137,405	207,357	174,028
Federal Home Loan Bank of New York stock	20,000	16,800	16,800	14,980	8,457
Mortgage-backed securities available for sale	268,042	346,182	381,840	457,148	395,542
Loans receivable, net	1,136,879	1,042,975	941,011	783,695	678,728
Mortgage loans held for sale	35,588	-	25,140	-	727
Deposits	1,104,188	1,056,950	1,035,251	976,764	934,730
Federal Home Loan Bank advances	127,500	115,000	40,000	20,400	8,800
Securities sold under agreements to repurchase	236,494	239,867	272,108	288,200	99,322
Stockholders' equity	157,736	167,530	197,740	215,544	252,789

For the Year Ended December 31,	2000	1999	1998	1997	1996(1)

(dollars in thousands; except per share amounts)					
Selected Operating Data:					
Interest income	\$ 116,105	\$ 107,347	\$ 105,557	\$ 98,656	\$ 80,236
Interest expense	66,412	58,809	61,399	55,608	43,857

Net interest income	49,693	48,538	44,158	43,048	36,379
Provision for loan losses	985	900	900	900	700

Net interest income after provision for loan losses	48,708	47,638	43,258	42,148	35,679
Other income	6,145	5,226	2,411	2,509	2,881
Operating expenses	31,645	27,852	25,457	23,145	39,206

Income (loss) before provision for income taxes	23,208	25,012	20,212	21,512	(646)
Provision for income taxes	6,826	8,665	7,240	7,687	1,083

Net income (loss)	\$ 16,382	\$ 16,347	\$ 12,972	\$ 13,825	\$ (1,729)

Basic earnings (loss) per share	\$ 1.59	\$ 1.36	\$.97	\$.90	\$ (.39)

Diluted earnings (loss) per share	\$ 1.54	\$ 1.33	\$.95	\$.88	\$ (.39)

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 of the Company (continued)

At or For the Year Ended December 31,	2000	1999	1998	1997	1996/(1)/

Selected Financial Ratios and Other Data/(2)/:					

Performance Ratios:					
Return on average assets	1.01%	1.04%	0.85%	0.97%	(.15)%
Return on average stockholders' equity	10.45	8.90	6.36	6.00	(1.03)
Stockholders' equity to total assets	9.62	10.53	12.66	14.27	19.39
Tangible equity to tangible assets	9.52	10.48	12.61	14.27	19.39
Average interest rate spread/(3)/	2.75	2.70	2.39	2.39	2.61
Net interest margin/(4)/	3.20	3.20	2.98	3.12	3.22
Average interest-earning assets to average interest-bearing liabilities	110.39	112.94	114.35	117.95	115.84
Operating expenses to average assets	1.96	1.78	1.66	1.63	3.37
Operating efficiency ratio/(5)/	56.67	51.80	54.67	50.80	99.86

Asset Quality Ratios:					

Non-performing loans as a percent of total loans receivable/(6)(7)/	0.25	0.28	0.56	0.70	1.12
Non-performing assets as a percent of total assets/(7)/	0.19	0.21	0.35	0.45	0.71
Allowance for loan losses as a percent of total loans receivable/(6)/	0.77	0.78	0.76	0.83	0.88
Allowance for loan losses as a percent of total non-performing loans/(7)/	312.62	275.48	137.54	119.03	78.23

Per Share Data					

Dividends per common share	\$.72	\$.57	\$.46	\$.30	\$ -
Book value per common share at end of period	14.23	13.27	13.52	13.72	13.95
Tangible book value per common share at end of period	14.07	13.20	13.45	13.72	13.95

Number of full-service customer facilities	14	13	11	10	9
=====					

(1) Net income and performance ratios for 1996 were adversely affected by non- recurring charges relating to a charitable donation and the special Savings Association Insurance Fund assessment. Excluding these charges, net income would have been \$11,576,000.

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

(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. (the "Company") was incorporated on November 21, 1995, and is the holding company for OceanFirst 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 OceanFirst 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.

On August 18, 2000 the Bank acquired Columbia Equities, Ltd. ("Columbia"), a mortgage banking company based in Tarrytown, New York in a transaction accounted for as a purchase. Columbia offers a full product line of residential mortgage loans in New York, New Jersey and Connecticut. Loans are originated through three retail branches, a web site and a network of independent mortgage brokers. The Company's consolidated results of operations include Columbia's results commencing on August 18, 2000.

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

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. In 2000, the Company opened a second Monmouth County branch in Wall Township. The Company opened a second branch in Point Pleasant Boro in early 2001 and expects to open a branch in Manahawkin and relocate the Holiday City South Branch to a more prominent location in the second quarter of 2001. The Company is also evaluating additional office sites within its existing market area.

Management continues 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 introduced trust and asset management services in early 2000 and expects to offer an expanded range of insurance services in 2001.

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, trust and asset management services 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 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, floating-rate and balloon maturity commercial loans, and consumer loans consisting primarily of home equity loans and lines of credit; (2) holding primarily short-term and/or adjustable- or floating- 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 may also sell 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. In recent 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, 2000 the Company's one year gap was negative 10.8%. 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 15% and 27% annually. Mortgage-backed securities were projected to prepay at rates between 17% and 23% 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, 2000, as calculated by the Company. 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, 2000						December 31, 1999							
Change in interest Rates	Net Portfolio Value			Net Interest Income			Change in interest Rates	Net Portfolio Value			Net Interest Income		
in Basis Points (Rate Stock)	Amount	% Change	NPV Ratio	Amount	% Change		in Basis Points (Rate Stock)	Amount	% Change	NPV Ratio	Amount	% Change	
300	\$122,407	(37.9)%	8.2%	\$42,061	(13.9)%		300	\$119,838	(40.0)%	8.4%	\$44,212	(9.3)%	
200	153,064	(22.3)	9.9	44,556	(8.8)		200	151,710	(24.0)	10.3	46,123	(5.3)	
100	179,453	(8.9)	11.3	46,728	(4.3)		100	179,446	(10.1)	11.8	47,765	(2.0)	
Static	197,049	-	12.1	48,837	-		Static	199,646	-	12.8	48,724	-	
(100)	201,071	2.0	12.1	49,569	1.5)		(100)	213,252	6.8	13.3	49,251	1.1	
(200)	196,426	(.3)	11.6	49,483	1.3)		(200)	217,678	9.0	13.4	48,927	1.4	
(300)	186,175	(5.5)	10.9	48,675	(.3)		(300)	216,809	8.6	13.2	47,865	(1.8)	

At December 31, 2000, the Company's NPV in a static rate environment is slightly less than the NPV at December 31, 1999. The Company's capital levels declined as a result of the common stock repurchase programs, although this decline was largely offset by a net increase in the market value of assets and liabilities due to declining interest rates. In a shocked interest rate environment, the Company projects a smaller percent change in NPV at December 31, 2000 than was the case at December 31, 1999. The reduced interest rate sensitivity is primarily due to the sale, by the Bank, of \$30.0 million in 30-year fixed rate mortgage loans in the second half of 2000 and the sale of \$31.9 million of mortgage backed securities in the third quarter of 2000.

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.

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.

At December 31,					
	2000			2000	
(dollars in thousands)	Balance	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:					
Interest-earning assets:					
Interest-earning deposits and short-term investments	\$ 319	6.19%	\$ 404	\$ 22	5.45%
Investment securities	103,536	7.26	120,000	8,797	7.33
FHLB stock	20,000	7.30	18,118	1,203	6.64
Mortgage-backed securities	268,042	6.69	309,929	20,948	6.76
Loans receivable, net/(1)/	1,172,467	7.81	1,105,851	85,135	7.70
Total interest-earning assets	1,564,364	7.58	1,554,302	116,105	7.47
Non-interest-earning assets	75,853		63,219		
Total assets	\$1,640,217		\$1,617,521		
Liabilities and Equity:					
Interest-bearing liabilities:					
Money market deposit accounts	\$ 71,010	2.58%	\$ 76,570	\$ 1,998	2.61%
Savings accounts	165,866	2.00	170,604	3,445	2.02
NOW accounts	170,976	2.83	130,423	2,534	1.94
Time deposits	646,426	5.82	667,911	36,689	5.49
Total	1,054,278	4.52	1,045,508	44,666	4.27
FHLB advances	127,500	6.00	105,456	6,654	6.31
Securities sold under agreements to repurchase	236,494	5.79	257,086	15,092	5.87
Total interest-bearing liabilities	1,418,272	4.85	1,408,050	66,412	4.72
Non-interest-bearing liabilities	64,209		52,734		
Total liabilities	1,482,481		1,460,784		
Stockholders' equity	157,736		156,737		
Total liabilities and equity	\$1,640,217		\$1,617,521		
Net interest income				\$ 49,693	
Net interest rate spread/(2)/		2.73%			2.75%
Net interest margin/(3)/		3.18%			3.20%
Ratio of interest-earning assets to interest-bearing liabilities	110.30%		110.39%		

Years Ended December 31,						
1999				1998		
(dollars in thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:						
Interest-earning assets:						

Interest-earning deposits and short-term investments	\$ 2,860	\$ 103	3.60%	\$ 5,375	\$ 295	5.49%
Investment securities	122,848	7,840	6.38	173,158	11,461	6.62
FHLB stock	16,800	1,142	6.80	15,096	1,094	7.25
Mortgage-backed securities	375,239	23,622	6.30	423,516	25,669	6.06
Loans receivable, net/(1)/	997,772	74,640	7.48	863,172	67,038	7.77
Total interest-earning assets	1,515,519	107,347	7.08	1,480,317	105,557	7.13
Non-interest-earning assets	50,231			49,428		
Total assets	\$1,565,750			\$1,529,745		
Liabilities and Equity:						
Interest-bearing liabilities:						
Money market deposit accounts	\$ 77,478	\$ 2,090	2.70%	\$ 71,800	\$ 2,026	2.82%
Savings accounts	173,798	3,518	2.02	167,058	3,442	2.06
NOW accounts	111,356	1,711	1.54	89,679	1,517	1.69
Time deposits	657,536	33,601	5.11	663,483	36,819	5.55
Total	1,020,168	40,920	4.01	992,020	43,804	4.42
FHLB advances	67,857	3,853	5.68	24,113	1,295	5.37
Securities sold under agreements to repurchase	253,811	14,036	5.53	278,424	16,300	5.85
Total interest-bearing liabilities	1,341,836	58,809	4.38	1,294,557	61,399	4.74
Non-interest-bearing liabilities	40,209			31,222		
Total liabilities	1,382,045			1,325,779		
Stockholders' equity	183,705			203,966		
Total liabilities and equity	\$1,565,750			\$1,529,745		
Net interest income		\$ 48,538			\$ 44,158	
Net interest rate spread (2)			2.70%			2.39%
Net interest margin (3)			3.20%			2.98%
Ratio of interest-earning assets to interest-bearing liabilities	112.94%			114.35%		

(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, 2000 Compared to Year Ended December 31, 1999			Year Ended December 31, 1999 Compared to Year Ended December 31, 1998		
	Increase(Decrease) Due to			Increase(Decrease) Due to		
(in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest-earning assets:						
Interest-earning deposits and short-term investments	\$ (117)	\$ 36	\$ (81)	\$ (111)	\$ (81)	\$ (192)
Investment securities	(186)	1,143	957	(3,219)	(402)	(3,621)
FHLB stock	88	(27)	61	119	(71)	48
Mortgage-backed securities	(4,316)	1,642	(2,674)	(3,028)	981	(2,047)
Loans receivable, net	8,254	2,241	10,495	10,173	(2,571)	7,602
Total interest-earning assets	3,723	5,035	8,758	3,934	(2,144)	1,790
Interest-bearing liabilities:						
Money market deposit accounts	(24)	(68)	(92)	153	(89)	64
Savings accounts	(73)	--	(73)	142	(66)	76
NOW accounts	327	496	823	339	(145)	194
Time deposits	541	2,547	3,088	(327)	(2,891)	(3,218)
Total	771	2,975	3,746	307	(3,191)	(2,884)
FHLB advances	2,334	467	2,801	2,479	79	2,558
Securities sold under agreements to repurchase	183	873	1,056	(1,399)	(865)	(2,264)
Total interest-bearing liabilities	3,288	4,315	7,603	1,387	(3,977)	(2,590)
Net change in net interest income	\$ 435	\$ 720	\$ 1,155	\$ 2,547	\$ 1,833	\$ 4,380

Comparison of Financial Condition at December 31, 2000 and December 31, 1999

Total assets at December 31, 2000 were \$1.640 billion, an increase of \$49.3 million, compared to \$1.591 billion at December 31, 1999.

Investment securities available for sale decreased by \$17.3 million, to a balance of \$103.5 million at December 31, 2000, compared to a balance of \$120.8 million at December 31, 1999, and mortgage-backed securities available for sale decreased by \$78.2 million, to \$268.0 million at December 31, 2000, from \$346.2 million at December 31, 1999. The investment and mortgage-backed securities available for sale portfolios decreased in order to partly fund growth in the Bank's loans receivable. Additionally, the Company sold \$31.9 million of mortgage-backed securities during the third quarter of 2000 to fund the purchase and mortgage loan pipeline of Columbia.

Loan Receivables (in millions of dollars)

1997	\$ 784
1998	\$ 941
1999	\$ 1,043
2000	\$ 1,137

Core Deposit Ratio

1997	33.0
1998	36.5
1999	37.5
2000	41.5

Loans receivable, net, increased by \$93.9 million, or 9.0%, to a balance of \$1.137 billion at December 31, 2000, compared to a balance of \$1.043 billion at December 31, 1999. The increase was largely attributable to commercial lending (including commercial real estate) initiatives which accounted for \$46.6 million of this growth. Mortgage loans held for sale increased to \$35.6 million at December 31, 2000 as compared to no mortgage loans held for sale at December 31, 1999 with most of this increase representing loans held by Columbia.

Deposit balances increased \$47.2 million to \$1.104 billion at December 31, 2000 from \$1.057 billion at December 31, 1999, partly due to the results of new branches opened in late 1999 and early 2000. Core deposit categories, a key emphasis for the Company, increased by \$61.3 million or 15.5%, as time deposits declined. Stockholders' equity at December 31, 2000 decreased to \$157.7 million, compared to \$167.5 million at December 31, 1999 due to the execution of the Company's seventh and eighth stock repurchase programs. For the year ended December 31, 2000, the Company repurchased 1,614,892 shares of common stock at a total cost of \$28.8 million. Under the 10% repurchase program authorized by the Board of Directors in August 2000, 785,443 shares remain to be purchased as of December 31, 2000.

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 2000 and December 31, 1999

General

Net income increased \$35,000 or .2%, to \$16.4 million for the year ended December 31, 2000 as compared to net income of \$16.3 million for the year ended December 31, 1999. Diluted earnings per share increased 15.8%, to \$1.54 for the year ended December 31, 2000 as compared to \$1.33 for the year ended December 31, 1999. 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, 2000 was \$116.1 million, compared to \$107.3 million for the year ended December 31, 1999, an increase of \$8.8 million. The increase in interest income was due to an increase in the yield on interest-earning assets and an increase in average interest-earning assets. The yield on average interest-earning assets increased to 7.47% on average for year ended December 31, 2000, from 7.08% on average in the same prior year period partly due to a higher rate environment and partly due to a change in the mix of average interest-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, 2000 loans receivable represented 71.1% of average interest-earning assets as compared to 65.8% for the same prior year period.

Interest Expense

Interest expense for the year ended December 31, 2000 was \$66.4 million, compared to \$58.8 million for the year ended December 31, 1999, an increase of \$7.6 million, or 12.9%. The increase in interest expense was primarily the result of an increase in the average cost of interest-bearing liabilities, which increased to 4.72% for the year ended December 31, 2000, as compared to 4.38% for the same prior year period and an increase in average interest-bearing liabilities which rose by \$66.2 million for the year ended December 31, 2000, as compared to the same prior year period. The Company's focus on lower cost core deposit growth moderated the increase in interest expense, as core deposits represented 38.6% of average deposits (including non-interest-earning deposits) for the year ended December 31, 2000, as compared to 37.2% for the same prior year period.

Provision for Loan Losses

For the year ended December 31, 2000, the Company's provision for loan losses was \$985,000, an increase of \$85,000, or 9.4% from the same prior year period to reflect the growth in loans receivable and a change in overall loan mix to a greater concentration of commercial loans. The Company's non-performing loans declined slightly to \$2.9 million at December 31, 2000, as compared to \$3.0 million at December 31, 1999.

Non-Performance Loans									
To Total Loans									
0.70	0.56	0.28	0.25		1997	1998	1999	2000	

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 \$6.1 million for the year ended December 31, 2000, as compared to \$5.2 million for the same prior year period. The net (loss) gain on the sale of loans and securities was a \$41,000 loss for the year ended December 31, 2000 as compared to a \$557,000 gain for the same prior year period. The loss for the year ended December 31, 2000 was due to a loss of \$1,636,000 on the sale of \$31.9 million in mortgage-backed securities available for sale. For the same prior year period the Company recognized a loss of \$49,000 on the sale of investment securities available for sale. For the year ended December 31, 2000, the Company sold \$118.5 million in mortgage loans at a gain of \$1,595,000 as compared to the sale of \$49.2 million in mortgage loans at a gain of \$606,000 in the same prior year period. The increased gains from loan sales are primarily due to the mortgage banking activities of Columbia. As a mortgage banker, Columbia sells virtually all of its mortgage loan production. The Bank also periodically sells 30-year fixed-rate mortgage loans to assist in the management of interest rate risk.

Fees and service charges increased by \$1.1 million or 30.8% for the year ended December 31, 2000 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 trust and asset management services introduced late in the first quarter of 2000.

Operating Expenses

Operating expenses were \$31.6 million for the year ended December 31, 2000, an increase of \$3.8 million compared to the same prior year period. The increase was primarily due to operating and related expenses associated with Columbia, the costs associated with the opening of the Bank's twelfth and thirteenth branch offices in September and October 1999; the Bank's fourteenth branch office in May 2000 and the planned introduction of the Company's Trust and Asset Management business line. Federal deposit insurance decreased by \$380,000 for the year ended December 31, 2000 as compared to the same prior year period due to a decline in the assessment rate.

Provision for Income Taxes

Income tax expense was \$6.8 million for the year ended December 31, 2000, compared to \$8.7 million for the year ended December 31, 1999. Income tax expense decreased as the Company recognized a benefit of \$1.1 million in the third quarter of 2000 relating to the additional charitable donation expense associated with the formation of OceanFirst Foundation. Charitable donations are tax deductible subject to a limitation of 10% of annual taxable income, however, the Company 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 original estimate of taxable income for 1996 and the carry forward period, \$4.3 million of charitable donation expense was considered not tax deductible because the Company believed it was unlikely to realize sufficient earnings over the six year period to take the full deduction. After considering the Company's recent strong earnings performance and expectations for taxable income through December 31, 2001, the Company estimated that an additional \$3.0 million of charitable donation expense could be recognized for tax purposes, providing for a tax benefit of \$1.1 million. The Company has a remaining charitable expense carry forward of \$1,229,000 (\$430,000 on an after-tax basis) which expires at December 31, 2001.

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.

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 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 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.

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

Results of Operations (continued)

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. 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 planned introduction of the Company's Trust and Asset Management services.

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.

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, 2000, the Company had \$52.5 million in outstanding overnight borrowings from the FHLB, an increase from no overnight borrowings at December 31, 1999. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also had other borrowings of \$311.5 million at December 31, 2000, a decrease from \$354.9 million at December 31, 1999. 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, 2000 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. The cash provided was principally utilized for loan originations, the purchase of investment and mortgage-backed securities, and the purchase of treasury stock. For the year ended December 31, 1999, the cash needs of the Company were primarily satisfied 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, increased total borrowings and increased deposits. The cash was principally utilized for loan originations, purchases of investment and mortgage-backed securities 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, 2000 and 1999, the Bank's liquidity ratios were 7.5% and 8.9%, respectively, both in excess of the minimum regulatory requirement.

At December 31, 2000, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$119.6 million, or 7.28%, of total adjusted assets, which is above the required level of \$24.7 million or 1.5%; core capital of \$119.6 million or 7.28% of total adjusted assets, which is above the required level of \$49.3 million, or 3.0%; and risk-based capital of \$128.6 million, or 13.87% of risk-weighted assets, which is above the required level of \$74.2 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 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 March 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25." The interpretation clarifies certain issues with respect to the application of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB Opinion No. 25). The interpretation results in a number of changes in the application of APB Opinion No. 25 including, the accounting for modifications to equity awards as well as extending APB Opinion No. 25 accounting treatment to options granted to outside directors for their services as directors. The provisions of the interpretation were effective July 1, 2000 and apply prospectively, except for certain modifications to equity awards made after December 15, 1998. The initial adoption of the interpretation did not have a significant impact on the Company's financial statements.

In June 2000, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to FASB Statement No. 133." SFAS No. 138 amends certain aspects of SFAS No. 133 to simplify the accounting for derivatives and hedges under SFAS No. 133. SFAS No. 138 is effective upon the company's adoption of SFAS No. 133 (January 1, 2001). The initial adoption of SFAS No. 133 and SFAS No. 138 did not have a material impact on the Company's financial statements.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (A Replacement of FASB Statement 125)." SFAS No. 140 supersedes and replaces the guidance in SFAS No. 125 and, accordingly, provides guidance on the following topics:

securitization transactions involving financial assets; sales of financial assets such as receivables, loans, and securities; factoring transactions; wash sales; servicing assets and liabilities; collateralized borrowing arrangements; securities lending transactions; repurchase agreements; loan collateralized borrowing arrangements; securities lending transactions; repurchase agreements; loan participations; and extinguishment of liabilities. While most of the provisions of SFAS No. 140 are effective for transactions entered into after March 31, 2001, companies with fiscal year ends that hold beneficial interests from previous securitizations will be required to make additional disclosures in their December 31, 2000 financial statements. The initial adoption of SFAS No. 140 did not have a material impact on the Company's financial statements.

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 2000 Form 10-K.

Consolidated Statements of Financial Condition

December 31, 2000 and 1999

(dollars in thousands, except per share amounts)

	2000	1999
Assets		
Cash and due from banks	\$ 7,235	\$ 10,007
Investment securities available for sale (notes 4 and 10)	103,536	120,780
Federal Home Loan Bank of New York stock, at cost (note 10)	20,000	1 6,800
Mortgage-backed securities available for sale (notes 5 and 10)	268,042	346,182
Loans receivable, net (notes 6 and 10)	1,136,879	1,042,975
Mortgage loans held for sale	35,588	-
Interest and dividends receivable (note 7)	9,318	8,468
Real estate owned, net	157	292
Premises and equipment, net (note 8)	14,676	13,889
Servicing asset (note 6)	6,363	2,244
Other assets (note 11)	38,423	29,270
Total assets	\$1,640,217	\$1,590,907
Liabilities and Stockholders' Equity		
Deposits (note 9)	\$1,104,188	\$1,056,950
Federal Home Loan Bank advances (note 10)	127,500	115,000
Securities sold under agreements to repurchase (note 10)	236,494	239,867
Advances by borrowers for taxes and insurance	6,388	5,990
Other liabilities (note 11)	7,911	5,570
Total liabilities	1,482,481	1,423,377
Stockholders' equity (notes 3, 11, 12 and 13):		
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 11,084,123 and 12,620,923 shares outstanding at December 31, 2000 and 1999, respectively	181	181
Additional paid-in capital	179,805	178,850
Retained earnings	121,737	113,169
Accumulated other comprehensive loss	(4,927)	(9,568)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(14,156)	(15,727)
Unearned Incentive Awards	(2,096)	(4,030)
Treasury stock, 7,034,125 and 5,497,325 shares at December 31, 2000 and 1999, respectively	(122,808)	(95,345)
Total stockholders' equity	157,736	167,530
Commitments and contingencies (note 14)		
Total liabilities and stockholders' equity	\$1,640,217	\$1,590,907

See accompanying notes to consolidated financial statements.

20 OceanFirst Financial Corp. (OCFC) 2000 Annual Report

Consolidated Statements of Income

(in thousands, except per share amounts)

Years Ended December 31, 2000, 1999 and 1998	2000	1999	1998
Interest income:			
Loans	\$ 85,135	\$ 74,640	\$ 67,038
Mortgage-backed securities	20,948	23,622	25,669
Investment securities and other	10,022	9,085	12,850
Total interest income	116,105	107,347	105,557
Interest expense:			
Deposits (note 9)	44,666	40,920	43,804
Borrowed funds	21,746	17,889	17,595
Total interest expense	66,412	58,809	61,399
Net interest income	49,693	48,538	44,158
Provision for loan losses (note 6)	985	900	900
Net interest income after provision for loan losses	48,708	47,638	43,258
Other income:			
Fees and service charges	4,667	3,569	2,087
Net (loss) gain on sales of loans and securities available for sale (notes 4 and 5)	(41)	557	(622)
Net income from other real estate operations	171	148	209
Other	1,348	952	737
Total other income	6,145	5,226	2,411
Operating expenses:			
Compensation and employee benefits (notes 12 and 13)	17,870	15,378	14,604
Occupancy (note 14)	2,261	2,133	1,936
Equipment	1,661	1,375	1,362
Marketing	1,685	1,733	1,427
Federal deposit insurance	479	859	865
Data processing	1,702	1,333	1,278
General and administrative	5,987	5,041	3,985
Total operating expenses	31,645	27,852	25,457
Income before provision for income taxes	23,208	25,012	20,212
Provision for income taxes (note 11)	6,826	8,665	7,240
Net income	\$ 16,382	\$ 16,347	\$ 12,972
Basic earnings per share	\$ 1.59	\$ 1.36	\$.97
Diluted earnings per share	\$ 1.54	\$ 1.33	\$.95
Average basic shares outstanding (note 1)	10,293	11,990	13,335
Average diluted shares outstanding (note 1)	10,666	12,299	13,677

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, 2000, 1999 and 1998	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)Income	Employee Stock Ownership Plan
Balance at December 31, 1997	\$ 181	\$ 177,223	\$ 97,487	\$ 989	\$ (10,903)
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	--	--	--	--	1,727
ESOP adjustment	--	623	--	--	--
Cash dividend - \$.46 per share	--	--	(6,470)	--	--
Acquisition of 422,500 shares of common stock by ESOP	--	--	--	--	(8,200)
Exercise of stock options	--	--	(7)	--	--
Balance at December 31, 1998	181	178,309	103,982	(1,226)	(17,376)
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	--	--	--	--	1,649
ESOP adjustment	--	541	--	--	--
Cash dividend - \$.57 per share	--	--	(7,157)	--	--
Exercise of stock options	--	--	(3)	--	--
Balance at December 31, 1999	181	178,850	113,169	(9,568)	(15,727)
Comprehensive income:					
Net income	--	--	16,382	--	--
Other comprehensive gain:					
Unrealized gain on securities (net of tax expense \$2,153)	--	--	--	3,578	--
Reclassification adjustment for losses included in net income (net of tax benefit \$573)	--	--	--	1,063	--
Total comprehensive income	--	--	--	--	--
Earned Incentive Awards	--	--	--	--	--
Tax benefit of stock plans	--	258	--	--	--
Purchase 1,614,892 shares of common stock	--	--	--	--	--
Allocation of ESOP stock	--	--	--	--	1,571
ESOP adjustment	--	697	--	--	--
Cash dividend - \$.72 per share	--	--	(7,622)	--	--
Exercise of stock options	--	--	(192)	--	--
Balance at December 31, 2000	\$ 181	\$ 179,805	\$ 121,737	\$ (4,927)	\$ (14,156)

Years Ended December 31, 2000, 1999 and 1998	Unearned Incentive Awards	Treasury Stock	Total
Balance at December 31, 1997	\$ (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
ESOP adjustment	--	--	623
Cash dividend - \$.46 per share	--	--	(6,470)
Acquisition of 422,500 shares of common stock by ESOP	--	--	(8,200)
Exercise of stock options	--	41	34
Balance at December 31, 1998	(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
ESOP adjustment	--	--	541
Cash dividend - \$.57 per share	--	--	(7,157)
Exercise of stock options	--	20	17
Balance at December 31, 1999	(4,030)	(95,345)	167,530
Comprehensive income:			
Net income	--	--	16,382
Other comprehensive gain:			
Unrealized gain on securities (net of tax expense \$2,153)	--	--	3,578
Reclassification adjustment for losses included in net income (net of tax benefit \$573)	--	--	1,063
Total comprehensive income	--	--	21,023
Earned Incentive Awards	1,934	--	1,934
Tax benefit of stock plans	--	--	258
Purchase 1,614,892 shares of common stock	--	(28,800)	(28,800)
Allocation of ESOP stock	--	--	1,571
ESOP adjustment	--	--	697
Cash dividend - \$.72 per share	--	--	(7,622)
Exercise of stock options	--	1,337	1,145
Balance at December 31, 2000	\$ (2,096)	\$(122,808)	\$ 157,736

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands, except per share amounts)
Years Ended December 31, 2000, 1999 and 1998

	2000	1999	1998
Cash flows from operating activities:			
Net income	\$ 16,382	\$ 16,347	\$ 12,972
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	1,640	1,509	1,472
Amortization of Incentive Awards	1,934	1,933	1,934
Amortization of ESOP	1,571	1,649	1,727
ESOP adjustment	697	541	623
Amortization of servicing asset	673	351	572
Amortization of deposit premium	103	103	52
Net premium amortization in excess of discount accretion on securities	384	1,044	3,190
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(280)	(310)	(533)
Provision for loan losses	985	900	900
Deferred taxes	(193)	757	1,749
Net gain on sales of real estate owned	(209)	(246)	(173)
Net loss (gain) on sales of loans and securities available for sale	41	(557)	622
Proceeds from sales of mortgage loans held for sale	119,139	48,719	16,301
Mortgage loans originated for sale	(130,761)	(22,973)	(41,212)
(Increase) decrease in interest and dividends receivable	(752)	1,352	1,244
Increase in other assets	(2,405)	(2,384)	(6,484)
Increase (decrease) in other liabilities	1,656	(5,979)	6,746
Total adjustments	(5,777)	26,409	(11,270)
Net cash provided by operating activities	10,605	42,756	1,702
Cash flows from investing activities:			
Net increase in loans receivable	(95,377)	(103,663)	(129,468)
Loans purchased	--	--	(29,207)
Proceeds from sales of investment and mortgage-backed securities available for sale	30,279	121	47,974
Purchase of investment securities available for sale	(21,089)	(15,423)	(128,751)
Purchase of mortgage-backed securities available for sale	(5,059)	(97,251)	(181,095)
Proceeds from maturities of investment securities available for sale	37,700	30,043	195,216
Principal payments on mortgage-backed securities available for sale	58,901	120,460	204,359
Purchases of Federal Home Loan Bank of New York stock	(3,200)	--	(1,820)
Proceeds from sales of real estate owned	1,211	1,106	2,320
Purchases of premises and equipment	(2,108)	(1,451)	(1,140)
Acquisition of Columbia Equities, Ltd., net of cash and cash equivalents	(2,954)	--	--
Net cash used in investing activities	(1,696)	(66,058)	(21,612)
Cash flows from financing activities:			
Acquisition of deposits	--	--	10,732
Deposit premium	--	--	(1,030)
Increase in deposits	47,238	21,699	47,755
Increase (decrease) in short-term borrowings	50,127	(71,741)	72,208
Proceeds from Federal Home Loan Bank advances	55,000	105,000	10,000
Repayments of Federal Home Loan Bank Advances	(127,696)	--	--
Proceeds from securities sold under agreements to repurchase	85,000	83,754	120,000
Repayments of securities sold under agreements to repurchase	(86,000)	(74,254)	(198,700)
Increase (decrease) in advances by borrowers for taxes and insurance	(73)	894	323
Exercise of stock options	1,145	17	34
Dividends paid	(7,622)	(7,157)	(6,470)
Purchase of ESOP shares	--	--	(8,200)
Purchase of treasury stock	(28,800)	(35,198)	(18,672)
Net cash (used in) provided by financing activities	(11,681)	23,014	27,980
Net (decrease) increase in cash and due from banks	(2,772)	(288)	8,070
Cash and due from banks at beginning of year	10,007	10,295	2,225
Cash and due from banks at end of year	\$ 7,235	\$ 10,007	\$ 10,295
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 66,073	\$ 58,238	\$ 60,658
Income taxes	5,310	13,416	30
Noncash investing activities:			
Transfer of loans receivable to real estate owned	768	1,109	992
Mortgage loans securitized into mortgage-backed securities	\$ 23,042	\$ 37,200	\$ 16,082

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of OceanFirst Financial Corp. (the "Company") and its wholly-owned subsidiary, OceanFirst Bank (the "Bank") and its wholly-owned subsidiaries, Columbia Equities, Ltd. ("Columbia"), 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 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.

Mortgage Servicing Rights, or MSR

The Company recognizes as a separate asset the rights to service mortgage loans, whether those rights are acquired through loan purchase or loan origination activities. MSR's are amortized in proportion to and over the estimated period of net servicing income. MSR's are stratified by underlying loan type (primarily fixed and adjustable) and interest rate. The estimated fair value of each MSR stratum is determined through a discounted analysis of future cash flows, incorporating numerous assumptions including servicing income, servicing costs, market discount rates, prepayment speeds and default rates. Impairment of the MSR is assessed on the fair value of those rights on a stratum- by-stratum basis with any impairment recognized through a valuation allowance for each impaired stratum. Individual allowances for each stratum are then adjusted in subsequent periods to reflect changes in the measurement of impairment.

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.

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 13 - 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.

Intangible Assets

Goodwill and core deposit premiums are amortized using the straight line method over periods from five to ten years. Intangible assets are periodically evaluated for impairment in response to changes in circumstances or events.

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, 2000, 1999 and 1998 (in thousands):

Year ended December 31,	2000	1999	1998
-----	-----	-----	-----
Weighted average shares outstanding	11,766	13,727	15,174

Less: Unallocated ESOP shares	(1,180)	(1,309)	(1,281)
Unallocated Incentive			
Award shares	(293)	(428)	(558)

Average basic shares outstanding	10,293	11,990	13,335
Add: Effect of dilutive securities:			
Stock options	225	148	171
Incentive Awards	148	161	171

Average diluted shares outstanding	10,666	12,299	13,677
=====			

(2) Acquisition

The Bank completed the acquisition of Columbia, a mortgage brokerage company based in Tarrytown, New York on August 18, 2000 in a transaction accounted for as a purchase. Accordingly, the assets and liabilities of Columbia were recorded on the books of the Bank at their fair market values of \$37.1 million and \$34.1 million, respectively. The purchase price was \$4 million. The Company's consolidated results of operations include Columbia's results commencing on August 18, 2000. Pro-forma financial information was not presented for the period prior to the acquisition due to the insignificance of Columbia's operating results.

(3) 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, 2000 was approximately \$13.1 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

Notes to Consolidated Financial Statements (continued)

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, 2000, 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, 2000 and 1999 the Bank was considered well capitalized.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2000 and 1999, 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, 2000:	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital	\$119,591	7.3%	\$24,653	1.5%	\$ -	-%
Core capital	119,591	7.3	49,307	3.0	82,178	5.0
Tier 1 risk-based capital	119,591	12.9	37,099	4.0	55,649	6.0
Risk-based capital	128,597	13.9	74,198	8.0	92,748	10.0

As of December 31, 1999:						
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
=====						

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.

(4) Investment Securities Available for Sale

The amortized cost and estimated market value of investment securities available for sale at December 31, 2000 and 1999 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2000				
United States Government and agency obligations	\$ 24,469	\$ 4	\$ (100)	\$ 24,373
State and municipal obligations	5,561	-	(405)	5,156
Corporate debt securities	75,124	-	(5,508)	69,616
Equity investments	3,757	634	-	4,391
	\$108,911	\$638	\$ (6,013)	\$103,536
=====				
	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
Corporate debt securities	75,050	-	(2,483)	72,567
Equity investments	3,668	-	(635)	3,033

	\$125,443	\$ -	\$(4,663)	\$120,780
=====				

Gross losses on the sale of investment securities available for sale of \$0, \$49,000 and \$0 were realized in 2000, 1999 and 1998, 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, 2000 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, 2000, investment securities available for sale with an amortized cost and estimated market value of \$94,065,000 and \$88,812,000 respectively, were callable prior to the maturity date.

December 31, 2000	Amortized Cost	Estimated Market Value

Less than one year	\$ 999	\$ 1,003
Due after one year through five years	5,000	5,000
Due after five years through ten years	18,470	18,370
Due after ten years	80,685	74,772

	\$105,154	\$99,145
=====		

(5) Mortgage-Backed Securities Available for Sale

The amortized cost and estimated market value of mortgage-backed securities available for sale at December 31, 2000 and 1999 are as follows (in thousands):

December 31, 2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
FHLMC	\$ 48,888	\$ 95	\$ (199)	\$ 48,784
FNMA	37,172	82	(245)	37,009
GNMA	34,092	--	(252)	33,840
Collateralized mortgage obligations	150,335	176	(2,102)	148,409
	<u>\$ 270,487</u>	<u>\$ 353</u>	<u>\$ (2,798)</u>	<u>\$268,042</u>
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
	<u>\$ 356,706</u>	<u>\$ 116</u>	<u>\$ (10,640)</u>	<u>\$346,182</u>

Gross losses on the sale of mortgage-backed securities available for sale of \$1,636,000, \$0 and \$850,000 were realized in 2000, 1999 and 1998, respectively. There were no gains realized during these periods.

Collateralized mortgage obligations issued by FHLMC, FNMA, GNMA and private interests amounted to \$39,458,000, \$16,303,000, \$7,581,000 and \$85,067,000, respectively, at December 31, 2000 and \$53,518,000, \$13,064,000, \$8,901,000 and \$117,794,000, respectively, at December 31, 1999. 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.

(6) Loans Receivable, Net

A summary of loans receivable at December 31, 2000 and 1999 follows (in thousands):

December 31,	2000	1999
Real estate mortgage:		
One to four-family	\$ 956,336	\$ 917,024
Commercial real estate, multi-family and land	89,663	57,142
FHA insured & VA guaranteed	1,782	457
	<u>1,047,781</u>	<u>974,623</u>
Real estate construction	7,973	7,791
Consumer	62,923	56,040
Commercial	29,687	15,569
Total loans	<u>1,148,364</u>	<u>1,054,023</u>
Loans in process	(2,927)	(2,790)
Deferred origination costs (fees), net	561	(78)
Unearned premium	19	43
Allowance for loan losses	<u>(9,138)</u>	<u>(8,223)</u>

	(11,485)	(11,048)
	\$ 1,136,879	\$ 1,042,975

At December 31, 2000, 1999 and 1998 loans in the amount of \$2,923,000, \$2,985,000 and \$5,424,000, respectively, were three or more months delinquent or in the process of foreclosure and the Company was not accruing interest income. The Company had no impaired loans at December 31, 2000 and 1999. If interest income on nonaccrual loans had been current in accordance with their original terms, approximately \$132,000, \$52,000 and \$270,000 of interest income for the years ended December 31, 2000, 1999 and 1998, respectively, would have been recorded. At December 31, 2000, there were no commitments to lend additional funds to borrowers whose loans are classified as nonperforming.

An analysis of the allowance for loan losses for the years ended December 31, 2000, 1999 and 1998 is as follows (in thousands):

Year Ended December 31,	2000	1999	1998
Balance at beginning of year	\$8,223	\$7,460	\$6,612
Provision charged to operations	985	900	900
Charge-offs	(92)	(241)	(65)
Recoveries	22	104	13
Balance at end of year	\$9,138	\$8,223	\$7,460

An analysis of the servicing asset for the years ended December 31, 2000, 1999 and 1998 is as follows (in thousands):

Year Ended December 31,	2000	1999	1998
Balance at beginning of year	\$2,244	\$1,406	\$1,586
Purchase, net of sales	3,481	--	--
Capitalized mortgage servicing rights	1,311	1,189	392
Amortization	(673)	(351)	(572)
Balance at end of year	\$6,363	\$2,244	\$1,406

Notes to Consolidated Financial Statements (continued)

(7) Interest and Dividends Receivable

A summary of interest and dividends receivable at December 31, 2000 and 1999 follows (in thousands):

December 31,	2000	1999
Loans	\$6,480	\$4,881
Investment securities	1,177	1,487
Mortgage-backed securities	1,661	2,100
	\$9,318	\$8,468

(8) Premises and Equipment, Net

Premises and equipment at December 31, 2000 and 1999 are summarized as follows (in thousands):

December 31,	2000	1999
Land	\$ 3,195	\$ 3,195
Buildings and improvements	11,255	11,167
Leasehold improvements	1,619	1,266
Furniture and equipment	8,647	7,559
Automobiles	118	148
Construction in progress	687	8
Total	25,521	23,343
Accumulated depreciation and amortization	(10,845)	(9,454)
	\$ 14,676	\$13,889

(9) Deposits

Deposits, including accrued interest payable of \$459,000 and \$266,000 at December 31, 2000 and 1999, respectively, are summarized as follows (in thousands):

December 31,	2000		1999	
	Amount	Weighted Average Cost	Amount	Weighted Average Cost
Non-interest bearing accounts	\$ 49,910	- %	\$ 31,328	-%
NOW accounts	170,976	2.83	113,426	1.59
Money market deposit accounts	71,010	2.58	80,597	2.61
Savings accounts	165,866	2.00	171,064	2.03
Time deposits	646,426	5.82	660,535	5.18
	\$1,104,188	4.31%	\$1,056,950	3.94%

Included in time deposits at December 31, 2000 and 1999, respectively, is \$90,172,000 and \$73,388,000 in deposits of \$100,000 and over.

Time deposits at December 31, 2000 mature as follows (in thousands):

December 31,	2000
2001	\$ 465,936
2002	110,035
2003	40,269
2004	26,489
2005	1,641
Thereafter	2,056
	\$ 646,426

Interest expense on deposits for the years ended December 31, 2000, 1999 and 1998 was as follows (in thousands):

Year ended December 31,	2000	1999	1998
NOW accounts	\$ 2,534	\$ 1,711	\$ 1,517
Money market deposit accounts	1,998	2,090	2,026
Savings accounts	3,445	3,518	3,442
Time deposits	36,689	33,601	36,819
	\$44,666	\$40,920	\$43,804

(10) Borrowed Funds

Borrowed funds are summarized as follows (in thousands):

December 31,	2000		1999	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Federal Home Loan Bank advances	\$127,500	6.00%	\$115,000	5.97%
Securities sold under agreements to repurchase	236,494	5.79	239,867	5.66
	\$363,994	5.86%	\$354,867	5.76%

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	
	2000	1999	2000	1999
Average balance	\$105,456	\$ 67,857	\$257,086	\$253,811
Maximum amount outstanding at any month end	154,000	115,000	277,000	272,740
Average interest rate for the year	6.31%	5.68%	5.87%	5.53%

U.S. Government agencies and mortgage-backed securities pledged as collateral under reverse repurchase agreements at December 31

Amortized cost	--	--	\$244,790	\$281,331
Estimated market value	--	--	242,617	273,815

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, 2000 as follows (in thousands):

Year ended December 31	FHLB advances	Reverse Repurchase Agreements
2001	\$ 72,500	\$ 51,494
2002	-	-
2003	15,000	40,000
2004	10,000	45,000
2005	20,000	40,000
Thereafter	10,000	60,000
	\$127,500	\$236,494
Amount callable by lender prior to the maturity date	\$ 40,000	\$185,000

The Bank has an available overnight line of credit with the FHLB for \$50,000,000 which expires November 23, 2001. The Bank also has available from the FHLB, a one-month overnight repricing line of credit for \$50,000,000 which expires November 23, 2001. 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.

(11) 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 \$1,166,000 and \$1,555,000 at December 31, 2000 and 1999, respectively. The Company has accrued for this liability in the consolidated financial statements.

Retained earnings at December 31, 2000 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, 2000 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, 2000, 1999 and 1998 consists of the following (in thousands):

Year Ended December 31,	2000	1999	1998
Current:			
Federal	\$6,966	\$7,870	\$5,460
State	53	38	31
Total Current	7,019	7,908	5,491
Deferred:			
Federal	(193)	757	1,746
State	-	-	3
Total Deferred	(193)	757	1,749
	\$6,826	\$8,665	\$7,240

Included in other comprehensive income is income tax expense (benefit) attributable to net unrealized gains (losses) on securities available for sale in the amount of \$2,726,000, \$(4,899,000) and \$(1,305,000) for the years ended December 31, 2000, 1999 and 1998 respectively.

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, 2000, 1999 and 1998 is as follows (in thousands):

Year Ended December 31,	2000	1999	1998
Income before provision for income taxes	\$23,208	\$25,012	\$20,212
Applicable statutory Federal income tax rate	35.0%	35.0%	35.0%
Computed "expected" Federal income tax expense	\$ 8,123	\$ 8,754	\$ 7,074
Increase(decrease) in Federal income tax expense resulting from:			
Decrease in deferred tax valuation allowance relating to charitable donation	(1,060)	-	-
ESOP adjustment	244	189	218
Earnings on life insurance	(418)	(283)	(197)
State income taxes net of Federal benefit	35	24	22
Other items, net	(98)	(19)	123
	\$ 6,826	\$ 8,665	\$ 7,240

Included in other assets at December 31, 2000 and 1999 is a net deferred tax asset of \$5,719,000 and \$8,252,000, respectively. In addition, at December 31, 2000 and 1999 the Company recorded a current tax (refund) payable of \$(334,000) and \$192,000, respectively.

Notes to Consolidated Financial Statement (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below (in thousands):

December 31,	2000	1999
=====	=====	=====
Deferred tax assets:		
Allowance for loan and real estate owned losses per books	\$ 3,519	\$ 3,159
Reserve for uncollected interest	94	82
Deferred compensation	369	318
Premises and equipment, differences in depreciation	364	303
Other reserves	199	242
Stock awards	656	712
ESOP	176	149
Charitable donation	1,633	2,353
Unrealized loss on securities available for sale	2,947	5,673
Intangible assets	70	17
Other	-	49
-----	-----	-----
Total gross deferred tax assets	10,027	13,057
Less valuation allowance	(430)	(1,490)
-----	-----	-----
Deferred tax assets, net	9,597	11,567
-----	-----	-----
Deferred tax liabilities:		
Allowance for loan and real estate owned losses for tax purposes	(438)	(581)
Excess servicing on sale of mortgage loans	(514)	(231)
Investments, discount accretion	(89)	(58)
Deferred loan and commitment fees	(1,114)	(833)
Undistributed income of real estate investment trust subsidiary	(1,723)	(1,612)
-----	-----	-----
Total deferred tax liabilities	(3,878)	(3,315)
-----	-----	-----
Net deferred tax assets	\$ 5,719	\$ 8,252
=====	=====	=====

The Company, as part of the conversion, recorded a charitable donation expense of \$14,258,000 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, \$4,258,000 of the charitable donation expense was initially 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 established a deferred tax valuation allowance of \$1,490,000 relating to the nondeductible expense. In 2000, after considering the Company's actual earnings performance and expectations for taxable income through December 31, 2001, the Company estimated that an additional \$3,029,000 of charitable donation expense could be recognized for tax purposes, providing for a benefit of \$1,060,000.

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.

(12) 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. 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 2000, 1999 and 1998, 10,861, 11,544 and 9,188 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, 2000 and 1999, contributions to the ESOP, which were used to fund principal and interest payments on the ESOP debt, totaled \$2,830,000 and \$2,970,000, respectively. During 2000 and 1999, \$890,000 and \$781,000, respectively, of dividends paid on unallocated ESOP shares were used for debt service. At December 31, 2000 and 1999, the loan had an outstanding balance of \$14,596,000 and \$16,098,000, respectively, and the ESOP had unallocated shares of 1,119,196 and 1,243,418, respectively. At December 31, 2000, the unallocated shares had a fair value of \$27,560,000. 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, 2000, 1999 and 1998, the Bank recorded compensation expense related to the ESOP of \$2,268,000, \$2,190,000 and \$2,350,000, respectively, including \$697,000, \$541,000 and \$623,000, 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, 2000, 530,400 shares had been allocated to participants and 114,996 shares were committed to be released.

(13) 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. On April 19, 2000, the Company's shareholders ratified the OceanFirst Financial Corp. 2000 Stock Option Plan (the "Stock Option Plan") which authorizes the granting of stock options. The purpose of both plans 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 plans.

During 1997, the Company acquired 671,046 shares in the open market at a cost of \$10,176,000. At December 31, 2000, 641,290 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, are 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 2000. As a result of the Company attaining the earnings per share growth specified by the Committee, all of the shares in the fourth annual installment will vest on February 4, 2001. The Company recorded compensation expense relating to stock awards of \$1,934,000, \$1,933,000 and \$1,934,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Under the Incentive Plan and Stock Option Plan, the Company is authorized to issue up to 1,677,614 shares and 631,000 shares, respectively, subject to option. All options expire 10 years from the date of grant and generally vest at the rate of 20% per year. The exercise price of each option equals the market price of the Company's stock on the date of grant.

The Company accounts for stock option awards using the intrinsic value method and has recognized no compensation expense in 2000, 1999 and 1998. 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):

	2000	1999	1998
Net income:			
As reported	\$16,382	\$16,347	\$12,972
Pro forma	15,499	15,343	12,059
Basic earnings per share:			
As reported	\$ 1.59	\$ 1.36	\$.97
Pro forma	1.51	1.28	.90
Diluted earnings per share:			
As reported	\$ 1.54	\$ 1.33	\$.95
Pro forma	1.45	1.25	.88
Weighted average fair value of an option share granted during the year	\$ 4.64	\$ 4.02	\$ 4.35

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:

	2000	1999	1998
Risk-free interest rate	6.06%	5.76%	5.21%
Expected option life	6 years	6 years	6 years
Expected volatility	24%	25%	25%
Expected dividend yield	3.25%	3.20%	2.75%

A summary of option activity for the years ended December 31, 2000, 1999 and 1998 follows:

	2000	1999	1998
--	------	------	------

	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	1,674,003	\$14.72	1,642,827	\$14.67	1,567,402	\$14.46
Granted	88,441	18.94	58,287	16.26	112,402	17.23
Exercised	(108,310)	14.85	(1,208)	14.41	(2,348)	14.41
Forfeited	(88,423)	15.72	(25,903)	15.33	(34,629)	14.41

Outstanding at end of year	1,565,711	\$14.85	1,674,003	\$14.72	1,642,827	\$14.67
=====						
At December 31,	2000		1999		1998	

Options exercisable	854,847		626,761		310,527	
Range of exercise prices	\$13.94 - \$21.09		\$13.94 - \$19.88		\$13.94 - \$19.88	
Weighted average remaining contractual life	6.4 years		7.2 years		8.2 years	
=====						

OceanFirst Financial Corp (OCFC) 2000 Annual Report 31

Notes to Consolidated Financial Statements (continued)

(14) 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, 2000, the following commitments and contingent liabilities existed which are not reflected in the accompanying consolidated financial statements (in thousands):

December 31,	2000
=====	=====
Unused consumer and construction loan lines of credit (primarily floating-rate)	\$22,027
-----	-----
Unused commercial loan lines of credit (primarily floating-rate)	19,283
-----	-----
Other commitments to extend credit:	
Fixed-Rate	60,303
Adjustable-Rate	31,196
Floating-Rate	1,471
=====	=====

The Company's fixed-rate loan commitments expire within 90 days of issuance and carried interest rates ranging from 7.00% to 11.25% at December 31, 2000.

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.

At December 31, 2000, the Company is obligated under noncancellable operating leases for premises and equipment. Rental expense under these leases aggregated approximately \$843,000, \$604,000 and \$573,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The projected minimum rental commitments as of December 31, 2000 are as follows (in thousands):

Year ended December 31	
=====	=====
2001	\$1,029
2002	1,005
2003	755
2004	666
2005	513
Thereafter	5,800
-----	-----
	\$9,768
=====	=====

The Company grants one to four-family and commercial 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.

(15) Fair Value of 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, consumer and commercial. Each loan category is further segmented into fixed and adjustable rate interest terms. Fair value of performing and non-performing loans was estimated by discounting the future cash flows, net of estimated prepayments, at a rate for which similar loans would be originated to new borrowers with similar terms.

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, 2000 and 1999 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, 2000	Book Value	Fair Value

Financial Assets:		
Cash and due from banks	\$ 7,235	\$ 7,235
Investment securities available for sale	103,536	103,536
Mortgage-backed securities available for sale	268,042	268,042
Federal Home Loan Bank of New York stock	20,000	20,000
Loans receivable and mortgage loans held for sale	1,172,467	1,181,446
Financial Liabilities:		
Deposits	1,104,188	1,101,477
Borrowed funds	\$ 363,994	\$ 371,399
=====		
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
=====		

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.

(16) Parent-Only Financial Information The following condensed statements of financial condition at December 31, 2000 and 1999 and condensed statements of operations and cash flows for the years ended December 31, 2000, 1999 and 1998 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,	2000	1999

Assets		

Cash and due from banks	\$ 7	\$ 7
Advances to subsidiary Bank	21,972	5,872
Investment securities	4,391	3,033
ESOP loan receivable	14,596	16,098
Investment in subsidiary Bank	116,067	141,422
Other assets	1,071	1,155

Total assets	\$158,104	\$167,587
=====		
Liabilities and Stockholders' Equity		

Taxes payable	\$ 368	\$ 57
Stockholders' equity	157,736	167,530

Total liabilities and stockholders' equity	\$158,104	\$167,587
=====		

Notes to Consolidated Financial Statements (continued)

CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

Year ended December 31,	2000	1999	1998
Dividend income - Subsidiary Bank	\$ 46,000	\$ 36,500	\$ 18,000
Interest income - Investment securities	144	29	354
Interest income - Advances to subsidiary Bank	1,229	210	234
Interest income - ESOP loan receivable	1,328	1,453	1,342
Total dividend and interest income	48,701	38,192	19,930
Loss on sale of securities available for sale	--	49	--
Other operating expenses	1,198	1,186	421
Income before income taxes and distributions in excess of undistributed earnings of subsidiary Bank	47,503	36,957	19,509
Provision (benefit) for income taxes	(597)	150	562
Income before distributions in excess of undistributed earnings of subsidiary Bank	48,100	36,807	18,947
Distributions in excess of undistributed earnings of subsidiary Bank	(31,718)	(20,460)	(5,975)
Net income	\$ 16,382	\$ 16,347	\$ 12,972

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

Year ended December 31,	2000	1999	1998
Cash flows from operating activities:			
Net income	\$ 16,382	\$ 16,347	\$ 12,972
Increase (decrease) in advances to subsidiary Bank	(16,100)	1,767	2,292
Distributions in excess of undistributed earnings of subsidiary Bank	31,718	20,460	5,975
Loss on sale of securities available for sale	--	49	--
Deferred taxes	(381)	1,081	1,177
Increase (decrease) in taxes payable	311	(326)	(765)
Reduction in Incentive Awards	1,934	1,933	1,934
Net cash provided by operating activities	33,864	41,311	23,585
Cash flows from investing activities:			
Purchase of investment securities	(89)	(611)	(2,046)
Sale of investment securities	--	121	10,000
Funding of ESOP loan receivable, net of repayments	1,502	1,517	(6,431)
Net cash provided by investing activities	1,413	1,027	1,523
Cash flows from financing activities:			
Dividends paid	(7,622)	(7,157)	(6,470)
Purchase of treasury stock	(28,800)	(35,198)	(18,672)
Exercise of stock options	1,145	17	34
Net cash used in financing activities	(35,277)	(42,338)	(25,108)
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)				
2000				
Interest income	\$29,863	\$29,547	\$28,613	\$28,082
Interest expense	17,511	17,386	16,069	15,446
Net interest income	12,352	12,161	12,544	12,636
Provision for loan losses	240	255	250	240
Net interest income after provision for loan losses	12,112	11,906	12,294	12,396
Other income	2,871	422	1,522	1,330
Operating expenses	8,980	8,260	7,211	7,194
Income before provision for income taxes	6,003	4,068	6,605	6,532
Provision for income taxes	2,093	248	2,267	2,218
Net income	\$ 3,910	\$ 3,820	\$ 4,338	\$ 4,314
Basic earnings per share	\$.39	\$.38	\$.42	\$.40
Diluted earnings per share	\$.38	\$.36	\$.41	\$.39
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

Independent Auditor's 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, 2000 and 1999, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

*Short Hills, New Jersey
January 19, 2001*

OceanFirst Financial Corp. (OCFC) 2000 Annual Report 35

Shareholder Information

ADMINISTRATIVE OFFICES

975 Hooper Avenue
Toms River, NJ 08754-2009
(732)240-4500
www.oceanfirst.com

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on April 19, 2001 at 10:00 a.m. at the Crystal Point Yacht Club at 3900 River Road at the intersection of State Highway 70, Point Pleasant, New Jersey.

INVESTOR RELATIONS

Copies of the Company's earnings releases and financial publications, including the annual report on Form 10-K (without exhibits) filed with the Securities and Exchange Commission are available without charge by contacting: Sally Dennis, Ext. 7516 sdennis@oceanfirst.com

STOCK TRANSFER AGENT AND REGISTRAR

Shareholders wishing to change the name, address or ownership of stock, to report lost certificates or to consolidate accounts are asked to contact the Company's stock registrar and transfer agent directly: American Stock Transfer & Trust Co. Shareholder Relations Department 59 Maiden Lane New York, NY 10038 (800)937-5449

INDEPENDENT AUDITORS

KPMG LLP 150 John F. Kennedy Parkway Short Hills, NJ 07078

SECURITIES COUNSEL

Muldoon, Murphy & Faucette LLP 5101 Wisconsin Avenue, NW Washington, DC 20016

Market Information for Common Stock

OceanFirst Financial Corp.'s common stock is traded on the Nasdaq Stock Market under the symbol OCFC. The stock is customarily listed as OceanF in the Asbury Park Press and the Ocean County Observer. The table below shows the reported high and low daily closing prices of the common stock during the periods indicated in 2000 and 1999.

2000

First Second Third Fourth
Quarter Quarter Quarter Quarter

High	16.75	18.87	21.25	24.62
Low	15.00	14.62	18.37	19.31

1999	-----			
	First	Second	Third	Fourth

Quarter Quarter Quarter Quarter

High	17.25	18.12	19.25	18.94
Low	14.37	13.06	16.00	15.50

As of December 31, 2000, the Company had approximately 3,800 shareholders, including the number of persons or entities holding stock in nominee or street name through various brokers and banks.

Design and development: Red Flannel

INDEPENDENT ACCOUNTANTS' CONSENT

The Board of Directors
OceanFirst Financial Corp.:

We consent to incorporation by reference in the registration statement (No. 333- 42088) on Form S-8, pertaining to the OceanFirst Financial Corp. 2000 Stock Option Plan, and in the registration statement (No. 33-34143) on Form S-8, pertaining to the OceanFirst Financial Corp. 1997 Incentive Plan, and in 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 19, 2001, relating to the consolidated statements of financial condition of OceanFirst Financial Corp. and subsidiary as of December 31, 2000 and 1999 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, 2000, which report is incorporated by reference in the December 31, 2000 Annual Report on Form 10-K of OceanFirst Financial Corp.

KPMG LLP

Short Hills, New Jersey

March 23, 2001

End of Filing

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